

# Semi-Annual Financial Statements

BMO Harris Private Portfolios

June 30, 2012

**BMO Harris Canadian Total Return Bond Portfolio**

## BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

<b>STATEMENT OF NET ASSETS</b> <i>As at (in thousands of Canadian dollars, except per unit data)</i>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>Assets</b>		
Cash	633	2,603
Investments at fair value	1,032,151	1,035,395
Income receivable	4,082	4,495
Subscriptions receivable	424	333
<b>Total assets</b>	<b>1,037,290</b>	<b>1,042,826</b>
<b>Liabilities</b>		
Distributions payable	343	—
Accrued expenses	102	80
Redemptions payable	1,074	542
<b>Total liabilities</b>	<b>1,519</b>	<b>622</b>
 Net assets representing unitholders' equity	 1,035,771	 1,042,204
Net assets per unit	\$ 11.28	\$ 11.27

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

## BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

<b>STATEMENT OF OPERATIONS</b> <i>For the periods ended (in thousands of Canadian dollars, except per unit data)</i>	<b>June 30, 2012</b>	<b>June 30, 2011</b>
<b>Investment Income</b>		
Interest	19,042	18,377
Securities lending revenue	103	80
	<b>19,145</b>	<b>18,457</b>
<b>Expenses</b>		
Audit fees	10	9
Independent Review Committee fees	1	1
Custodian fees	11	10
Legal and filing fees	24	32
Unitholder servicing fees (note 5)	160	160
Printing and stationery fees	7	5
	<b>213</b>	<b>217</b>
Net investment income for the period	18,932	18,240
Realized gain (loss) on sale of investments	2,354	(1,741)
Realized gain on foreign exchange	—	—
Change in unrealized appreciation (depreciation) in value of investments	(1,495)	1,229
Increase in net assets from operations	<b>19,791</b>	<b>17,728</b>
Increase in net assets from operations per unit (note 2)	<b>0.21</b>	<b>0.20</b>

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

## BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

<b>STATEMENT OF CHANGES IN NET ASSETS</b> <i>For the periods ended (in thousands of Canadian dollars)</i>	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Net assets – beginning of period	1,042,204	946,888
Increase in net assets from operations	19,791	17,728
<b>Unit Transactions:</b>		
Proceeds from sale of units	114,773	104,572
Reinvested distributions	18,292	17,779
Amounts paid on units redeemed	(140,317)	(104,355)
Total unit transactions	(7,252)	17,996
<b>Distributions to Unitholders from:</b>		
Net investment income	(18,972)	(18,355)
Total distributions paid to unitholders	(18,972)	(18,355)
Net assets – end of period	1,035,771	964,257

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

# BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

## STATEMENT OF INVESTMENT PORTFOLIO

As at June 30, 2012 (in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
<b>Money Market Investments</b>			
<i>Federal – 1.6%</i>			
Government of Canada, Treasury Bills, 0.942% Jul 5, 2012	2,000	1,996	2,000
Government of Canada, Treasury Bills, 1.046% Aug 2, 2012	1,000	997	999
Government of Canada, Treasury Bills, 1.059% Aug 2, 2012	2,000	1,995	1,998
Government of Canada, Treasury Bills, 0.902% Aug 30, 2012	5,000	4,989	4,993
Government of Canada, Treasury Bills, 0.951% Aug 30, 2012	1,000	997	998
Government of Canada, Treasury Bills, 0.869% Sep 27, 2012	1,000	998	998
Government of Canada, Treasury Bills, 0.884% Sep 27, 2012	4,000	3,991	3,991
		15,963	15,977
<i>Provincial – 2.7%</i>			
Province of Ontario, Treasury Bills, 1.030% Jul 11, 2012	3,000	2,993	2,999
Province of Ontario, Treasury Bills, 0.993% Aug 1, 2012	3,000	2,996	2,997
Province of Ontario, Treasury Bills, 1.086% Aug 8, 2012	3,000	2,992	2,997
Province of Ontario, Treasury Bills, 0.980% Sep 19, 2012	4,000	3,990	3,991
Province of Quebec, Treasury Bills, 1.002% Aug 31, 2012	10,000	9,976	9,983
Province of Quebec, Treasury Bills, 1.010% Aug 31, 2012	5,000	4,988	4,992
		27,935	27,959
<b>Total Money Market Investments – 4.3%</b>		<b>43,898</b>	<b>43,936</b>
<b>Bonds &amp; Debentures</b>			
<i>Federal Bonds – 61.5%</i>			
Canada Housing Trust, Mortgage Bonds, Series 22, Secured, 3.550% Sep 15, 2013	1,857	1,893	1,911
Canadian Wheat Board, Medium Term Notes, 4.750% Dec 1, 2014	16,000	17,464	17,255
Export Development Canada, Unsecured, Debentures, 5.800% Dec 3, 2012	1,300	1,444	1,326
Government of Canada, 5.250% Jun 1, 2013	2,075	2,267	2,155
Government of Canada, 3.000% Jun 1, 2014	95,248	97,405	98,789
Government of Canada, 4.500% Jun 1, 2015	14,643	16,232	16,063
Government of Canada, 3.000% Dec 1, 2015	7,744	8,260	8,215
Government of Canada, 4.000% Jun 1, 2016	5,316	5,681	5,880
Government of Canada, 2.750% Sep 1, 2016	5,592	5,974	5,935
Government of Canada, 4.250% Jun 1, 2018	32,331	34,537	37,586
Government of Canada, 3.750% Jun 1, 2019	46,657	49,044	53,637
Government of Canada, 3.500% Jun 1, 2020	180,766	188,401	206,901
Government of Canada, Series A55, 8.000% Jun 1, 2023	78,334	124,612	126,043
Government of Canada, Series WL43, 5.750% Jun 1, 2029	21,928	27,171	32,968
Government of Canada, 4.000% Jun 1, 2041	16,578	21,037	22,380
		601,422	637,044
<i>Provincial Bonds – 23.1%</i>			
Alberta Capital Finance Authority, Notes, 4.350% Jun 15, 2016	40,000	38,891	44,132
Hydro-Quebec, Series 19, 6.500% Feb 15, 2035	10,080	12,294	14,620
Ontario Strategic Infrastructure Financing Authority, Series 2005-A1, Infrastructure Renewal Senior, Unsecured, Unsubordinated, 4.600% Jun 1, 2015	3,700	3,690	3,990

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

# BMO Harris Canadian Total Return Bond Portfolio

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## STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2012 (in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
Province of British Columbia, Medium Term Notes, Putable, 5.620% Aug 17, 2028	3,000	3,348	3,944
Province of British Columbia, Unsecured, Debentures, 4.700% Jun 18, 2037	3,100	3,169	3,796
Province of British Columbia, 4.300% Jun 18, 2042	5,150	5,950	6,107
Province of Manitoba, Medium Term Notes, 5.250% Dec 3, 2012	2,915	3,076	2,966
Province of Manitoba, Medium Term Notes, 5.200% Dec 3, 2015	2,000	1,988	2,242
Province of Newfoundland, Unsecured, Debentures, 5.600% Oct 17, 2033	3,000	2,982	3,985
Province of Ontario, 4.400% Mar 8, 2016	4,215	4,155	4,623
Province of Ontario, Series KJ, 7.600% Jun 2, 2027	1,900	2,551	2,888
Province of Ontario, 5.850% Mar 8, 2033	7,000	8,116	9,502
Province of Ontario, Unsecured, Debentures, 5.600% Jun 2, 2035	43,438	47,036	58,036
Province of Quebec, 5.250% Oct 1, 2013	1,103	1,216	1,158
Province of Quebec, Senior, Unsecured, Notes, 5.500% Dec 1, 2014	40,770	42,671	44,691
Province of Quebec, Medium Term Notes, 4.500% Dec 1, 2017	8,700	9,147	9,791
Province of Quebec, Series OS, Unsecured, Debentures, 6.000% Oct 1, 2029	8,215	9,439	10,963
Province of Quebec, 6.250% Jun 1, 2032	4,502	5,464	6,258
Province of Quebec, 5.000% Dec 1, 2038	4,400	4,596	5,452
		209,779	239,144
<b>Corporate Bonds &amp; Debentures – 10.1%</b>			
407 International Inc., Series 04-A3, Medium Term Notes, Senior, Secured, Mortgage, 5.960% Dec 3, 2035	3,580	3,884	4,647
55 School Board Trust, Series A, Debentures, Callable, 5.900% Jun 2, 2033	3,125	3,210	3,924
Bank of Nova Scotia, Deposit Notes, Senior, 4.560% Oct 30, 2013	3,890	3,889	4,046
Bell Canada, Series M-21, Medium Term Notes, Unsecured, Unsubordinated, 3.600% Dec 2, 2015	2,775	2,770	2,892
CI Financial Corporation, Unsecured, Notes, 4.190% Dec 16, 2014	2,495	2,494	2,569
Enbridge Gas Distribution Inc., Medium Term Notes, Unsecured, Callable, 6.160% Dec 16, 2033	1,550	1,549	2,051
GE Capital Canada Funding Company, Series A, Medium Term Notes, 5.100% Jun 1, 2016	3,905	3,848	4,241
Greater Toronto Airports Authority, Series 2002-2, Medium Term Notes, Secured, Callable, 6.250% Dec 13, 2012	800	884	817
Greater Toronto Airports Authority, Series 2000-1, Medium Term Notes, Senior, Secured, 7.050% Jun 12, 2030	14,000	16,621	19,411
Greater Toronto Airports Authority, Series 2002-3, Medium Term Notes, Secured, Callable, 6.980% Oct 15, 2032	700	811	983
Great-West Lifeco Inc., Debentures, Callable, 6.670% Mar 21, 2033	6,000	7,114	7,367
Hospital for Sick Children, Canada, Series A, Senior, Unsecured, Notes, Unsubordinated, 5.217% Dec 16, 2049	1,650	1,650	1,976
Hydro One Inc., Series 4, Medium Term Notes, Unsecured, Callable, 6.350% Jan 31, 2034	7,000	7,897	9,484
IGM Financial, Inc., Senior, Unsecured, Notes, Unsubordinated, 6.580% Mar 7, 2018	4,328	4,870	5,087
IGM Financial, Inc., Senior, Unsecured, Debentures, Unsubordinated, 7.450% May 9, 2031	2,101	2,573	2,680

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

## BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

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

As at June 30, 2012 (in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
IGM Financial, Inc., Debentures, Callable, 7.110% Mar 7, 2033	1,681	1,994	2,081
McGill University Health Care Centre, Senior, Unsecured, Notes, 5.360% Dec 31, 2043	4,500	4,498	5,360
National Bank of Canada, Unsecured, Notes, Unsubordinated, 3.580% Apr 26, 2016	3,884	3,884	4,043
Royal Bank of Canada, Deposit Notes, Senior, 4.710% Dec 22, 2014	3,500	3,427	3,732
Sun Life Financial Inc., Series A, Medium Term Notes, Fixed to Floating, Senior, Unsecured, Callable, 4.800% Nov 23, 2035	4,490	4,510	4,588
Terassen Gas Inc., Medium Term Notes, Unsecured, Callable, 6.000% Oct 2, 2037	3,720	3,707	4,959
Toronto-Dominion Bank, The, Deposit Notes, Senior, Unsecured, 4.854% Feb 13, 2013	1,800	1,925	1,839
Toronto-Dominion Bank, The, Medium Term Notes, Fixed to Floating, Subordinated, Callable, 5.690% Jun 3, 2018	4,182	4,186	4,324
VW Credit Canada Inc., Unsecured, Notes, Unsubordinated, 3.600% Feb 1, 2016	2,000	1,998	2,077
		94,193	105,178
<i>Asset Backed Securities – 0.7%</i>			
Broadway Credit Card Trust, Series 2004-2, Credit Card Receivables-Backed, Class A Notes, 4.804% Mar 17, 2014	6,525	6,704	6,849
<b>Total Bonds &amp; Debentures – 95.4%</b>		<b>912,098</b>	<b>988,215</b>
<b>Total Investment Portfolio – 99.7%</b>		<b>955,996</b>	<b>1,032,151</b>
<b>Other Assets Less Liabilities – 0.3%</b>			<b>3,620</b>
<b>NET ASSETS – 100.0%</b>			<b>1,035,771</b>

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

	June 30, 2012	December 31, 2011
Money Market Investments	4.3%	8.3%
<b>Bonds &amp; Debentures</b>		
Federal	61.5%	52.4%
Provincial	23.1%	23.2%
Asset Backed Securities	0.7%	0.6%
Corporate	10.1%	14.8%
Other Assets Less Liabilities	0.3%	0.7%
	<b>100.0%</b>	<b>100.0%</b>

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

# BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

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## NOTES TO THE FINANCIAL STATEMENTS

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

*June 30, 2012*

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### 1. The Portfolio

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

The information provided in these unaudited financial statements is for the periods ended June 30, 2012 and 2011 except for the comparative information on the Statement of Net Assets and related notes which are as at December 31, 2011.

### 2. Summary of significant accounting policies

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

#### Valuation of investments

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

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

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.

#### 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

# BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

June 30, 2012

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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. At 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 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 gain (loss) on sale of investments” and unrealized foreign exchange gains (losses) are included in “Change in

unrealized appreciation (depreciation) in value of investments” in the Statement of Operations. Realized and unrealized foreign exchange gains (losses) on assets (other than investments) and liabilities are included in “Realized gain (loss) on foreign exchange” in the Statement of Operations.

### Forward currency contracts

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

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

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

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

### 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 June 30, 2012 and December 31, 2011, where applicable, are disclosed in Note 8(g).

# BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

June 30, 2012

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### Increase or decrease in net assets from operations per unit

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

### Short-term trading penalty

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

### Other assets and liabilities

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

### 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 details of 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 non-capital and capital losses for income tax purposes as of the tax year-ended December 2011 are included in Note 8(c), if applicable.

### 5. Related party transactions

#### (a) Unitholder servicing, 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.

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

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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 periods ended June 30, 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.

## 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

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

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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. Transition to International Reporting Standards

In March 2011, the Canadian Accounting Standards Board ("AcSB") amended its 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 years 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. Under IFRS 10 Consolidated Financial Statements, 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 of 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 AcSB will continue to monitor the need to revise the IFRS changeover date for these entities.

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 ending 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 IAS 32 Financial Instruments: Presentation Standard 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.

# BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

June 30, 2012

### 8. Portfolio specific information

#### (a) Portfolio information and change in units

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

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

For the periods ended (in thousands of units)	Jun. 30, 2012	Jun. 30, 2011
Units issued and outstanding, beginning of period	92,487	88,131
Issued for cash	10,214	9,777
Issued on reinvestment of distributions	1,633	1,667
Redeemed during the period	(12,516)	(9,758)
Units issued and outstanding, end of period	91,818	89,817

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

Jun. 30, 2012		Dec. 31, 2011	
NAV per unit	Net Assets per unit	NAV per unit	Net Assets per unit
11.28	11.28	11.27	11.27

#### (c) Income taxes

As at the tax year-ended December 2011, the Portfolio had the following capital and non-capital losses available for income tax purposes:

Total capital losses (\$)	Total non- capital losses (\$)	Non-capital losses that expire in 2026 and thereafter		
		2014 (\$)	2015 (\$)	(\$)
19,593	—	—	—	—

#### (d) Related party transactions

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

	Jun. 30, 2012	Jun. 30, 2011
Unitholder servicing (\$)	119	115

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

There were no brokerage commissions charged to the Portfolio during the periods ended June 30, 2012 or June 30, 2011.

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

#### (f) Financial instrument risk

The Portfolio's objective is to produce superior returns through a combination of interest income and capital growth while also pursuing capital preservation. The Portfolio invests primarily in high quality fixed income securities such as bonds and debentures issued by governments and corporations in Canada that mature in more than one year.

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

#### Currency risk

As at June 30, 2012 and December 31, 2011, the Portfolio did not have any significant exposure to currency risk.

#### Interest rate risk

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

	Interest rate exposure as at	
	Jun. 30, 2012 \$	Dec. 31, 2011 \$
<b>Number of years</b>		
Less than 1 year	53,038	101,215
One to three years	201,054	194,540
Three to five years	88,868	90,362
Five to ten years	317,326	318,884
Greater than ten years	371,865	330,394
<b>Total</b>	<b>1,032,151</b>	<b>1,035,395</b>

As at the periods ended June 30, 2012 and December 31, 2011, if the prevailing interest rates had been raised or lowered by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, Net Assets could possibly have decreased or increased, respectively, by approximately \$73,078 (December 31, 2011 – \$70,504). The Portfolio's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

# BMO Harris Canadian Total Return Bond Portfolio

(unaudited)

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

June 30, 2012

### Other market risk

The Portfolio was not significantly exposed to other market risk as at June 30, 2012 and December 31, 2011, as it invested fully in fixed income securities.

### Credit risk

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

Credit rating	As a % of Net Assets	
	Jun. 30, 2012	Dec. 31, 2011
R-1 High	1.6	3.0
R-1 Mid	2.7	5.3
AAA	66.4	57.3
AA	12.8	17.4
A	16.2	16.3
<b>Total</b>	<b>99.7</b>	<b>99.3</b>

### (g) Fair value hierarchy

There was no significant change in the composition of the Portfolio's financial instruments levels as at June 30, 2012 compared to the classification as at December 31, 2011.

Please refer to the December 31, 2011 audited annual financial statements disclosure of the Portfolio's financial assets and liabilities into the fair value levels classification.

### (h) Securities lending

The Portfolio had assets involved in securities lending transactions outstanding as at June 30, 2012 and December 31, 2011 as follows:

	Jun. 30, 2012	Dec. 31, 2011
<b>Aggregate value of securities on loan (\$)</b>	483,227	350,906
<b>Aggregate value of collateral received for the loan (\$)</b>	511,259	370,078

**Manager**

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(06/12)