

BMO NESBITT BURNS

BMO Nesbitt Burns Group of Funds

Annual Financial Statements

BMO NESBITT BURNS BALANCED FUND

DECEMBER 31, 2009

AUDITORS' 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 statements of investment portfolio of each of the Funds as at December 31, 2009, the statements of net assets, the statements of operations and changes in net assets of each of the Funds as at and for the periods indicated in Note 1. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of each of the Funds, the results of each of their operations and the changes in each of their net assets as at and for the periods indicated in Note 1, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

March 10, 2010

STATEMENT OF NET ASSETS (ALL AMOUNTS IN CANADIAN DOLLARS)

As at	December 31, 2009	December 31, 2008
ASSETS		
Cash	32,982	17,453
Investments at fair value (note 2)	52,068,866	47,026,970
Interest and dividends receivable	202,402	256,228
Due from broker	394,281	–
Subscriptions receivable	68,725	10,464
Total assets	52,767,256	47,311,115
LIABILITIES		
Due to broker	268,920	–
Accrued expenses	111,984	76,436
Redemptions payable	80,239	7,926
Total liabilities	461,143	84,362
Net assets representing unitholders' equity	52,306,113	47,226,753
Total net assets representing unitholders' equity		
Class A units	52,134,669	47,210,956
Class F units	171,444	15,797
Net assets per unit (note 2)		
Class A units	\$12.98	\$11.70
Class F units	\$13.27	\$11.88

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

STATEMENT OF OPERATIONS (ALL AMOUNTS IN CANADIAN DOLLARS)

For the periods ended	December 31, 2009	December 31, 2008
INCOME		
Dividends	660,965	652,238
Interest	1,023,806	1,128,873
Securities lending revenue	5,649	24,637
Withholding Tax	(603)	(729)
	1,689,817	1,805,019
EXPENSES		
Management fees (note 5(a))	718,726	804,458
Audit fees	17,466	14,565
Independent Review Committee Fees	2,566	1,906
Custody fees	8,759	8,174
Legal and filing fees	18,408	18,269
Securityholder servicing fees (note 5(b))	121,510	108,132
Printing and stationery fees	8,340	7,141
Commission and other portfolio transaction costs (note 5(b))	2,216	-
	897,991	962,645
Net investment income for the year	791,826	842,374
Net realized loss on sale of investments	(1,599,602)	(1,581,505)
Realized loss on foreign exchange	(259)	(1,313)
Change in unrealized appreciation/(depreciation) in value of investments	6,674,526	(11,610,515)
Unrealized (loss)/gain on foreign exchange	(13)	14
Increase/(decrease) in net assets from operations	5,866,478	(12,350,945)
Increase/(decrease) in net assets from operations		
Class A units	5,855,131	(12,350,742)
Class F units	11,347	(203)
Increase/(decrease) in net assets from operations per unit (note 2)		
Class A units	\$1.47	(\$3.13)
Class F units	\$1.79	(\$0.16)

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

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

For the periods ended	Class A Units		Class F Units	
	December 31 2009	December 31 2008	December 31 2009	December 31 2008
Net assets – beginning of year (note 2)	47,210,956	56,151,298	15,797	–
Increase/(decrease) in net assets from operations	5,855,131	(12,350,742)	11,347	(203)
UNIT TRANSACTIONS:				
Proceeds from sale of units	9,977,125	16,716,520	144,300	16,000
Reinvested distributions	868,807	806,359	1,748	37
Amount paid on units redeemed	(10,884,134)	(13,264,162)	–	–
Total unit transactions	(38,202)	4,258,717	146,048	16,037
DISTRIBUTIONS TO UNITHOLDERS FROM:				
Net investment income	(893,216)	(848,317)	(1,748)	(37)
Total distributions paid to unitholders	(893,216)	(848,317)	(1,748)	(37)
Net assets – end of year (note 2)	52,134,669	47,210,956	171,444	15,797
Change in Units				
Units issued and outstanding, beginning of year	4,034,893	3,767,357	1,330	–
Issued for cash	807,514	1,172,962	11,455	1,327
Issued for reinvestment of distributions	69,102	62,522	135	3
	4,911,509	5,002,841	12,920	1,330
Redeemed during the year	(893,566)	(967,948)	–	–
Units issued and outstanding, end of year	4,017,943	4,034,893	12,920	1,330

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

STATEMENT OF INVESTMENT PORTFOLIO (ALL AMOUNTS IN CANADIAN DOLLARS)

As at December 31, 2009

Description	Par Value	Cost (\$)	Fair Value (\$)
MONEY MARKET INVESTMENTS			
Commercial Paper – 2.5%			
Canadian Government Treasury Bill	1,300,000	1,299,328	1,299,403
Total Money Market Investments		1,299,328	1,299,403
Money market instruments which are grouped by issuer earn interest at rates ranging from 0.22% to 0.23% and mature between March 4, 2010 and April 29, 2010.			
BONDS			
Corporate Bonds – 11.7%			
407 International Inc., 5.960%, December 3, 2035	385,000	384,730	405,385
Bank of Nova Scotia, 4.990%, March 27, 2018	822,000	821,852	874,353
Canadian Imperial Bank of Commerce, 5.000%, September 10, 2012	201,000	199,113	214,015
Canadian Imperial Bank of Commerce, 4.550%, March 28, 2016	596,000	593,751	616,634
CI Financial Corporation, 3.300%, December 17, 2012	215,000	214,987	214,293
Great West Lifeco, 6.670%, March 21, 2033	150,000	177,997	162,920
Greater Toronto Airport, 6.250%, December 13, 2012	305,000	334,158	334,689
Honda Canada, 4.727%, May 9, 2011	219,000	219,000	227,029
Honda Canada Finance, 5.675%, September 26, 2012	150,000	150,000	160,420
Hospital for Sick Children, 5.217%, December 16, 2049	500,000	500,000	490,600
Investors Group, 6.580%, March 7, 2018	88,000	99,024	96,123
Investors Group, 7.450%, May 9, 2031	105,000	128,603	116,583
Investors Group, 7.110%, March 7, 2033	84,000	99,626	90,208
John Deere Ltd, 5.250%, October 18, 2010	250,000	249,870	257,983
Kreditanstalt Fuer Wiederauf, 4.950%, October 14, 2014	944,000	977,246	1,018,944
Manulife Bank, 4.680%, September 12, 2016	163,000	154,764	165,192
Royal Bank of Canada, 5.200%, August 15, 2012	172,000	172,764	184,487
Royal Bank of Canada, 5.060%, July 17, 2013	204,000	215,648	219,435
Sunlife Financial Group, 4.800%, November 23, 2035	175,000	175,837	178,966
Terassen Gas Inc., 6.000%, October 2, 2037	88,000	87,683	92,778
		5,956,653	6,121,037
Government and Government Guaranteed Bonds – 18.9%			
Canada Housing Trust, 4.000%, June 15, 2012	262,000	275,925	274,862
Canada Post Corporation, 10.350%, March 15, 2016	125,000	185,754	174,560
Export Development Canada, 5.800%, March 12, 2012	825,000	916,229	906,989
Government of Canada, 1.250%, December 1, 2011	1,774,000	1,764,963	1,766,390
Government of Canada, 2.000%, September 1, 2012	534,000	531,928	535,025
Government of Canada, 4.500%, June 1, 2015	909,000	986,323	982,220
Government of Canada, 4.000%, June 1, 2016	130,000	143,897	136,700
Government of Canada, 3.750%, June 1, 2019	1,812,000	1,871,935	1,831,750
Government of Canada, 3.500%, June 1, 2020	2,114,000	2,097,118	2,065,441
Government of Canada, 8.000%, June 1, 2023	301,000	434,283	425,048
Government of Canada, 5.750%, June 1, 2029	125,000	153,875	150,770
Government of Canada, 5.000%, June 1, 2037	574,000	664,276	660,548
		10,026,506	9,910,303

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

As at December 31, 2009

Description	Par Value	Cost (\$)	Fair Value (\$)
Provincial Government Bonds – 10.9%			
British Columbia Municipal Finance Authority, 5.100%, November 20, 2018	433,000	431,389	453,096
Hydro Quebec, 6.500%, February 15, 2035	250,000	311,675	305,250
Newfoundland Labrador Hydro, 4.300%, October 13, 2016	240,000	239,897	247,783
Ontario Strategic Infrastructure Finance Authority, 4.600%, June 1 2015	299,000	304,132	314,311
Province of British Columbia, 5.620%, August 17, 2028	500,000	565,590	546,690
Province of Manitoba, 5.250%, December 3, 2012	350,000	368,550	379,397
Province of New Brunswick, 6.375%, June 15, 2010	98,000	104,791	100,602
Province of New Brunswick, 4.550%, March 26, 2037	625,000	622,581	592,631
Province of Newfoundland, 4.500%, April 17, 2037	165,000	164,059	155,494
Province of Saskatchewan, 5.250%, June 3, 2014	295,000	314,647	323,630
Province of Saskatchewan, 5.800%, September 5, 2033	300,000	354,861	340,242
Province of Ontario, 4.200%, March 8, 2018	426,000	431,278	432,194
Province of Ontario, 4.700%, June 2, 2037	327,000	318,138	322,964
Province of Quebec, 5.500%, December 1, 2014	874,000	918,484	969,380
Province of Quebec, 4.500%, December 1, 2019	215,000	215,839	217,167
		5,665,911	5,700,831

Total Bonds – 41.5%		21,649,070	21,732,171
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Description	Number of Shares	Cost* (\$)	Fair Value (\$)
EQUITIES			
Consumer Discretionary – 2.4%			
Thompson Reuters Corporation	23,525	925,620	797,498
Tim Hortons Inc.	14,000	462,202	448,980
		1,387,822	1,246,478
Consumer Staples – 1.7%			
Alimentation Couche-Tard Inc.	30,400	553,532	632,928
Loblaw Companies Limited	7,000	227,442	236,740
		780,974	869,668
Energy – 15.0%			
Canadian Natural Resources Limited	9,625	361,201	728,131
Celtic Explorations Limited	49,000	551,753	1,018,710
Cenovus Energy Limited	22,585	635,752	596,244
EnCana Corporation	22,585	698,733	769,019
Nexen Inc.	60,330	1,889,826	1,516,696
NuVista Energy Limited	33,500	360,250	415,735
ShawCor Limited	7,350	210,898	214,326
Suncor Energy Inc.	43,160	1,153,182	1,601,668
Talisman Energy Inc.	52,000	895,216	1,016,600
		6,756,811	7,877,129
Financials – 16.3%			
Bank of Montreal	16,300	664,235	909,051
Canadian Imperial Bank of Commerce	15,000	969,002	1,019,250
Great-West Lifeco Inc.	40,965	1,116,393	1,098,681
Manulife Financial Corporation	49,750	1,275,104	960,175
Power Financial Corporation	30,100	854,818	930,391
Royal Bank of Canada	27,000	1,393,136	1,521,450
Toronto-Dominion Bank	31,510	1,587,520	2,077,769
		7,860,208	8,516,767

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

As at December 31, 2009

Description	Number of shares	Cost* (\$)	Fair Value (\$)
Industrials – 3.6%			
CAE Inc.	66,850	713,196	580,258
Canadian Pacific Railway Limited	14,580	787,386	824,207
Finning International Inc.	29,700	479,783	492,723
		1,980,365	1,897,188
Information Technology – 2.3%			
Research In Motion Limited	16,700	1,567,116	1,184,698
		1,567,116	1,184,698
Materials – 10.9%			
Agrium Inc.	8,500	425,623	549,950
Barrick Gold Corporation	30,606	1,092,110	1,266,476
Eldorado Gold Corporation	20,000	251,430	296,800
FNX Mining Company Inc.	18,200	244,592	209,482
Goldcorp Inc.	19,100	735,952	789,021
Kinross Gold Corporation	37,250	660,688	720,043
Potash Corporation of Saskatchewan	15,450	1,016,269	1,763,000
Yamana Gold Inc.	10,000	126,500	119,600
		4,553,164	5,714,372
Telecommunication Services – 3.3%			
BCE Inc.	54,838	1,718,277	1,587,012
Rogers Communications Inc.	4,422	90,139	143,980
		1,808,416	1,730,992
Total Equities – 55.5%		26,694,876	29,037,292
Total Investments – 99.5%		49,643,274	52,068,866
Other Assets less Liabilities – 0.5%			237,247
Total Net Assets – 100%			52,306,113

* 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:

	December 31 2009	December 31 2008
Money Market Investments	2.5%	4.8%
Bonds and Debentures – Canada	39.1%	44.2%
Bonds and Debentures – Foreign	2.4%	2.2%
Consumer Discretionary	2.4%	2.8%
Consumer Staples	1.7%	0.9%
Energy	15.0%	13.6%
Financials	16.3%	14.7%
Industrials	3.6%	2.4%
Information Technology	2.3%	2.4%
Materials	10.9%	8.1%
Telecommunication Services	3.3%	3.5%
Other Assets less Liabilities	0.5%	0.4%
	100.0%	100.0%

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

December 31, 2009

1. THE FUND

BMO Nesbitt Burns Balanced 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 November 1, 2002, 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 and administration fees. Refer to Note 8(a) for the classes issued in this Fund and the launch date, and Note 8(d) for management fee rates and administration fee rates for each class.

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.

BMO Nesbitt Burns Inc. (the “Manager”) is responsible for the management of the Fund.

The information provided in these audited financial statements is for the period ended December 31, 2009 and 2008. 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”), and include 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.

Adoption of new accounting policies*Emerging Issues Committee – 173 (“EIC-173”)*

For the year ended December 31, 2009, the Fund adopted EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. EIC-173 clarifies that credit risk and counter party risk should be considered in determining the fair value of financial instruments. The adoption of this new standard did not have a significant impact on the Fund’s financial statements.

Financial Instruments Disclosure and Presentation

On January 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants Handbook (“CICA”) Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation”. These standards replaced Section 3861, “Financial Instruments – Disclosure and Presentation” and increase the emphasis on the disclosure of risks associated with financial instruments and how those risks are managed. The adoption of the standards did not impact the daily price of the Fund’s securities for subscription and redemption purposes, nor for the calculation of Net Assets. Refer to Note 6 and Note 8 for disclosure relating to the adoption of the requirements.

The Accounting Standards Board of the CICA recently issued an amendment to CICA Handbook Section 3862, “Financial Instruments – Disclosures”. The Fund adopted this amendment for the fiscal 2009 financial statements in line with the requirement of the standard.

The amendments to the existing standard require classification of the Fund’s financial instruments 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 Fund’s determination of assumptions that market participants might reasonably use in valuing the securities. Refer to note 8 (g) for the relevant disclosure.

Valuation of investments

CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement” (“Section 3855”), requires the fair value of financial instruments traded in active markets to be measured based on a security’s bid price.

The Canadian Securities Administrators (“CSA”) allow investment funds to calculate the daily Net Asset Value for the purpose of processing unitholder transactions (“Net Asset Value”) using fair value measures as defined in National Instrument 81-106 (“NI 81-106”).

The Net Asset Value calculated in accordance with Section 3855 is referred to as “Net Assets” herein.

Investments are deemed to be held for trading in accordance with Section 3855. Investments are recorded at their fair value with the difference between this amount and cost being recorded as unrealized appreciation (depreciation) in value of investments in the Statement of Operations. In the case of securities listed on stock exchanges, the fair value means the latest bid price. For bonds, debentures, asset-backed securities and other debt securities, the fair value means 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 the relevant valuation dates, as these values are the most readily and regularly available. Asian exchange traded securities and other investments for which reliable quotations are not readily available are valued at their fair value as determined by the Manager 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.

Investment transactions

Investment transactions are accounted for on the trade date. Realized gains and 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.

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.

December 31, 2009

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.

Interest on inflation-indexed bonds will be paid based on a principal value, which is adjusted for inflation. 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. The change in par value of the bonds in respect of inflation adjustments is recognized as income by adjusting the cost of the investments.

Distributions received from trust units 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 trust unit.

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 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

A 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 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 December 31, 2009, 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 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 amortized cost 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 Net Asset Value of a particular class. A valuation date is each day on which the Toronto Stock Exchange is open for trading. The Net Asset Value per unit of a class for the purposes of subscription or redemption is computed by dividing the Net Asset Value 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 Asset 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 Net Asset Value typically utilizes closing price to determine fair value for the purchase and redemption of units. See Note 8(b) for the Net Asset Value per unit as of December 31, 2009 and 2008 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 Net Asset Value of each class.

Capital disclosure

The capital of the Fund is represented by issued 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 Net Asset Value per unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements 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.

December 31, 2009

4. INCOME TAXES

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada), 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 unit holders 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 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) Securityholder 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 securityholder 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 December 31, 2009 and 2008 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 CSA, 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 December 31, 2009, 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, BMO Harris Investment Management Inc., Jones Heward Investment Counsel Inc., BMO InvestorLine Inc., HIM Money Inc., BMO Trust Company, Harris Investment Management Inc., Pyrford International Inc. 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. All investments and derivative instruments, denominated in foreign currencies are identifiable on the Statement of Investment Portfolio. Equities in foreign markets and foreign bonds 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

December 31, 2009

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 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 Net Asset Value 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**

Canadian publicly accountable enterprises, which include mutual 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, for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Fund will adopt IFRS as the basis for preparing its financial statements. The Fund will issue its financial results for the annual period ending December 31, 2011 prepared in accordance with IFRS, which will include comparative data on an IFRS basis, and an opening statement of Net Assets as at January 1, 2010.

The Manager has not currently identified any changes that will impact Net Asset Value per unit as a result of the changeover to IFRS. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

8. **FUND SPECIFIC INFORMATION**

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

The Fund's inception date was November 1, 2002. The Fund may issue an unlimited number of units in each of Class A and F.

Unit Class	Launch Date
Class A Units	November 1, 2002
Class F Units	October 31, 2008

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

Unit Class	December 31, 2009		
	Net Asset Value per Unit	Section 3855 Adjustment	Net Assets per Unit
Class A Units	13.00	(0.02)	12.98
Class F Units	13.29	(0.02)	13.27

Unit Class	December 31, 2008		
	Net Asset Value per Unit	Section 3855 Adjustment	Net Assets per Unit
Class A Units	11.73	(0.03)	11.70
Class F Units	11.90	(0.02)	11.88

(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		
		2009 (\$)	2010 (\$)	2011 and thereafter (\$)
2,847,495	-	-	-	-

(d) **Related party transactions**

Management and Administration Fees

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

Unit Class	Management Fees (%)	Administration Fees (%)
Class A Units	1.75	0.50
Class F Units	0.75	0.50

Initial investments

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

Unit Class	As at December 31, 2009		As at December 31, 2008	
	Units held by the Manager (\$)	Fair value of units (\$)	Units held by the Manager (\$)	Fair value of units (\$)
Class A Units	-	-	-	-
Class F Units	1,272	16,879	1,253	14,886

December 31, 2009

Securityholder servicing, commissions and other portfolio transaction costs

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

Unit Class	Period ending December 31, 2009	Period ending December 31, 2008
	Securityholder Servicing (\$)	Securityholder Servicing (\$)
Class A Units	86,133	87,935
Class F Units	261	7

(e) Financial instrument risk

The Fund's objective is to achieve long-term capital growth consistent with the preservation of capital and liquidity by investing primarily in equities and fixed income securities. No changes affecting the overall level of risk of investing in the Fund were made during the period. The risks of this Fund remain as discussed in the most recent Simplified Prospectus.

Currency risk

The Fund invested primarily in Canadian bonds and equities. As at December 31, 2009 and December 31, 2008, 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, 2009	1,657,988	5,197,594	2,531,388	6,542,086	7,102,518	23,031,574
December 31, 2008	2,599,857	5,589,752	2,886,893	6,883,231	6,221,602	24,181,335

All amounts in CA\$

As at the periods ended December 31, 2009 and 2008, if the prevailing interest rates had been raised or lowered by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets could possibly have increased or decreased, respectively, by approximately \$9,259 (December 31, 2008 – \$10,824). 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

As at December 31, 2009, approximately 56% (December 31, 2008 – 48%) 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 period end, with all other variables held constant, Net Assets could possibly have increased or decreased by approximately \$2,903,729 (December 31, 2008 – \$2,284,564), respectively. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

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

Credit Risk	As a % of Net Assets as at	
	December 31, 2009	December 31, 2008
AAA	25.0%	28.2
AA	7.8%	15.2
A	10.9%	6.7
BBB	-	0.4
Below BBB/Unrated	0.3%	0.7
Total	44.0%	51.2

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:

	December 31, 2009 \$	December 31, 2008 \$
Aggregate Fair Value of Securities on Loan	6,622,104	9,490,016
Aggregate Fair Value of Collateral for Loan	6,978,462	10,194,175

(g) Fair Value Hierarchy

The Fund uses a fair value hierarchy to categorize the inputs we use in valuation techniques to measure fair value. The use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of securities, fair value liabilities, derivative assets and derivative liabilities was as follows:

Financial Assets	Fair value measurements classifications			
	Level 1	Level 2	Level 3	Total
Equity Securities	29,037,292	-	-	29,037,292
Debt Securities	21,279,075	453,096	-	21,732,171
Money Market Investments	1,299,403	-	-	1,299,403
Total	51,615,770	453,096	-	52,068,866

No significant transfers were made between Level 1, Level 2 or Level 3 during the period.

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 are the external auditors of the Funds. The auditors have been appointed by the Respective Boards and cannot be changed without the prior approval of the Independent Review Committee and 60 days notice to the security holders. 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.



Sarah E.A. Widmeyer

President

BMO Nesbitt Burns Group of Funds



Robert J. Schauer

Chief Financial Officer

BMO Nesbitt Burns Group of Funds

March 10, 2010

TRUSTEES

Patrick W. J. French, Oakville
Richard L. Mills, Toronto
Colin J. Monteith, Toronto
Paul C. Adair, Toronto
Sarah E. A. Widmeyer, Toronto
Mary Lafazanis, Toronto

MANAGER, PROMOTER AND DISTRIBUTOR

BMO Nesbitt Burns Inc.
1 First Canadian Place
54th Floor, P.O. Box 150
Toronto, Ontario
M5X 1H3

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
77 King Street West
Toronto, Ontario
M5K 1G8

BMO Nesbitt Burns Inc.
1 First Canadian Place
54th Floor
Toronto, Ontario
M5X 1H3

INVESTMENT ADVISOR

Jones Heward Investment Counsel Inc.
77 King Street West
Suite 4200
Toronto, Ontario
M5K 1J5

Harris Investment Management Inc.
190 South LaSalle Street, 4th floor
Chicago, Illinois
60690-0755

Pyrford International Limited
79 Grosvenor Street
London, United Kingdom
W1K 3JU

CUSTODIAN

CIBC Mellon Global Securities Services Company
320 Bay Street
Toronto, Ontario
M5H 2P6

Client Services
Toll Free: 1-800-361-1392
Fax: 1-866-486-2846

Email: contact.centre@bmonb.com
Website: www.bmonesbittburns.com

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