

BMO Nesbitt Burns Group of Funds

# Semi-Annual Financial Statements

BMO NESBITT BURNS U.S. STOCK SELECTION FUND

BMO NESBITT BURNS

JUNE 30, 2012

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

## STATEMENT OF NET ASSETS (ALL AMOUNTS IN CANADIAN DOLLARS)

As at	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Cash	803,219	652,496
Investments at fair value	42,521,277	39,180,510
Income receivable	34,599	32,256
Subscriptions receivable	125,259	61,012
<b>Total assets</b>	<b>43,484,354</b>	<b>39,926,274</b>
<b>LIABILITIES</b>		
Accrued expenses	36,808	38,258
Redemptions payable	193,480	17,113
<b>Total liabilities</b>	<b>230,288</b>	<b>55,371</b>
<b>Net assets representing unitholders' equity</b>	<b>43,254,066</b>	<b>39,870,903</b>
<b>Total net assets representing unitholders' equity</b>		
Class A units	5,012,431	4,386,939
Class F units	38,241,635	35,483,964
<b>Net assets per unit</b>		
Class A units	\$7.06	\$6.56
Class F units	\$6.72	\$6.20

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

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

## STATEMENT OF OPERATIONS (ALL AMOUNTS IN CANADIAN DOLLARS)

For the periods ended	June 30, 2012	June 30, 2011
<b>INCOME</b>		
Dividends	448,881	287,904
Interest	-	1,207
Securities lending revenue	1,833	865
Withholding tax	(60,827)	(38,438)
	<b>389,887</b>	<b>251,538</b>
<b>EXPENSES</b>		
Management fees (note 5(a))	143,985	129,898
Audit fees	5,488	5,720
Independent Review Committee fees	1,068	1,059
Custody fees	2,520	1,352
Legal and filing fees	8,372	5,947
Unitholder servicing fees (note 5(b))	53,531	65,106
Printing and stationery fees	5,989	5,871
Commission and other portfolio transaction costs	11,501	14,634
	<b>232,454</b>	<b>229,587</b>
Net investment income for the period	157,433	21,951
Net realized gain on investments	709,367	602,469
Gain on foreign exchange	38	23,133
Change in unrealized appreciation in value of investments	2,457,969	1,163,426
Change in unrealized (loss)/gain on foreign exchange	(431)	1,385
<b>Increase in net assets from operations</b>	<b>3,324,376</b>	<b>1,812,364</b>
<b>Increase in net assets from operations</b>		
Class A units	342,384	222,458
Class F units	2,981,992	1,589,906
<b>Increase in net assets from operations per unit</b> (note 2)		
Class A units	\$0.50	\$0.30
Class F units	\$0.52	\$0.30

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

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

## STATEMENT OF CHANGES IN NET ASSETS (ALL AMOUNTS IN CANADIAN DOLLARS)

	Class A Units		Class F Units		Total	
	June 30 2012	June 30 2011	June 30 2012	June 30 2011	June 30 2012	June 30 2011
<b>For the periods ended</b>						
<b>Net assets – beginning of period</b>	4,386,939	4,785,142	35,483,964	28,893,714	39,870,903	33,678,856
<b>Increase in net assets from operations</b>	342,384	222,458	2,981,992	1,589,906	3,324,376	1,812,364
<b>UNIT TRANSACTIONS:</b>						
Proceeds from sale of units	682,013	362,472	4,562,605	6,784,311	5,244,618	7,146,783
Amount paid on units redeemed	(398,905)	(600,891)	(4,786,926)	(2,108,649)	(5,185,831)	(2,709,540)
<b>Total unit transactions</b>	<b>283,108</b>	<b>(238,419)</b>	<b>(224,321)</b>	<b>4,675,662</b>	<b>58,787</b>	<b>4,437,243</b>
<b>Net assets – end of period</b>	<b>5,012,431</b>	<b>4,769,181</b>	<b>38,241,635</b>	<b>35,159,282</b>	<b>43,254,066</b>	<b>39,928,463</b>

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

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

## STATEMENT OF INVESTMENT PORTFOLIO (ALL AMOUNTS IN CANADIAN DOLLARS)

As at June 30, 2012

	Number of Shares	Cost* (\$)	Fair Value (\$)
<b>EQUITIES</b>			
<b>Consumer Discretionary – 12.2%</b>			
Comcast Corporation – Class A	19,880	486,856	646,865
Directv – Class A	14,410	508,398	716,229
Jarden Corporation	13,910	552,090	594,653
Macy's Inc.	19,444	422,678	679,792
Petsmart Inc.	7,410	314,262	513,755
Target Corporation	8,170	452,528	484,184
Time Warner Cable Inc.	9,115	627,790	761,515
TJX Companies Inc.	20,005	444,018	873,952
		<b>3,808,620</b>	<b>5,270,945</b>
<b>Consumer Staples – 10.0%</b>			
Dr Pepper Snapple Group	12,755	482,832	568,002
Energizer Holdings Inc.	9,130	677,744	699,468
Herbalife Limited	5,590	125,953	274,713
Kroger Company	27,340	675,131	645,490
Philip Morris International Inc.	8,320	541,079	738,636
Wal-Mart Stores Inc.	19,505	1,123,606	1,384,304
		<b>3,626,345</b>	<b>4,310,613</b>
<b>Energy – 11.3%</b>			
Apache Corporation	5,804	593,287	519,347
Chevron Corporation	10,531	984,422	1,130,594
ConocoPhillips	11,377	504,101	647,138
Exxon Mobile Corporation	18,200	1,440,199	1,585,933
National Oilwell Varco Inc.	5,390	228,147	353,563
Valero Energy Corporation	26,080	584,352	641,232
		<b>4,334,508</b>	<b>4,877,807</b>
<b>Financials – 14.1%</b>			
American Financial Group Inc.	27,531	750,340	1,099,870
Ameriprise Financial, Inc.	13,198	761,273	701,943
Discover Financial Services	19,903	608,325	700,500
JPMorgan Chase & Company	10,680	462,085	388,503
The Travelers Companies, Inc.	16,490	944,476	1,071,608
U.S. Bancorp	26,245	683,320	859,049
Wells Fargo & Company	37,507	1,126,124	1,276,554
		<b>5,335,943</b>	<b>6,098,027</b>
<b>Health Care – 10.2%</b>			
Amgen Inc.	13,160	813,960	978,470
Eli Lilly and Company	22,590	852,881	986,652
Forest Laboratories Inc.	25,060	778,919	892,465
Humana Inc.	11,755	593,288	926,903
Pfizer Inc.	26,830	526,969	627,713
		<b>3,566,017</b>	<b>4,412,203</b>

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

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

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

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

## STATEMENT OF INVESTMENT PORTFOLIO (ALL AMOUNTS IN CANADIAN DOLLARS)

As at June 30, 2012

	Number of Shares	Cost* (\$)	Fair Value (\$)
<b>Industrials – 9.3%</b>			
Alaska Air Group Inc.	20,148	590,279	735,995
Cummins Inc.	4,680	481,701	461,653
Fedex Corporation	5,186	487,261	483,583
Kennametal Inc.	19,110	708,871	644,963
Parker Hannifin Corporation	7,305	594,655	571,625
URS Corporation	9,065	431,883	321,910
Union Pacific Corporation	6,597	734,876	801,267
		<b>4,029,526</b>	<b>4,020,996</b>
<b>Information Technology – 20.8%</b>			
Apple Inc.	3,553	1,041,773	2,112,472
Agilent Technologies Inc.	13,680	562,330	546,241
Cisco Systems Inc.	37,026	736,760	646,866
EMC Corporation	35,845	888,637	935,701
Intel Corporation	38,590	878,004	1,046,645
International Business Machines Corporation	5,210	638,615	1,036,991
Mastercard Inc. – Class A	1,410	479,860	617,403
Microsoft Corporation	34,220	1,017,357	1,065,388
Oracle Corporation	32,565	742,090	984,686
		<b>6,985,426</b>	<b>8,992,393</b>
<b>Materials – 4.3%</b>			
CF Industries Holdings	3,828	642,527	755,255
Domtar Corporation	8,320	664,376	649,779
Freeport-McMoRan Copper & Gold Inc.	13,460	467,876	466,608
		<b>1,774,779</b>	<b>1,871,642</b>
<b>Telecommunication Services – 1.6%</b>			
AT&T Inc.	19,323	577,090	701,333
		<b>577,090</b>	<b>701,333</b>
<b>Utilities – 4.5%</b>			
The AES Corporation	70,140	855,111	915,470
NV Energy Inc.	58,590	856,026	1,049,848
		<b>1,711,137</b>	<b>1,965,318</b>
<b>Total Investments – 98.3%</b>		<b>35,749,391</b>	<b>42,521,277</b>
<b>Other Assets less Liabilities – 1.7%</b>			<b>732,789</b>
<b>Total Net Asset Value – 100%</b>			<b>43,254,066</b>

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

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

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

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)**STATEMENT OF INVESTMENT PORTFOLIO** (ALL AMOUNTS IN CANADIAN DOLLARS)

As at June 30, 2012

THE FUND'S INVESTMENT PORTFOLIO IS CONCENTRATED IN THE FOLLOWING SEGMENTS AS AT:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Consumer Discretionary	12.2%	10.7%
Consumer Staples	10.0%	10.8%
Energy	11.3%	12.0%
Financials	14.1%	12.8%
Health Care	10.2%	12.6%
Industrials	9.3%	9.4%
Information Technology	20.8%	19.4%
Materials	4.3%	3.8%
Telecommunication Services	1.6%	2.2%
Utilities	4.5%	4.6%
Other Assets less Liabilities	1.7%	1.7%
	<b>100.0%</b>	<b>100.0%</b>

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

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

JUNE 30, 2012

**1. THE FUND**

BMO Nesbitt Burns U.S. Stock Selection Fund (the "Fund") is an open-ended mutual fund trust established under the laws of the province of Ontario and is governed by a Master Declaration of Trust dated February 17, 2000, amended October 31, 2008. The Fund is authorized to issue an unlimited number of units in an unlimited number of classes. Each class is intended for different kinds of investors and has different management fees. Refer to Note 8(a) for the classes issued in this Fund and the respective launch dates, and Note 8(d) for management fee rates for each class.

BMO Nesbitt Burns Inc. (the "Manager") is responsible for the management of the Fund. The Manager is a wholly-owned subsidiary of the Bank of Montreal.

Class A units are available to all investors.

Class F units are available for purchase by investors who are enrolled in dealer sponsored wrap programs or flat fee accounts. Instead of paying a commission on each transaction, these investors pay an annual fee to the Manager based on the value of their assets.

The information provided in these unaudited financial statements is for the periods ended June 30, 2012 and 2011, except for the comparative information in the Statement of Net Assets and the related notes, which are as at December 31, 2011. Financial information provided for a class established during the period(s) is presented from the launch date as noted in Note 8(a), as applicable.

**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 fund 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 opened for trading) determined in accordance with Part 14 of National Instrument 81-106 – Investment Fund 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 for each class and the NAV per unit for each class. Refer to Note 8(b) for details of the comparison between NAV per unit and Net Assets per unit for each class.

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 the Fund 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. Mutual Fund units held as investments are valued at their respective NAVs on each Valuation Date, as these values are the most readily and regularly available.

**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 the Manager may select brokers, including their affiliates, who charge 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 (if any), incurred in the purchase and sale of securities by the Fund 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 date and ex-distribution date respectively.

**Translation of foreign currencies**

The fair value of investments and other assets and liabilities denominated in foreign currencies are translated into the Fund's functional currency, the Canadian Dollar, 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 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/unrealized gain (loss) on foreign exchange", respectively, in the Statement of Operations.

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

JUNE 30, 2012

**Securities lending**

The Fund 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).

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

"Increase (decrease) in net assets from operations per unit" of a class in the Statement of Operations represents the increase (decrease) in net assets from operations attributable to the class, divided by the average number of units of the class outstanding during the period.

**Short-term trading penalty**

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

**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, accrued expenses and redemptions payable are designated as financial liabilities and reported at cost or 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 Fund are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit of a particular class. The NAV per unit of a class for the purposes of subscription or redemption is computed by dividing the NAV of the Fund attributable to the class (that is, the total value of the assets attributable to the class less the liabilities attributable to the class) by the total number of units of the class of the Fund outstanding at such time. This amount may be different from the Net Assets per unit of a class calculation, 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 value for the purchase and redemption of units. See Note 8(b) for details of the comparison between NAV per unit and Net Assets per unit for each class.

Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses from investment transactions are allocated proportionately to each class based upon the relative NAV of each class.

**Capital**

The capital of the Fund 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 Fund's NAV per unit upon redemption. The Fund 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 Fund endeavours 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. TAXES****Income taxes**

The Fund 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 Fund's net income and net realized capital gains not paid or payable, is subject to income tax. It is the intention of the Fund to distribute all of its income and sufficient net realized capital gains so that the Fund 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 Fund's available 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) Management fees**

The Manager is responsible for the day-to-day management of the Fund and its investment portfolio in compliance with the Fund's constating documents. The Manager monitors and evaluates the performance of the Fund, pays for the investment management services of the investment advisors and provides all related administrative services required by the Fund. As compensation for its services the Manager is entitled to receive a fee payable monthly, calculated at the maximum annual rates included in Note 8(d).

The Manager may, in some years and in certain cases, absorb a portion of management fees or other operating expenses of the Fund or class of the Fund. The decision to absorb these expenses is reviewed periodically and determined at the discretion of the Manager, without notice to unitholders.

**(b) Unitholder servicing**

The Fund is provided with certain facilities and services by the Manager and its affiliates. A portion of the unitholder servicing expenses include expenses incurred in the administration of the Fund that were paid to Bank of Montreal Ireland p.l.c.

Refer to Note 8(d) for related party fees charged to the Fund for the periods ended June 30, 2012 and 2011.

**(c) Initial investments**

In order to establish a new fund, the Manager makes an initial investment in the Fund. Pursuant to the policies of the Canadian Securities Administrators, an initial investor cannot redeem its investments until an additional \$500,000 has been received from other investors with respect to the same class of units. Refer to Note 8(d) for the investment in units of the Fund held by the Manager as at June 30, 2012 and December 31, 2011 where applicable.

**(d) Other related party transactions**

From time to time, the Manager may on behalf of the Fund enter into transactions or arrangements with or involving other members of the Bank of Montreal Group of Companies, or certain other persons or companies that are related or connected to the Manager of the Fund. These transactions or

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

JUNE 30, 2012

arrangements may include transactions or arrangements with or involving the Bank of Montreal Group of Companies, BMO Harris Investment Management Inc., BMO Asset Management Inc., BMO InvestorLine Inc., HIM Money Inc., BMO Trust Company, Pyrford International Ltd. 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 redemption of units of other BMO Mutual Funds or the provision of services to the Manager.

**6. FINANCIAL INSTRUMENT RISK**

The Fund 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 Fund's risk management practice includes the monitoring of compliance to investment guidelines.

The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Fund'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 Fund, will fluctuate due to changes in foreign exchange rates. All investments and derivative instruments, denominated in foreign currencies are identifiable on the Statement of Investment Portfolio. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value. The Fund may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Fund'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 Fund's interest-bearing investments will fluctuate due to changes in market interest rates. The Fund'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 Fund'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 Fund'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, if any, is based on the Fund's unrealized gain of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. The Fund's exposure to credit risk, if any, is further discussed in Note 8(f).

The Fund 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 Fund must be at least 102% of the fair value of securities loaned, if any, as disclosed in Note 8(g).

**(e) Liquidity risk**

The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Fund primarily invests in securities that are traded in active markets and can be readily disposed of. In addition, the Fund retains sufficient cash and cash equivalent positions to maintain liquidity. The Fund 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 the NAV of the Fund 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 Fund's financial obligations.

**7. TRANSITION TO INTERNATIONAL FINANCIAL 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 include 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 Fund has not elected to early adopt IFRS, therefore it will adopt IFRS effective January 1, 2014. The Fund expects to report its financial results for the six month period ending June 30, 2014 prepared on an IFRS basis. The Fund 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 Fund'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 Fund's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Fund's unitholder structure to confirm classification.

**BMO NESBITT BURNS U.S. STOCK SELECTION FUND** (unaudited)

JUNE 30, 2012

**8. FUND SPECIFIC INFORMATION****(a) Fund and Unit Class information**

The Fund's inception date was February 17, 2000. The Fund is authorized to issue an unlimited number of units in each of Class A and F. The launch date for each class is as disclosed below.

Unit Class	Launch Date
Class A Units	February 17, 2000
Class F Units	October 31, 2008

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

Change in units	June 30 2012	June 30 2011
<b>Class A</b>		
Units issued and outstanding, beginning of period	669,248	765,952
Issued for cash	98,202	55,764
Redeemed during the period	(57,838)	(92,647)
<b>Units issued and outstanding, end of period</b>	<b>709,612</b>	<b>729,069</b>
<b>Class F</b>		
Units issued and outstanding, beginning of period	5,727,163	4,955,047
Issued for cash	697,043	1,118,560
Redeemed during the period	(733,341)	(348,148)
<b>Units issued and outstanding, end of period</b>	<b>5,690,865</b>	<b>5,725,459</b>

**(b) Comparison of Net Asset Value per Unit to Net Assets per Unit**

	June 30, 2012		December 31, 2011	
	Net Asset Value per Unit (\$)	Net Assets per Unit (\$)	Net Asset Value per Unit (\$)	Net Assets per Unit (\$)
Class A Units	7.07	7.06	6.56	6.56
Class F Units	6.72	6.72	6.20	6.20

**(c) Income Taxes**

As at the tax year ended December 15, 2011, the Fund has the following available non-capital and capital losses for income tax purposes, if applicable:

Total Capital Losses (\$)	Total Non-Capital Losses (\$)	Non-Capital Losses that expire in		
		2014 (\$)	2015 (\$)	2016 and thereafter (\$)
24,466,004	2,080,845	1,739,840	171,952	169,053

**(d) Related party transactions****Management fees**

The Manager is entitled to receive the following fees payable monthly, calculated at the following maximum annual rates:

Unit Class	Management Fees (%)
Class A Units	2.00
Class F Units	1.00

**Initial investments**

The manager held the following investments in units of the Fund:

Unit Class	As at June 30, 2012		As at December 31, 2011	
	Number of Units	Fair Value of units (\$)	Number of Units	Fair Value of units (\$)
Class A Units	-	-	-	-
Class F Units	1,202	8,077	1,202	7,452

**Unitholder servicing**

The related party fees charged relating to unitholder servicing are as follows:

	Period ending June 30, 2012 (\$)	Period ending June 30, 2011 (\$)
Unitholder servicing	39,104	50,994

**(e) Brokerage Commissions and Soft Dollars**

Brokerage commissions paid on securities transactions for brokerage services provided to the Fund for the periods are as follows:

	June 30, 2012 \$	June 30, 2011 \$
Total Brokerage Amounts Paid	11,296	14,634
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 periods ended is as follows:

	June 30, 2012 \$	June 30, 2011 \$
Total Soft Dollars	6,617	8,347
Total Soft Dollars as a Percentage of Total Commissions	59%	57%

JUNE 30, 2012

**(f) Financial instrument risk**

The Fund's objective is to achieve long-term capital growth consistent with the preservation of capital by investing primarily in equity securities of large U.S. companies that have long-term growth potential or that pay, or are expected to pay, above-average dividends.

No changes to the Fund's objective or strategy, which would have had an affect on the overall level of risk of investing in the Fund, were made during the period.

**Currency risk**

As at June 30, 2012, approximately 98% (December 31, 2011 – 99%) of the Fund's Net Assets were exposed to currency risk. As at the periods ended June 30, 2012 and December 31, 2011, if the Canadian Dollar had strengthened or weakened by 5% in relation to the U.S. Dollar, with all other factors remaining constant, Net Assets could possibly have increased or decreased, respectively, by approximately \$2,133,213 (December 31, 2011 – \$1,968,032). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

**Interest rate risk**

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

**Other market risk**

As at June 30, 2012 approximately 98% (December 31, 2011 – 98%) of the Fund's Net Assets were traded on respective stock exchanges. If equity prices on the respective stock exchanges had increased or decreased by 10% as at the periods ended, with all other factors remaining constant, Net Assets could possibly have increased or decreased, respectively, by approximately \$4,252,128 (December 31, 2011 – \$3,918,051). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

**Credit risk**

As at December 31, 2011 and December 31, 2010, the Fund did not have any significant exposure to credit risk.

**(g) Securities lending**

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

	June 30, 2012	December 31, 2011
	\$	\$
Aggregate Fair Value of Securities on Loan	1,322,578	1,262,408
Aggregate Fair Value of Collateral for Loan	1,390,832	1,350,714

**(h) Fair Value Hierarchy**

There was no significant change in the composition of the Fund'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 for the disclosure of the Fund's financial assets and liabilities into the fair value levels classification.

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