

Annual Management Report of Fund Performance

BMO NESBITT BURNS BOND FUND

DECEMBER 31, 2009

Portfolio Manager: Jones Heward Investment Counsel Inc., Toronto, Ontario

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the Fund. If the annual financial statements of the Fund do not accompany the mailing of this report, you can get a copy of the annual financial statements at your request, and at no cost, by calling 1-800-361-1392, by writing to us at BMO Nesbitt Burns Inc., 1 First Canadian Place, 54th Floor, P.O. Box 150, Toronto, Ontario, M5X 1H3 or by visiting our website at www.bmonesbittburns.com or SEDAR at www.sedar.com. You may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategies

The principal investment objective of BMO Nesbitt Burns Bond Fund 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.

The Fund seeks to achieve its investment objective by investing in a diversified portfolio of fixed-income securities including Canadian federal, provincial and municipal government and corporate bonds, as well as asset and mortgage-backed securities issued by Canadian entities. The Fund may also invest in government bonds denominated in U.S. dollars, which may from time to time, include U.S. Treasury Bonds.

All investments by the Fund will be in fixed-income securities with a minimum credit rating of "A-" by Dominion Bond Rating Service, "A3" by Moody's or "A Low" by Standard and Poor's. The average term to maturity of investments held by the Fund is managed based on economic and market indicators. Currently, the targeted average term to maturity of investments held by the Fund is typically between five and ten years.

Risk

No changes affecting the overall level of risk of investing in the Fund were made in the one-year period ended December 31, 2009. The risks of this Fund remain as discussed in the Simplified Prospectus.

Results of Operations

The Fund's Class A units returned 5.3%, net of expenses, where as the DEX Universe Bond Index (DEX) returned 5.4%, for the one year period ended December 31, 2009.

The amount of government budgetary resources being committed to stimulating the economy weighed on interest rates during the second half of 2009. Bond investors grew increasingly concerned that the large budget deficits being run would lead to increased government bond issuance in the future and that the size of this issuance would become increasingly difficult for the bond market to absorb. Anxiety in the bond market was also precipitated by the suspicion that the Bank of Canada's (BoC) Monetary Policy would create future inflation. The BoC like many other Central Banks has been keeping its Monetary Policy Targeting Rate – in the case of the

MANAGEMENT DISCUSSION OF FUND PERFORMANCE (cont.)

BoC, the Bank Rate – very low in order to promote economic growth. At the same time the BoC has dramatically increased the money supply in an attempt to encourage credit expansion (increase consumer borrowing) – essentially promoting a situation where banks lend and borrowers borrow. The amount of money supply that has been created has worried bond investors who are concerned that such a large increase in the money supply must at some point be met with higher inflation. The bond market is reflecting suspicious behaviour about the BoC's ability to decrease the money supply in time and thereby avoid the negative economic affects that could be triggered by the prospect of future inflation. The Fund's marginal increase to duration (a measure of sensitivity of the price of a fixed income investment to a change in the interest rate) relative to that of the DEX during the period negatively impacted performance.

In the credit markets, the situation continued to improve much as it had towards the end of the first half of 2009. Financial markets enthusiastically embraced positive economic growth, solid earnings performance and a reduction in the number of jobs being lost. A feeling that these factors would continue to improve in the future helped to reduce the volatility in the equity market and allowed riskier assets (like corporate bonds) to continue to improve. The Fund continued to stress higher quality credits in the corporate bond sector of the portfolio (favouring credits with on average higher credit ratings than that of the DEX) while remaining over-weight in the provincial sector relative to the Government of Canada benchmarks. The Fund's commitment towards maintaining higher credit quality on average versus that of the DEX negatively impacted the performance in the corporate sector of the Fund; however, the over-weight in the provincial sector was a positive for relative performance.

For information on the Fund's longer-term performance and composition, please refer to the Past Performance section and Summary of Investment Portfolio section of this report.

Recent Developments

The Portfolio Manager remains optimistic that inflation will not be a problem in 2010. The amount of capacity that exists in the economy, tight credit/lending conditions and a labour market that will find difficulty in promoting higher wage gains should all help to limit inflationary pressures. Although the Portfolio Manager sees the size of the budget deficit – particularly in the United States – as a longer-term concern, the Portfolio Manager believes this will be addressed after excess capacity is removed, lending conditions improve and wages start to rise consistently. The Portfolio Manager believes that the amount of inflation currently expected by the market is excessive and will be removed in the coming months. As

the market lowers its inflation expectations interest rates will have room to decrease. The Portfolio Manager believes the amount of the decrease will be modest, but a fund with more interest rate sensitivity than its benchmark will benefit from such a move. This may be an opportunity to add interest rate sensitivity/duration to the Fund.

The Portfolio Manager believes that corporate bonds can continue to out-perform Government of Canada bonds. There is still a lot of uncertainty in the economic picture and the Portfolio Manager remains unconvinced that this uncertainty/risk is properly reflected in corporate bond spreads, as such the Portfolio Manager will continue to emphasize credit ratings quality in the Fund until they see more signs that the economy is indeed on a long-term sustainable path of economic growth.

Change in the Composition of the Fund's Independent Review Committee

On April 29, 2009, Charles W. White was appointed a Judge of the Court of Appeal of the Supreme Court of Newfoundland and Labrador and, as a result was required to resign from his position as Chair of the Fund's Independent Review Committee (IRC). On May 28, 2009, the Fund's IRC appointed Louise Vaillancourt-Châtillon to act as Chair.

The current members of the Fund's IRC are Allen B. Clarke, Kenneth W. McArthur, John K. McBride, R. Jamie Plant and Louise Vaillancourt-Châtillon (Chair). Additional information regarding the Fund's IRC is available in the Fund's most recent annual information form.

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.

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: IFRS diagnostic assessment; implementation and education; and completion of all integration changes.

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.

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.

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. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investment. For example, Canadian government bonds are generally high-quality and liquid; however, they may be reflected as Level 2 because the inputs used to determine fair value may not always be quoted prices in an active market.

Related Party Transactions

BMO Nesbitt Burns Inc., an indirect, wholly-owned subsidiary of Bank of Montreal is the Manager, and principal distributor of the Fund. From time to time, BMO Nesbitt Burns Inc. 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 (a Related Party).

Portfolio Manager

BMO Nesbitt Burns Inc., as Manager of the Fund, has hired Jones Heward Investment Counsel Inc. (JHIC), a Related Party, to provide investment advice and make investment decisions for the Fund’s investment portfolio. JHIC receives an investment advisory fee based on assets under management that is paid monthly. JHIC is paid by BMO Nesbitt Burns Inc. and not by the Fund.

Distribution Services

BMO Nesbitt Burns Inc. sells units of the Fund through its sales representatives. The Manager pays trailer fees to these sales representatives based on the amount of assets held in the investor’s account and additionally, in some cases, on the amount of the initial purchase. There may be other fees and expenses payable in respect to the operation of the investor’s account with BMO Nesbitt Burns Inc. that could affect the investment in units of the Fund, if the investor receives special services, such as switch fees and registered plan fees. The amount of these fees should be discussed with your sales representative at the time of purchase or switch and when your account or registered tax plan is established.

Unitholder Services

The Fund is provided with certain facilities and services by Related Parties. Unitholder services, such as fund accounting, record keeping and purchase/redemption order processing, are provided by Bank of Montreal Ireland p.l.c. and JHIC, in its capacity as the Fund’s Registrar. Fees associated with these services are paid by the Manager and charged to the Fund. The fees charged to the Fund during the period were as follows:

	December 31, 2009	December 31, 2008
Unitholder Servicing Fees	\$97,215	\$82,170

Buying and Selling Securities

Investing in Non-Government Debt Securities Underwritten by BMO Nesbitt Burns Inc. and Trading in Debt Securities with BMO Nesbitt Burns Inc., Trading as Principal

During the period, BMO Nesbitt Burns Inc. relied on the approval and standing instructions provided by the Fund’s IRC with respect to the following related party transactions (collectively, Related Party Investments):

- (a) investments in a class of non-government debt securities of an issuer during the period of distribution of those securities to the public and/or the 60 day period following the period of distribution where BMO Nesbitt Burns Inc. acted as an underwriter in the distribution of those securities, and

(b) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc. who is trading with the Fund as principal.

In accordance with the IRC's approval and standing instructions, in making a decision to cause the Fund to make a Related Party Investment, BMO Nesbitt Burns Inc. and the Portfolio Manager of the Fund are required to comply with BMO Nesbitt Burns Inc.'s policy and procedures relating to the Related Party Investment and report to the IRC on a quarterly basis, describing each instance that BMO Nesbitt Burns Inc. and/or the Portfolio Manager has relied on the IRC's standing instructions and their compliance or non-compliance with the related policy and procedures. The related policy and procedures are designed to, among other things, ensure the Related Party Investment (i) is made free from any influence of BMO Nesbitt Burns Inc. or its associates or affiliates and without taking into account any considerations relevant to BMO Nesbitt Burns Inc. or its affiliates or associates, (ii) represents the business judgment of the Portfolio Manager, uninfluenced by considerations other than the best interests of the Fund, and (iii) achieves a fair and reasonable result for the Fund.

FINANCIAL HIGHLIGHTS

Management Fees

As Manager of the Fund, BMO Nesbitt Burns Inc. is responsible for the day-to-day management of the business and operations of the Fund. It monitors and evaluates the Fund's performance, pays for the investment advice provided by the Fund's Portfolio Manager and provides certain administrative services required by the Fund. As compensation for its services, BMO Nesbitt Burns Inc. is entitled to receive a management fee payable monthly, calculated based on the daily net asset value of each class of the Fund at the maximum annual rate set out in the below table.

	As a percentage of Management Fees		
	Annual Management Fee Rate* %	Dealer Compensation %	General Administration Investment Advice and Profit %
Class A Units	0.75	76.92	23.08
Class F Units	0.25	-	100.00

* Because the Manager pays lower or no distribution, service or trailing fees on Class F units, Class F units have a lower management fee than Class A.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the periods indicated.

The Fund's Net Assets per Unit¹

CLASS A	2009	2008	2007	2006	2005
	(\$)	(\$)	(\$)	(\$)	(\$)
Net Assets, beginning of year	10.39	10.50	10.66 ²	10.78	10.91
Increase (decrease) from operations:					
Total revenue	0.48	0.51	0.53	0.53	0.53
Total expenses ³	(0.10)	(0.09)	(0.10)	(0.10)	(0.11)
Realized gains (losses) for the period	(0.03)	(0.00)	(0.15)	(0.03)	0.38
Unrealized gains (losses) for the period	0.21	(0.11)	(0.05)	(0.10)	(0.21)
Total increase (decrease) from operations⁴	0.56	0.31	0.23	0.30	0.59
Distributions:					
From income (excluding dividends)	0.40	0.42	0.44	0.43	0.42
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	0.31
Return of capital	-	-	-	-	-
Total annual distributions⁵	0.40	0.42	0.44	0.43	0.73
Net Assets, end of period	\$10.55	\$10.39	\$10.50	\$10.66	\$10.78

CLASS F	2009	2008	2007	2006	2005
	(\$)	(\$)	(\$)	(\$)	(\$)
Net Assets, beginning of year	10.32	10.03	-	-	-
Increase (decrease) from operations:					
Total revenue	0.47	0.08	-	-	-
Total expenses	(0.06)	0.01	-	-	-
Realized gains (losses) for the period	0.01	(0.02)	-	-	-
Unrealized gains (losses) for the period	0.14	0.28	-	-	-
Total increase (decrease) from operations¹	0.56	0.35	-	-	-
Distributions:					
From income (excluding dividends)	0.19	0.06	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions⁵	0.19	0.06	-	-	-
Net Assets, end of period	\$10.63	\$10.32	-	-	-

¹⁾ This information is derived from the Fund's audited financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for Fund pricing purposes. An explanation of these differences can be found in the notes to the Fund's financial statements.

²⁾ The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly the opening Net Assets for the period ended December 31, 2007 has been adjusted.

³⁾ Prior to 2007, commissions and other Fund transaction costs were not included in expenses as they were included in realized and unrealized gains/(losses).

⁴⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁵⁾ Distributions were paid in cash or reinvested in additional units of the Fund, or both, where applicable.

Ratios and Supplemental Data

CLASS A

	2009	2008	2007	2006	2005
Total net assets (000's) ¹	\$53,856	\$54,775	\$59,181	\$76,013	\$82,567
Number of units outstanding ¹	5,103,415	5,272,360	5,636,744	7,129,117	7,658,350
Management expense ratio ²	0.95%	0.90%	0.95%	0.96%	0.96%
Management expense ratio before waivers or management absorptions ²	0.95%	0.90%	0.95%	0.96%	0.96%
Portfolio turnover rate ³	69.92%	87.53%	68.71%	85.82%	89.93%
Trading expense ratio ⁴	-	-	-	-	-
Net asset value per unit⁶	\$10.55	\$10.39	\$10.50	\$10.66	\$10.78

CLASS F

	2009	2008	2007	2006	2005
Total net assets (000's) ¹	\$1,218	\$10	-	-	-
Number of units outstanding ¹	114,575	1,003	-	-	-
Management expense ratio ²	0.52%	0.50%	-	-	-
Management expense ratio before waivers or management absorptions ²	0.52%	0.50%	-	-	-
Portfolio turnover rate ³	69.92%	87.53%	-	-	-
Trading expense ratio ⁴	-	-	-	-	-
Net asset value per unit⁶	\$10.63	\$10.32	-	-	-

¹⁾ This information is provided as at December 31 of the period shown.

²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. In the period a Fund is established, the management expense ratio is annualized from the date of inception to December 31.

Nesbitt Burns absorbed certain expenses or waived certain fees otherwise payable by a class. In doing so, Nesbitt Burns attempts to maintain the overall MER of the Fund at a relatively consistent level. Nesbitt Burns may discontinue the absorption or waiver at any time.

³⁾ The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund. The rate is calculated based on the lesser of purchases or sales of investments divided by the average market value of the portfolio investments, excluding short-term investments.

⁴⁾ The trading expense ratio represents the total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

⁵⁾ This information is derived from the Fund's audited financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for portfolio pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

PAST PERFORMANCE

General

The Fund's performance information assumes that all distributions made by the Fund in the periods shown were used to purchase additional units of the Fund and is based on the net asset value of the Fund.

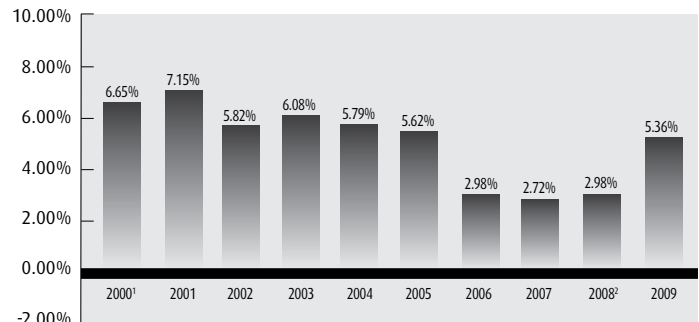
The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember, how the Fund has performed in the past does not indicate how it will perform in the future.

If a Fund offers more than one class, the class returns may differ for a number of reasons, including if the class was not issued and outstanding for the entire reporting period and because of the different levels of management fees payable by each class.

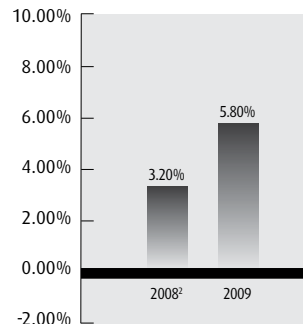
Year-by-Year Returns

The following bar charts show the performance for each class of the Fund for each of the financial years shown. The charts show in percentage terms how much an investment made on the first day of each financial year would have increased or decreased by the last day of the financial year.

CLASS A



CLASS F



¹ For the period beginning February 17, 2000 to December 31, 2000.

² For the period beginning October 31, 2008 to December 31, 2008.

Annual Compound Returns

This chart compares the historical annual compound returns of the Fund with the DEX Universe Bond Index, which is a broad measure of the total return of Canadian bonds that mature in more than one year.

Class A	BMO Nesbitt Burns Bond Fund¹	DEX Universal Bond Index
Since Inception ²	5.16%	6.56%
One year	5.36%	5.41%
Three years	3.68%	5.16%
Five years	3.92%	5.20%
Class F		
Since Inception ³	8.33%	9.43%
One Year	5.80%	5.41%

¹ The Fund's return is after the deduction of expenses, while the benchmark does not include any cost of investing.

² The inception date for Class A is February 17, 2000.

³ The inception date for Class F is October 31, 2008.

A commentary on the market and/or information regarding the relative performance of the Fund as compared to its benchmark can be found under the Results of Operations section of this report.

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2009

Portfolio Allocation	% of Net Asset Value
Government and Government Guaranteed Bonds	34.0
Provincial Government Bonds	32.1
Corporate Bonds	28.6
Cash/Receivables/Payables	5.3

Top 25 Holdings	% of Net Asset Value
Province of Quebec, 5.500%, December 1, 2014	7.3
Government of Canada, 3.500%, June 1, 2020	5.9
Government of Canada, 3.750%, June 1, 2019	5.8
Cash/Receivables/Payables	5.1
Government of Canada, 4.000%, June 1, 2016	4.3
Province of Ontario, 5.600%, June 2, 2035	4.0
Government of Canada, 3.500%, June 1, 2013	3.8
Alberta Capital Finance Authority, 4.350%, June 15, 2016	3.6
Bank of Nova Scotia, 4.990%, March 27, 2018	3.5
Kreditanstalt Fuer Wiederauf, 4.950%, October 14, 2014	3.5
Government of Canada, 5.750%, June 1, 2029	3.4
Canadian Imperial Bank of Commerce, 4.550%, March 28, 2016	3.4
Hydro Quebec, 6.500%, February 15, 2035	3.3
Great West Lifeco, 6.670%, March 21, 2033	3.1
Province of Ontario, 4.200%, March 8, 2018	2.4
Canada Housing Trust, 2.750%, September 15, 2014	2.2
British Columbia Municipal Finance Authority, 5.100%, November 20, 2018	2.0
Province of Saskatchewan, 5.500%, June 17, 2019	1.9
Province of Newfoundland, 5.600%, October 17, 2033	1.9
Royal Bank of Canada, 4.710%, December 22, 2014	1.8
Province of Manitoba, 5.250%, December 3, 2012	1.8
Export Development Canada, 5.800%, March 12, 2012	1.8
Government of Canada, 1.250%, June 1, 2011	1.7
Government of Canada, 4.500%, June 1, 2015	1.7
407 International Inc., 5.960%, December 3, 2035	1.6
Top holdings as a percentage of total net asset value	80.8
Total Net Asset Value	\$55.1 million

The summary of investment portfolio may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in BMO Nesbitt Burns Group of Funds' simplified prospectus. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, BMO Nesbitt Burns Inc. does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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