

BMO NESBITT BURNS

BMO Nesbitt Burns Group of Funds

# Semi-Annual Financial Statements

BMO NESBITT BURNS U.S. STOCK SELECTION FUND

JUNE 30, 2010

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

<b>As at</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Cash	971,648	624,364
Investments at fair value (note 2)	26,476,292	24,317,913
Interest and dividends receivable	9,802	11,498
Subscriptions receivable	125,949	143,430
Due From Broker	1,009,128	–
<b>Total assets</b>	<b>28,592,819</b>	<b>25,097,205</b>
<b>LIABILITIES</b>		
Due to Broker	1,244,457	–
Accrued expenses	20,031	26,983
Redemptions payable	140,821	35,074
<b>Total liabilities</b>	<b>1,405,309</b>	<b>62,057</b>
<b>Net assets representing unitholders' equity</b> (note 2)	<b>27,187,510</b>	<b>25,035,148</b>
<b>Net assets representing unitholders' equity</b>		
Class A units	4,701,920	5,636,702
Class F units	22,485,590	19,398,446
<b>Units issued and outstanding</b>		
Class A units	856,764	960,825
Class F units	4,418,154	3,585,506
<b>Net assets per unit</b> (note 2)		
Class A units	\$5.49	\$5.87
Class F units	\$5.09	\$5.41

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

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

<b>For the periods ended</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>INCOME</b>		
Dividends	200,850	96,628
Interest	5	-
Securities lending revenue	403	161
Withholding Tax	(29,190)	(14,442)
	<b>172,068</b>	<b>82,347</b>
<b>EXPENSES</b>		
Management fees (note 5(a))	98,685	53,979
Audit fees	6,040	2,911
Independent Review Committee Fees	1,039	1,059
Custody Fees	2,258	4,848
Legal and Filing Fees	7,496	2,739
Unitholder servicing fees (note 5(b))	43,509	10,297
Printing and stationery fees	2,394	802
Commission and other portfolio transaction costs (note5(b))	11,703	8,185
	<b>173,124</b>	<b>84,820</b>
Net investment loss for the year	(1,056)	(2,473)
Net realized gain/(loss) on investments	261,479	(138,856)
Realised loss on foreign exchange	(24,735)	(50,151)
Change in unrealized (depreciation)/appreciation in value of investments	(2,000,789)	663,624
Unrealized loss on foreign exchange	(4,023)	(3,547)
<b>(Decrease)/increase in net assets from operations</b>	<b>(1,769,124)</b>	<b>468,597</b>
<b>(Decrease)/increase in net assets from operations</b>		
Class A units	(327,439)	75,850
Class F units	(1,441,685)	392,747
<b>(Decrease)/increase in net assets from operations per unit</b> (note 2)		
Class A units	(\$0.36)	\$0.07
Class F units	(\$0.35)	\$0.69

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

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

	Class A Units		Class F Units	
	June 30 2010	June 30 2009	June 30 2010	June 30 2009
<b>For the periods ended</b>				
<b>Net assets – beginning of year</b> (note 2)	5,636,702	6,447,570	19,398,446	5,956
<b>(Decrease)/increase in net assets from operations</b>	(327,439)	75,850	(1,441,685)	392,747
<b>UNIT TRANSACTIONS:</b>				
Proceeds from sale of units	80,712	143,302	6,071,511	8,766,269
Reinvested distributions	-	-	-	-
Amount paid on units redeemed	(688,055)	(746,567)	(1,542,682)	(175,790)
<b>Total unit transactions</b>	<b>(607,343)</b>	<b>(603,265)</b>	<b>4,528,829</b>	<b>8,590,479</b>
<b>DISTRIBUTIONS TO UNITHOLDERS FROM:</b>				
Net investment income	-	-	-	-
<b>Total distributions paid to unitholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets – end of year</b> (note 2)	<b>4,701,920</b>	<b>5,920,155</b>	<b>22,485,590</b>	<b>8,989,182</b>
<b>Change in Units</b>				
Units issued and outstanding, beginning of year	960,825	1,176,142	3,585,506	1,205
Issued for cash	13,561	26,848	1,119,638	1,795,865
Issued for reinvestment of distributions	-	-	-	-
	<b>974,386</b>	<b>1,202,990</b>	<b>4,705,144</b>	<b>1,797,070</b>
Redeemed during the year	(117,622)	(139,927)	(286,990)	(37,972)
<b>Units issued and outstanding, end of year</b>	<b>856,764</b>	<b>1,063,063</b>	<b>4,418,154</b>	<b>1,759,098</b>

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

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

As at June 30, 2010

Security	Number of Shares	Cost* (\$)	Fair Value (\$)
<b>EQUITIES</b>			
<b>Consumer Discretionary – 10.5%</b>			
Directv-Class A	22,050	770,307	795,981
Macy's Inc.	15,500	290,128	295,029
McDonald's Corporation	9,980	621,231	699,604
Target Corporation	7,500	416,734	392,260
TJX Companies Inc.	15,250	671,031	680,708
		<b>2,769,431</b>	<b>2,863,582</b>
<b>Consumer Staples – 9.7%</b>			
Clorox Company	2,290	146,871	151,559
Coca Cola Enterprises	10,150	222,108	279,530
Del Monte Foods Company	32,500	395,916	497,172
Herbalife Limited	9,800	428,070	480,525
Walgreen Company	16,250	623,338	461,709
Wal-Mart Stores Inc.	15,010	861,438	767,786
		<b>2,677,741</b>	<b>2,638,281</b>
<b>Energy – 10.6%</b>			
Cimarex Energy Corporation	3,150	230,800	239,696
CNOOC Limited ADR	2,100	318,380	380,492
Conocophillips	7,590	432,665	396,159
Exxon Mobil Corporation	10,730	787,218	650,633
Marathon Oil Corporation	14,520	471,449	480,566
National Oilwell Varco Inc.	5,150	216,709	181,194
Noble Corporation	17,200	729,910	565,604
		<b>3,187,131</b>	<b>2,894,344</b>
<b>Financials – 16.1%</b>			
American Financial Group Inc.	23,960	609,776	697,096
Arch Capital Group Limited	9,640	701,428	764,846
Bank Of America Corporation	16,650	303,112	254,528
Capital One Financial Corporation	10,850	442,235	464,902
Goldman Sachs Group Inc.	4,050	700,531	565,271
JPMorgan Chase & Company	14,260	615,226	555,606
The Travelers Companies Inc.	7,050	388,492	369,475
Wells Fargo & Company	25,510	757,057	695,211
		<b>4,517,857</b>	<b>4,366,935</b>
<b>Health Care – 10.5%</b>			
Amgen Inc.	11,990	746,993	671,384
Forest Laboratories, Inc.	17,200	535,542	501,884
Humana Inc.	3,050	144,968	148,220
Johnson & Johnson	3,400	207,518	213,694
Medco Health Solutions, Inc.	10,520	532,281	616,621
Merck & Co., Inc.	9,780	369,956	363,771
Wellpoint Inc.	6,280	360,424	327,182
		<b>2,897,682</b>	<b>2,842,756</b>
<b>Industrials – 11.4%</b>			
Emerson Electric Company	5,705	239,510	265,037
General Electric Company	33,690	715,636	516,093
Goodrich Corporation	6,140	368,309	433,163
Joy Global Inc.	5,800	294,376	309,275
Northrop Grumman Corporation	6,950	455,427	402,855
Oshkosh Corporation	5,600	200,673	185,879
United Technologies Corporation	10,560	647,672	729,021
URS Corporation	6,150	315,541	257,689
		<b>3,237,144</b>	<b>3,099,012</b>

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

**STATEMENT OF INVESTMENT PORTFOLIO CONTINUED** (ALL AMOUNTS IN CANADIAN DOLLARS)

As at June 30, 2010

Security	Number of Shares	Cost* (\$)	Fair Value (\$)
<b>Information Technology – 19.7%</b>			
Apple Inc.	2,550	696,814	682,668
Google Inc.	600	367,847	284,158
Hewlett-Packard Company	17,810	827,693	819,815
Ingram Micro Inc.	26,600	475,753	430,419
Intel Corporation	22,700	497,673	469,773
International Business Machines Corporation	5,020	608,443	659,508
Microsoft Corporation	33,120	991,407	810,932
Oracle Corporation	40,025	910,539	913,955
Western Digital Corporation	8,940	299,774	286,940
		<b>5,675,943</b>	<b>5,358,168</b>
<b>Materials – 4.3%</b>			
Ashland Inc.	8,400	294,107	415,187
Crown Holdings Inc.	16,300	452,661	434,151
Freeport-McMoran Copper & Gold Inc.	4,900	344,921	308,387
		<b>1,091,689</b>	<b>1,157,725</b>
<b>Telecommunication Services – 1.8%</b>			
AT&T Inc.	18,855	568,154	484,740
		<b>568,154</b>	<b>484,740</b>
<b>Utilities – 2.8%</b>			
Centerpoint Energy Inc	55,100	740,237	770,749
		<b>740,237</b>	<b>770,749</b>
<b>Total Equities – 97.4%</b>		<b>27,363,009</b>	<b>26,476,292</b>
<b>Total Investments – 97.4%</b>		<b>27,363,009</b>	<b>26,476,292</b>
<b>Other Assets less Liabilities – 2.6%</b>			<b>711,218</b>
<b>Total Net Assets – 100%</b>			<b>27,187,510</b>

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

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

	June 30, 2010	December 31, 2009
Consumer Discretionary	10.5%	7.9%
Consumer Staples	9.7%	9.7%
Energy	10.6%	11.1%
Financials	16.1%	13.2%
Health Care	10.5%	12.3%
Industrials	11.4%	8.9%
Information Technology	19.7%	21.0%
Materials	4.3%	5.0%
Telecommunication Services	1.8%	4.5%
Utilities	2.8%	3.5%
Other Assets less Liabilities	2.6%	2.9%
	<b>100.0%</b>	<b>100.0%</b>

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

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## 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 launch date.

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

The information provided in these unaudited financial statements is for the six-month period(s) ended as at June 30, 2010 and 2009 except for the comparative information presented in the Statement of Net Assets and the comparative Fund Specific information in note 8, which is as at December 31, 2009. Financial information for the Fund or class established during the period(s) is presented from the date of inception as noted in note 8(a).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“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.

### *Emerging Issues Committee – 173 (“EIC-173”)*

On January 20, 2009, the Canadian Accounting Standards Board issued Emerging Issues Committee Abstract 173 – “*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*” (“EIC-173”). EIC-173 supplements the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855. EIC-173 requires that an entity’s own credit risk (in the case of financial liabilities) and a counterparty’s credit risk (in the case of financial assets) be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The new guidance did not have any significant impact on the valuation of the Fund’s financial assets and financial liabilities, or their net assets.

### **Valuation of investments**

CICA Handbook Section 3855 “Financial Instruments – Recognition and Measurement” (“Section 3855”), requires the use of bid prices for long positions and ask prices for short positions in the fair valuation of investments, 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, Section 3855 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 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 and the NAV per unit for each class. Refer to Note 8(b) for details

of the comparison between Net Assets per Unit and NAV per unit for each class.

Investments are deemed to be held for trading in accordance with Section 3855. 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 and Latin America are valued for financial reporting purposes at their bid prices for long positions and ask prices for their short positions. The Manager uses fair value pricing when the fair value of a security held in a 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 and prices. Procedures are in place to fair value securities traded in countries outside North America and Latin America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

For bonds, debentures, asset-backed securities and other debt securities, the fair value represents the bid price provided by independent security pricing services. Short-term investments are included in the Statement of Investment Portfolio at their fair value. Unlisted warrants are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant. Mutual fund units held as investments are valued at their respective net asset values on each valuation date, as these values are the most readily and regularly available.

The Fund’s financial instruments are classified into three levels based on the inputs used to value the financial instruments. Level 1 securities are based on quoted prices in active markets for identical securities. Level 2 securities are based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets. Level 3 securities are based on significant unobservable inputs that reflect the Manager’s determination of assumptions that market participants might reasonably use in valuing the securities. Refer to note 8(g) for the relevant disclosure.

### **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.

Transaction Costs, such as brokerage commissions, 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.

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#### 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 is recognized on the ex-dividend date.

Distributions received from investment trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Amounts recorded as a return of capital reduce the cost of the investment in the investment trust.

#### Translation of foreign currencies

The fair value of investments and other assets and liabilities in foreign currencies are translated into the Fund'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 unrealized appreciation (depreciation) in value of investments in the Statement of Operations. Realized and unrealized exchange gains (losses) on assets (other than investments) and liabilities are included in gain (loss) on foreign exchange 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 is recorded as securities lending revenue 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, 2010, where applicable, are disclosed in Note 8(f).

#### 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.

#### Cash

Cash is comprised of cash on deposit and cash equivalents and is deemed to be held for trading carried at fair value.

#### Other assets and liabilities

Interest and dividends receivable, subscriptions receivable, receivable for margin on futures, and due from broker are designated as loans and receivables and recorded at cost or amortized cost. 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.

### 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 of a particular class. A valuation date is each day on which the Toronto Stock Exchange is open for trading. 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 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 reconciliation of the NAV per unit to Net Assets as at June 30, 2010 and December 31, 2009 for each class of the fund.

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. 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"), and accordingly, is not subject to tax on its net taxable income for the tax year which ends in December, including net realized capital gains, which is paid or payable to its unitholders as at the end of the tax year. However, 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. Income tax on net realized capital gains not paid or payable is generally recoverable

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by virtue of refunding provisions contained in tax legislation, as redemptions occur. 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.

Non-capital losses that arose in taxation years before 2004 are available to be carried forward for seven years and applied against future taxable income. Non-capital losses that arose in 2004 and 2005 are available to be carried forward for ten years. Non-capital losses that arose in 2006 and after 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 2009 are included in Note 8(c).

## 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).

### (b) Unitholder servicing, commissions and other portfolio transaction costs

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. Refer to Note 8(d) for related party fees charged to the Fund for the periods ended June 30, 2010 and 2009 where applicable.

### (c) Initial investments

In order to establish a new fund, the Manager makes initial investments 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 series of units. Refer to Note 8(d) for the investment in units of the Fund held by the Manager as at June 30, 2010, 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 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, Bank of Montreal Ireland Plc., BMO Harris Investment Management Inc., BMO Asset Management Inc., BMO InvestorLine Inc., HIM Money Inc., BMO Trust Company, Harris Investment Management Inc., Pyrford International Ltd. or other mutual funds, 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 funds or the provision of services to the Manager.

## 6. FINANCIAL INSTRUMENT RISK

A fund may be exposed to a variety of financial risks. A fund's exposure to financial risks 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 financial instruments denominated in currencies, other than the functional currency of the Fund, 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 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(e).

### (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 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(e).

### (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 are not subject to other market risk. The Fund's exposure to other market risk, if any, is further discussed in Note 8(e).

### (d) Credit risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the 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(e).

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

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held by the Fund must be at least 102% of the fair value of securities loaned, as disclosed in Note 8.

(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. 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 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 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that all Canadian publicly accountable enterprises, which include investment funds, will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for financial years commencing on or after January 1, 2011. However, in June 2010, the AcSB issued a proposal to defer the adoption of IFRS for investment companies, which include investment funds, by one year. This proposal could result in the Fund deferring its adoption of IFRS from January 1, 2011 to January 1, 2012. The AcSB is expected to finalize their proposal in September 2010.

In order to meet the requirement to transition to IFRS, the Manager established a committee for the development and implementation of a transition plan and to provide oversight of the transition to IFRS. The transition plan is comprised of three phases: a diagnostic assessment to identify potential IFRS differences relative to current policies; implementation and education, which includes confirming actual IFRS differences relative to current policies; and completion of all integration requirements for any actual differences identified. The Fund's transition to IFRS remains on track: its diagnostic assessment to identify potential IFRS differences is completed, and the Committee is currently working through the second phase of the transition plan.

The diagnostic assessment of the Fund revealed the following:

The criteria contained within the IFRS Financial Instruments: Presentation standard (IAS 32) 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.

The requirements contained within the IFRS Consolidated and Separate Financial Statements standard (IAS 27) may impact the accounting of certain investments held by the Fund. To the extent any of the Fund's investments in other funds are deemed to be controlled by the Fund, as determined under the criteria contained within IAS 27, the Fund will need to consolidate the financial statements of those investments within the Fund's financial statements. However, the IASB is planning to replace IAS 27 with a new standard. This new standard may be in effect prior to Fund's transition date, such

that the IFRS may differ at transition date from its current form. The Manager is currently monitoring the IASB's project to replace IAS 27, and will amend its implementation plans accordingly.

Presentation changes to unitholders' equity and presenting certain investments held by the Fund on a consolidated basis will not have an impact on the Fund's results of operations or financial position. The diagnostic assessment did not reveal any other potential material differences between the Fund's current accounting policies and the requirements under IFRS. The Manager does not foresee any impact or change to the Fund's business arrangements or any accounting policy or implementation decisions that the Fund will need to make as a result of the changeover to IFRS.

The Manager has not identified any changes that will impact NAV per share as a result of the changeover to IFRS. However, this determination is subject to change as new standards are issued or interpretations of existing standards evolve.

8. **FUND SPECIFIC INFORMATION**

(a) **Fund and Unit Class information**

The Fund's inception date was February 17, 2000. The Fund may issue an unlimited number of units in each of Class A and F.

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.

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

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

Unit Class	June 30, 2010		
	Net Asset Value per Unit	Section 3855 Adjustment	Net Assets per Unit
Class A Units	5.49	-	5.49
Class F Units	5.09	-	5.09

Unit Class	December 31, 2009		
	Net Asset Value per Unit	Section 3855 Adjustment	Net Assets per Unit
Class A Units	5.87	-	5.87
Class F Units	5.41	-	5.41

(c) **Income Taxes**

As at the tax year ended December 2009, the Fund has the following available non-capital and capital losses for income tax purposes:

Total Capital Losses (\$)	Total Non-Capital Losses (\$)	Non-Capital Losses That Expire in		
		2010 (\$)	2011 (\$)	2012 and thereafter (\$)
8,835,097	2,720,431	549,748	1,829,678	341,005

June 30, 2010

## (d) Related party transactions

## Management Fees and Operating Expenses

The Manager is entitled to receive Management Fees at annual rates, and recover Operating Expenses up to the maximum rate, as follows:

Unit Class	Management Fees (%)	Operating Expenses (Cap) (%)
Class A Units	2.00	0.50
Class F Units	1.00	0.50

## Initial investments

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

Unit Class	As at June 30, 2010		As at December 31, 2009	
	Units held by the Manager (\$)	Fair value of units (\$)	Units held by the Manager (\$)	Fair value of units (\$)
Class A Units	-	-	-	-
Class F Units	1,202	6,118	1,202	6,503

## Unitholder servicing and other portfolio transaction costs.

The related party fees charged relating to unitholder servicing and other portfolio transaction costs are as follows:

	Period ending June 30, 2010 (\$)	Period ending June 30, 2009 (\$)
<b>Unitholder servicing</b>	<b>30,645</b>	<b>8,328</b>

## (e) 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 affecting the overall level of risk of investing in the Fund were made during the period.

## Currency risk

As at June 30, 2010, approximately 97% (December 31, 2009 – 97%) of the Fund's Net Assets were exposed to currency risk. As at the periods ended June 30, 2010 and December 31, 2009, 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 decreased or increased by approximately \$1,317,811 (December 31, 2009 – \$1,218,044). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## Interest rate risk

As at June 30, 2010 and December 31, 2009, the majority of the Fund's financial assets and liabilities are non-interest bearing. Therefore, the Fund's sensitivity to interest rate risk, as determined based on portfolio weighted duration, was not significant as at June 30, 2010 and December 31, 2009.

## Other market risk

As at June 30, 2010 approximately 97% (December 31, 2009 – 97%) of the Fund's Net Assets were traded on respective stock exchanges. If equity prices on the respective stock exchanges for these securities 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 by approximately \$2,647,629 (December 31, 2009 – \$2,431,791), respectively. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## Credit risk

As at June 30, 2010, 0% (December 31, 2009 – 0%) of the Fund's Net Assets were invested in debt securities issued or guaranteed by the federal or provincial governments of Canada. Therefore, the Fund did not have any significant exposure to credit risk.

Credit risk associated with securities lending is considered minimal as the value of cash or securities held as collateral must be at least 102% of the fair value of securities loaned, as shown below.

## (f) Securities lending

The Fund had assets involved in securities lending transactions outstanding as follows:

	June 30, 2010 \$	December 31, 2009 \$
Aggregate Fair Value of Securities on Loan	985,441	-
Aggregate Fair Value of Collateral for Loan	1,041,096	-

## (g) Fair Value Hierarchy

The classification between hierarchy levels as at June 30, 2010 is not significantly different from the levels as at December 31, 2009. The disclosure related to the hierarchical classification of the Fund's financial instruments is included in the Fund's audited financial statements as at December 31, 2009.

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