BMO Nesbitt Burns Group of Funds

Annual Financial Statements

BMO NESBITT BURNS BOND FUND

BMO NESBITT BURNS

DECEMBER 31, 2012

BMO Nesbitt Burns®

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of:
BMO Nesbitt Burns Canadian Stock Selection Fund
BMO Nesbitt Burns U.S. Stock Selection Fund
BMO Nesbitt Burns Bond Fund
BMO Nesbitt Burns Balanced Fund
BMO Nesbitt Burns Balanced Portfolio Fund
BMO Nesbitt Burns Growth Portfolio Fund
BMO Nesbitt Burns Maximum Growth Portfolio Fund
BMO Nesbitt Burns International Equity Fund

(Collectively referred to as the "Funds")

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 28, 2013

BMO NESBITT BURNS BOND FUND

STATEMENT OF NET ASSETS (ALL AMOUNTS IN CANADIAN DOLLARS)

As at	December 31, 2012	December 31, 2011
ASSETS		
Cash	57,687	157,384
Investments at fair value	42,349,086	47,731,723
Income receivable	253,896	256,645
Subscriptions receivable	13,540	2,521
Total assets	**42,674,209**	**48,148,273**
LIABILITIES		
Accrued expenses	35,931	39,107
Redemptions payable	24,590	102,307
Total liabilities	**60,521**	**141,414**
Net assets representing unitholders' equity	**42,613,688**	**48,006,859**
Total net assets representing unitholders' equity		
Class A units	41,255,286	46,719,369
Class F units	1,358,402	1,287,490
Net assets per unit		
Class A units	$11.06	$11.30
Class F units	$11.14	$11.37

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

BMO NESBITT BURNS BOND FUND

STATEMENT OF OPERATIONS (ALL AMOUNTS IN CANADIAN DOLLARS)

For the years ended	December 31, 2012	December 31, 2011
INCOME		
Interest	1,784,970	1,995,620
Securities lending revenue	7,995	8,597
	1,792,965	**2,004,217**
EXPENSES		
Management fees (note 5(a))	324,957	347,106
Audit fees	7,488	6,673
Independent Review Committee fees	2,243	2,253
Custody fees	1,810	1,311
Legal and filing fees	13,279	20,948
Unitholder servicing fees (note 5(b))	92,016	92,249
Printing and stationery fees	10,208	9,910
	452,001	**480,450**
Net investment income for the year	1,340,964	1,523,767
Net realized gain/(loss) on investments	1,995,153	(256)
Change in unrealized (depreciation)/appreciation in value of investments	(2,415,201)	2,210,564
Increase in net assets from operations	**920,916**	**3,734,075**
Increase in net assets from operations		
Class A units	887,966	3,641,230
Class F units	32,950	92,845
Increase in net assets from operations per unit (note 2)		
Class A units	$0.23	$0.85
Class F units	$0.28	$0.85

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

BMO NESBITT BURNS BOND FUND

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

	Class A Units		Class F Units		Total Fund	
For the years ended	**December 31 2012**	**December 31 2011**	**December 31 2012**	**December 31 2011**	**December 31 2012**	**December 31 2011**
Net assets – beginning of year	**46,719,369**	**49,578,543**	**1,287,490**	**1,472,412**	**48,006,859**	**51,050,955**
Increase in net assets from operations	**887,966**	**3,641,230**	**32,950**	**92,845**	**920,916**	**3,734,075**
UNIT TRANSACTIONS:						
Proceeds from sale of units	3,901,731	4,844,020	334,414	266,711	4,236,145	5,110,731
Reinvested distributions	1,681,092	1,406,619	61,136	43,640	1,742,228	1,450,259
Amount paid on units redeemed	(10,139,617)	(11,264,584)	(296,452)	(544,478)	(10,436,069)	(11,809,062)
Total unit transactions	**(4,556,794)**	**(5,013,945)**	**99,098**	**(234,127)**	**(4,457,696)**	**(5,248,072)**
DISTRIBUTIONS TO UNITHOLDERS FROM:						
Net investment income	(1,310,957)	(1,486,459)	(45,514)	(43,640)	(1,356,471)	(1,530,099)
Capital Gains	(484,298)	–	(15,622)	–	(499,920)	–
Total distributions paid to unitholders	**(1,795,255)**	**(1,486,459)**	**(61,136)**	**(43,640)**	**(1,856,391)**	**(1,530,099)**
Net assets – end of year	**41,255,286**	**46,719,369**	**1,358,402**	**1,287,490**	**42,613,688**	**48,006,859**

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

BMO NESBITT BURNS BOND FUND

STATEMENT OF INVESTMENT PORTFOLIO (ALL AMOUNTS IN CANADIAN DOLLARS)

As at December 31, 2012

	Par Value	Cost ($)	Fair Value ($)
MONEY MARKET INVESTMENTS			
Government and Government Guaranteed – 0.4%			
Canadian Government Treasury Bill, 0.898%, January 4, 2013	150,000	149,960	149,985
		149,960	**149,985**
Total Money Market Investments – 0.4%		**149,960**	**149,985**
Corporate Bonds – 36.2%			
407 International Inc., 3.880%, June 16, 2015	499,000	527,293	524,234
407 International Inc., 5.960%, December 3, 2035	281,000	280,803	371,176
American Express Canada, 4.853%, October 3, 2014	418,000	443,026	440,008
Bank of Nova Scotia, 2.250%, May 8, 2015	438,000	442,800	441,885
Bank of Nova Scotia, 4.560%, October 30, 2013	435,000	434,870	446,023
BCIMC Realty Corporation, 4.650%, Febuary 10, 2015	246,000	261,596	259,486
BMW Canada Inc., 2.760%, April 1, 2014	428,000	434,292	433,226
BMW Canada Inc., 3.150%, April 1, 2015	540,000	556,200	554,801
Broadway Credit Card Trust., 4.804%, March 17, 2014	618,000	645,699	641,008
Caterpillar Financial Services Ltd, 2.630%, June 1, 2017	437,000	446,321	444,346
Canadian Imperial Bank of Commerce, 3.400%, January 14, 2016	429,000	447,992	446,606
Daimler Canada Finance Inc., 3.160%, April 14, 2014	886,000	903,047	900,982
Daimler Canada Finance Inc., 3.280%, September 15, 2016	427,000	443,290	441,420
Enbridge Gas, 6.160%, December 16, 2033	120,000	137,616	160,211
GE Capital Canada Funding Company, 2.950%, Febuary 10, 2014	212,000	215,687	215,174
GE Capital Canada Funding Company, 5.530%, August 17, 2017	388,000	441,583	438,960
Gloucester Credit Card Trust., 5.376%, May 15, 2014	419,000	443,323	440,097
Great West Lifeco, 6.670%, March 21, 2033	449,000	525,372	579,084
Hydro-One Inc., 4.640%, March 3, 2016	800,000	874,176	869,232
Investors Group, 6.580%, March 7, 2018	330,000	371,339	385,186
John Deere Canada Funding Inc., 2.300%, July 5, 2016	438,000	442,871	441,324
McGill University, 5.360%, December 31, 2043	137,000	136,940	163,782
National Bank of Canada, 3.580%, April 26, 2016	195,000	195,000	204,114
OMERS Realty Corporation, 4.740%, June 4, 2018	392,000	443,560	439,048
Royal Bank of Canada, 4.710%, December 22, 2014	1,000,000	979,234	1,057,280
Royal Bank of Canada, 2.364%, September 21, 2017	441,000	442,667	443,293
Score Trust, 4.949%, February 20, 2014	626,000	651,235	647,215
Sun Life Financial Inc., 4.570%, November 23, 2035	232,000	233,109	243,152
Thomson Reuters Corporation, 6.000%, March 31, 2016	392,000	442,960	437,970
Toyota Credit Canada, 2.200%, October 19, 2017	868,000	866,648	866,689
Terasen Gas Inc., 6.000%, October 2, 2037	141,000	140,494	188,998
VW Credit Canada Inc., 2.200%, October 11, 2016	420,000	419,567	423,381
Wells Fargo Finance Canada, 2.774%, February 9, 2017	439,000	446,599	446,362
		15,117,209	**15,435,753**
Government and Government Guaranteed Bonds – 31.0%			
Canada Housing Trust, 3.550%, September 15, 2013	49,000	49,928	49,830
Government of Canada, 1.000%, Febuary 1, 2014	3,538,000	3,531,632	3,533,967
Government of Canada, 3.500%, June 1, 2020	1,652,000	1,707,315	1,866,826
Government of Canada, 5.750%, June 1, 2029	1,003,000	1,246,794	1,489,876
Government of Canada, 4.000%, June 1, 2041	1,934,000	2,513,678	2,584,501
Government of Canada, 8.000%, June 1, 2023	2,326,000	3,697,857	3,671,521
		12,747,204	**13,196,521**

STATEMENT OF INVESTMENT PORTFOLIO (ALL AMOUNTS IN CANADIAN DOLLARS)

As at December 31, 2012

	Par Value	Cost ($)	Fair Value ($)
Provincial Government Bonds – 31.8%			
Alberta Capital Finance Authority, 4.350%, June 15, 2016	255,000	247,929	278,725
Hydro Quebec, 6.500%, February 15, 2035	263,000	320,768	379,677
Province of British Columbia, 4.100%, December 18, 2019	998,000	1,122,869	1,120,045
Province of British Columbia, 4.800%, June 15, 2021	1,054,000	1,241,601	1,242,518
Province of British Columbia, 5.620%, August 17, 2028	440,000	491,022	575,612
Province of British Columbia, 4.300%, June 18, 2042	120,000	138,650	142,368
Province of Manitoba, 4.400%, September 5, 2025	485,000	494,157	556,038
Province of Newfoundland, 5.600%, October 17, 2033	475,000	472,141	632,097
Province of Ontario, 4.400%, June 2, 2019	2,305,000	2,608,643	2,602,139
Province of Ontario, 3.150%, June 2, 2022	1,033,000	1,066,844	1,068,855
Province of Ontario, 6.500%, March 8, 2029	820,000	1,161,448	1,153,781
Province of Ontario, 5.600%, June 2, 2035	1,324,000	1,471,875	1,769,686
Province of Quebec, 5.500%, December 1, 2014	225,000	233,858	242,577
Province of Quebec, 5.350%, June 1, 2025	699,000	854,793	852,354
Province of Quebec, 5.000%, December 1, 2041	655,000	827,200	826,322
Province of Saskatchewan, 3.400%, February 3, 2042	120,000	124,949	124,033
		12,878,747	**13,566,827**
Total Bonds – 99.0%		**40,743,160**	**42,199,101**
Total Investments – 99.4%		**40,893,120**	**42,349,086**
Other Assets and Liabilities – 0.6%			**264,602**
Total Net Assets – 100%			**42,613,688**

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

	December 31, 2012	December 31, 2011
Money Market Investments	0.4%	0.5%
Corporate Bonds	36.2%	17.8%
Government and Government Guaranteed Bonds	31.0%	53.4%
Provincial Government Bonds	31.8%	27.7%
Other Assets less Liabilities	0.6%	0.6%
	100.0%	**100.0%**

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

BMO NESBITT BURNS BOND FUND

DECEMBER 31, 2012

1. THE FUND

BMO Nesbitt Burns Bond 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 7(a) for the classes issued in this Fund and the launch date, and Note 7(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 audited financial statements is for the years ended December 31, 2012 and 2011 as applicable. Financial information provided for a fund established during the period(s) is presented from the date of inception as noted in Note 7(a). Financial information provided for a class established during the period(s) is presented from the launch date as noted in Note 7(a).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including estimates and assumptions made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported 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 value of the total assets of a fund less the 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 7(b) for 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 and exchange traded funds listed on a recognized public securities exchange in North America are valued for financial statement purposes at their bid prices for long positions and ask prices for short positions. Procedures are in place to fair value securities traded in countries outside of North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

For bonds, debentures, asset-backed securities and other debt securities, the fair value represents the bid price provided by independent security pricing services. Short-term investments are included in the Statement of Investment Portfolio at their fair value. 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.

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 fair value, and may determine another value which it considers to be fair and reasonable using the services of third-party valuation service providers, or using a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies and other applicable rates or prices.

Investment transactions

Investment transactions are accounted for on the trade date. Realized gains (losses) from the sale of investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments which exclude brokerage commissions and other trading expenses. All net realized gains (losses), unrealized appreciation (depreciation) in value, and transaction costs are attributable to investments and derivative instruments which are deemed held for trading, and are included in the Statement of Operations.

Client brokerage commissions, where applicable, are used as payment for order execution services or research services. The portfolio advisers or 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 the accrual basis. Dividend income and distributions from investment trust units are recognized on the ex-dividend date 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 Fund 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 recognized in the Statement of Operations as "Interest".

Translation of foreign currencies

The fair value of investments and other assets and liabilities denominated in foreign currencies is 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.

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 fair values of securities on loan and related collateral held in trust as at December 31, 2012 and 2011, where applicable, are disclosed in Note 7(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 weighted 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 amortized cost. Other assets and liabilities are short-term in nature, and are carried at amortized cost, which approximates fair value.

Future accounting standards

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

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

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

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

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

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

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 fair 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 fair value for the purchase and redemption of units. See Note 7(b) for 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 Disclosure

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 7(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. 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. Such part of the Fund's net income and net realized capital gains as is not so 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 15, 2012 and 2011 are included in Note 7(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 7(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 7(d) for related party fees charged to the Fund for the periods ended December 31, 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 7(d) for the investment in units of the Fund held by the Manager as at December 31, 2012 and 2011.

(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 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 arrangements may include transactions or arrangements with or involving Bank of Montreal, BMO Investment Inc., BMO Harris Investment Management Inc., BMO Asset Management Inc., BMO InvestorLine Inc., HIM Monegy Inc., BMO Trust Company, Pyrford International Ltd. or other BMO Funds, BMO Guardian Funds and BMO ETFs, 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 7(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 7(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 7(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 it's 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 7(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 7(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. 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	December 31 2012	December 31 2011
Class A		
Units issued and outstanding, beginning of year	4,133,125	4,595,746
Issued for cash	346,627	442,472
Issued for reinvestment of distributions	151,010	128,791
Redeemed during the year	(902,072)	(1,033,884)
Units issued and outstanding, end of year	**3,728,690**	**4,133,125**
Class F		
Units issued and outstanding, beginning of year	113,195	135,418
Issued for cash	29,520	23,899
Issued for reinvestment of distributions	5,457	3,976
Redeemed during the year	(26,220)	(50,098)
Units issued and outstanding, end of year	**121,952**	**113,195**

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

	December 31, 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	11.06	11.06	11.30	11.30
Class F Units	11.14	11.14	11.37	11.37

(c) Income Taxes
As at the tax year ended December 2012, the Fund did not have any non-capital or capital losses for income tax purposes.

(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	0.75
Class F Units	0.25

Initial investments

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

	As at December 31, 2012		As at December 31, 2011	
Unit Class	Number of Units	Fair Value of units ($)	Number of Units	Fair Value of units ($)
Class A Units	–	–	–	–
Class F Units	1,165	12,976	1,113	12,655

Unitholder servicing fees

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

	Year ended December 31, 2012 ($)	Year ended December 31, 2011 ($)
Unitholder servicing	69,190	71,380

(e) Brokerage Commissions and Soft Dollars
There were no brokerage commissions charged to the Fund during the periods ended December 31, 2012 or December 31, 2011.

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

(f) Financial instrument risk
The Fund's objective is to achieve superior investment returns consistent with the preservation of capital and liquidity by investing in a portfolio of relatively low-risk liquid securities consisting primarily of Canadian federal, provincial and municipal government and corporate bonds, as well as asset and mortgage-backed securities issued by Canadian entities.

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

The Fund invested primarily in Canadian bonds. As at December 31, 2012 and December 31, 2011, the Fund did not have any significant exposure to currency risk.

Interest rate risk

The following table summarizes the Fund's exposure to interest rate risk categorized by the earlier of contractual repricing or maturity dates.

Interest Rate Exposure as at	<1 year ($)	1-3 years ($)	3-5 years ($)	5-10 years ($)	>10 years ($)	Total ($)
December 31, 2012	645,838	10,331,940	6,182,423	8,724,617	16,464,268	42,349,086
December 31, 2011	3,598,206	10,686,375	4,276,859	13,287,626	15,882,657	47,731,723

All amounts in CA$

As at the periods ended December 31, 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 variables constant, Net Assets could possibly have increased or decreased, respectively, by approximately $14,833 (December 31, 2011 – $17,701). The Fund'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.

Other market risk

The Fund was not significantly exposed to other market risk as at December 31, 2012 and December 31, 2011.

Credit risk

The Fund's credit risk exposure grouped by credit ratings are listed in the following table.

	As a % of Net Assets as at	
Credit Risk	**December 31, 2012**	**December 31, 2011**
AAA	44.6%	60.6%
AA	27.4%	14.6%
A	27.4%	24.2%
Total	**99.4%**	**99.4%**

(g) Securities lending

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

	December 31, 2012 $	December 31, 2011 $
Aggregate Fair Value of Securities on Loan	13,768,339	17,793,414
Aggregate Fair Value of Collateral for Loan	14,522,908	18,746,403

(h) Fair Value Hierarchy

The Fund uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The use of quoted (unadjusted) market prices for identical assets or liabilities (Level 1), using observable market information as inputs (Level 2) and using unobservable market information as inputs (Level 3) in the valuation of securities, fair value liabilities, derivative assets and derivative liabilities was as follows:

As at – December 31, 2012

Financial Assets	Level 1	Level 2	Level 3	Total
Debt Securities	13,196,521	29,152,565	–	**42,349,086**

As at – December 31, 2011

Financial Assets	Level 1	Level 2	Level 3	Total
Debt Securities	24,670,706	23,061,017	–	**47,731,723**

Significant Transfers

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

Bruce Ferman
President & Chief Executive Officer/Chairman
BMO Nesbitt Burns Group of Funds

Robert J. Schauer
Chief Financial Officer
BMO Nesbitt Burns Group of Funds

March 7, 2013

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