

BMO NESBITT BURNS

BMO Nesbitt Burns Group of Funds

# Semi-Annual Financial Statements

BMO NESBITT BURNS BALANCED FUND

JUNE 30, 2009

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

As at

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Cash	141,323	17,453
Investments at fair value (note 2)	49,329,752	47,026,970
Interest and dividends receivable	228,970	256,228
Subscriptions receivable	120,039	10,464
Due from broker	5,306	–
<b>Total assets</b>	<b>49,825,390</b>	<b>47,311,115</b>
<b>LIABILITIES</b>		
Accrued expenses	70,311	76,436
Distributions payable	17,612	–
Redemptions payable	73,213	7,926
<b>Total liabilities</b>	<b>161,136</b>	<b>84,362</b>
<b>Net assets representing unitholders' equity</b> (note 2)	<b>49,664,254</b>	<b>47,226,753</b>
<b>Total net assets representing unitholders' equity</b>		
Class A units	49,576,469	47,210,956
Class F units	87,785	15,797
<b>Units issued and outstanding</b>		
Class A units	4,003,786	4,034,893
Class F units	6,949	1,330
<b>Net assets per unit</b> (note 2)		
Class A units	\$12.38	\$11.70
Class F units	\$12.63	\$11.88

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

**STATEMENT OF OPERATIONS** (ALL AMOUNTS IN CANADIAN DOLLARS)*For the period ended*

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>INCOME</b>		
Dividends	332,320	320,275
Interest	533,012	508,910
Securities lending revenue	2,889	5,613
Withholding tax	(420)	-
	<b>867,801</b>	<b>834,798</b>
<b>EXPENSES</b>		
Management fees (note 5(a))	339,963	422,301
Audit fees	5,788	8,542
Independent Review Committee	1,311	2,394
Custodian fees	2,446	4,314
Legal fees	6,218	9,110
Unitholder servicing fees (note 5(b))	38,183	43,872
Printing and stationery	2,684	2,717
Commission and other portfolio transaction costs	517	1,080
	<b>397,110</b>	<b>494,330</b>
Net investment income for the period	470,691	340,468
Realized (loss)/gain on sale of investments	(1,935,529)	781,208
Gain on foreign exchange	450	416
Change in unrealized appreciation in value of investments	4,639,114	59,796
Unrealized currency gain	28	-
<b>Increase in net assets from operations</b>	<b>3,174,754</b>	<b>1,181,888</b>
<b>Increase in net assets from operations</b>		
Class A units	3,170,266	1,181,888
Class F units	4,488	-
<b>Increase in net assets from operations per unit</b> (note 2)		
Class A units	\$0.80	\$0.31
Class F units	\$1.42	-

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

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

For the period ended

	Class A Units		Class F Units	
	June 30 2009	June 30 2008	June 30 2009	June 30 2008
<b>Net assets – beginning of period</b>	<b>47,210,956</b>	<b>56,151,298</b>	<b>15,797</b>	<b>-</b>
<b>Increase in net assets from operations</b>	<b>3,170,266</b>	<b>1,181,888</b>	<b>4,488</b>	<b>-</b>
<b>UNIT TRANSACTIONS:</b>				
Proceeds from sale of units	4,729,906	9,433,368	67,500	-
Reinvested distributions	580,609	-	593	-
Amounts paid on units redeemed	(5,517,047)	(5,992,465)	-	-
<b>Total unit transactions</b>	<b>(206,532)</b>	<b>3,440,903</b>	<b>68,093</b>	<b>-</b>
<b>DISTRIBUTIONS TO UNITHOLDERS FROM:</b>				
Net investment income	(598,221)	(389,376)	(593)	-
<b>Total distributions paid to unitholders</b>	<b>(598,221)</b>	<b>(389,376)</b>	<b>(593)</b>	<b>-</b>
<b>Net assets – end of period</b> (note 2)	<b>49,576,469</b>	<b>60,384,713</b>	<b>87,785</b>	<b>-</b>
<b>Change in Units</b>				
Units issued and outstanding, beginning of period	4,034,893	3,767,357	1,330	-
Issued for Cash	396,789	628,315	5,572	-
Issued for reinvestment of distributions	46,861	-	47	-
	<b>4,478,543</b>	<b>4,395,672</b>	<b>6,949</b>	<b>-</b>
Redeemed during the period	(474,757)	(399,967)	-	-
<b>Units issued and outstanding, end of period</b>	<b>4,003,786</b>	<b>3,995,705</b>	<b>6,949</b>	<b>-</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, 2009

Description	Par Value	Cost (\$)	Fair Value (\$)
<b>MONEY MARKET INVESTMENTS</b>			
Government of Canada Treasury Bill – 3.6%	1,800,000	1,798,387	1,799,511
<b>Total Money Market Investments – 3.6%</b>		<b>1,798,387</b>	<b>1,799,511</b>
Money market instruments which are grouped by issuer earn interest at rates ranging from 0.20% to 2.77% and mature between July 2, 2009 and October 1, 2009.			
<b>BONDS</b>			
<b>Government and Government Guaranteed Bonds – 19.9%</b>			
Canada Post Corporation, 10.350%, March 15, 2016	125,000	185,754	179,011
Export Development Canada, 5.800%, March 12, 2012	825,000	916,228	917,639
Government Of Canada, 4.000%, June 1, 2010	130,000	143,897	138,897
Government Of Canada, 2.750%, December 1, 2010	268,000	275,692	275,381
Government Of Canada, 6.000%, June 1, 2011	850,000	923,434	926,534
Government Of Canada, 3.750%, June 1, 2012	169,000	180,132	178,096
Government Of Canada, 5.250%, June 1, 2012	485,000	512,480	531,492
Government Of Canada, 3.500%, June 1, 2013	26,000	27,849	27,203
Government Of Canada, 4.500%, June 1, 2015	301,000	320,235	330,170
Government Of Canada, 4.000%, June 1, 2017	1,145,000	1,204,129	1,218,108
Government Of Canada, 3.750%, June 1, 2019	957,000	988,277	987,968
Government Of Canada, 8.000%, June 1, 2023	301,000	434,283	437,907
Government Of Canada, 5.000%, June 1, 2037	500,000	577,030	596,910
Government Of Canada, 4.000%, September 1, 2010	3,029,000	3,087,233	3,149,191
		<b>9,776,653</b>	<b>9,894,507</b>
<b>Provincial Government Bonds – 13.0%</b>			
British Columbia Municipal Finance Authority, 5.100%, November 20, 2018	433,000	431,389	452,836
Hydro-Quebec, 6.500%, February 15, 2035	250,000	311,675	302,655
Key Nova Scotia Funding Co., 4.210%, December 14, 2009	150,000	149,996	149,415
Newfoundland Labrador Hydro, 4.300%, October 13, 2016	240,000	239,897	245,587
Ontario Strategic Infrastructure Financing, 4.600%, June 1, 2015	200,000	199,508	209,852
Province Of British Columbia, 5.620%, October 17, 2028	500,000	565,590	540,165
Province Of Manitoba, 5.250%, December 3, 2012	350,000	368,550	380,989
Province Of New Brunswick, 6.375%, June 15, 2010	98,000	104,791	103,263
Province Of New Brunswick, 4.550%, March 26, 2037	625,000	622,581	588,819
Province Of Newfoundland, 4.500%, April 17, 2037	165,000	164,059	153,773
Province Of Ontario, 3.250%, September 8 2009	99,000	98,838	99,334
Province Of Ontario, 4.200%, March 8, 2018	426,000	431,278	428,969
Province Of Ontario, 7.600%, June 2, 2027	295,000	394,486	384,196
Province Of Ontario, 5.600%, June 2, 2035	200,000	231,394	220,128
Province Of Ontario, 4.700%, June 2, 2037	327,000	318,138	321,049
Province Of Quebec, 5.500%, December 1, 2014	874,000	918,483	969,170
Province Of Quebec, 4.500%, December 1, 2019	215,000	215,839	215,559
Province Of Saskatchewan, 5.250%, June 3, 2014	295,000	314,647	324,603
Province Of Saskatchewan, 5.800%, September 5, 2033	300,000	354,861	337,881
		<b>6,436,000</b>	<b>6,428,243</b>

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

As at June 30, 2009

Description	Par Value	Cost (\$)	Fair Value (\$)
<b>Corporate Bonds – 11.5%</b>			
407 International Inc., 5.960%, December 3, 2035	385,000	384,730	398,344
Bank Of Nova Scotia, 4.990%, March 27, 2018	822,000	821,852	856,853
Canadian Imperial Bank Of Commerce, 5.000%, September 10, 2012	201,000	199,113	212,733
Canadian Imperial Bank Of Commerce, 4.550%, March 28, 2016	596,000	593,751	616,079
Canadian Tire Corporation, 5.220%, October 1, 2010	178,000	177,971	184,171
Greater Toronto Airport, 6.250%, December 13, 2012	305,000	334,158	332,718
Great-West Lifeco Inc., 6.670%, March 21, 2033	150,000	177,997	154,703
Honda Canada Finance, 5.675%, September 26, 2012	150,000	150,000	152,049
Honda Canada, 4.727%, May 9, 2011	219,000	219,000	221,102
IGM Financial Inc., 6.580%, March 7, 2018	88,000	99,024	93,895
IGM Financial Inc., 7.450%, May 9, 2031	105,000	128,603	114,617
IGM Financial Inc., 7.110%, March 7, 2033	84,000	99,626	88,461
John Deere Limited, 5.250%, October 18, 2010	250,000	249,870	258,490
Kreditanstalt Fuer Wiederauf, 4.950%, October 14, 2014	944,000	977,246	1,006,719
Manulife Bank, 4.680%, September 12, 2016	163,000	154,764	158,416
Royal Bank Of Canada, 5.200%, August 15, 2012	172,000	172,764	183,110
Royal Bank Of Canada, 5.060%, July 17, 2013	204,000	215,648	216,628
Sunlife Financial Group, 4.800%, November 23, 2035	175,000	175,837	172,321
TD Capital Trust, 7.600%, December 31, 2009	205,000	212,237	210,336
Terasen Gas Inc., 6.000%, October 2, 2037	88,000	87,684	90,186
		<b>5,631,875</b>	<b>5,721,931</b>
<b>Total Bonds – 44.4%</b>		<b>21,844,528</b>	<b>22,044,681</b>
	<b>Number of shares</b>	<b>Cost (\$)</b>	<b>Fair Value (\$)</b>
<b>EQUITIES</b>			
<b>Consumer Discretionary – 2.4%</b>			
Thompson Reuters Corporation	23,525	925,620	796,321
Tim Hortons Inc.	14,000	462,202	397,880
		<b>1,387,822</b>	<b>1,194,201</b>
<b>Consumer Staples – 1.3%</b>			
Alimentation Couche-Tard Inc., Class B	30,400	553,532	426,208
Loblaw Companies Limited	7,000	227,442	243,250
		<b>780,974</b>	<b>669,458</b>
<b>Energy – 15.0%</b>			
Canadian Natural Resources Limited	9,625	361,201	588,473
Celtic Explorations Limited	54,000	608,054	823,500
EnCana Corporation	34,785	2,055,350	2,001,877
Nexen Inc.	70,980	2,223,435	1,793,665
NuVista Energy Limited	33,500	360,250	343,040
Suncor Energy Inc.	53,960	1,326,884	1,908,565
		<b>6,935,174</b>	<b>7,459,120</b>
<b>Financials – 16.0%</b>			
Bank of Montreal	42,950	1,737,137	2,103,691
Great-West Lifeco Inc.	20,965	590,403	478,002
Manulife Financial Corporation	51,750	1,478,278	1,044,833
Power Financial Corporation	30,100	854,818	825,342

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

As at June 30, 2009

Security	Number of Shares	Cost (\$)	Fair Value (\$)
Sun Life Financial Inc.	28,775	999,482	903,535
TMX Group Inc.	3,300	161,012	111,540
Toronto-Dominion Bank	41,610	2,096,373	2,500,345
		<b>7,917,503</b>	<b>7,967,288</b>
<b>Industrials – 3.7%</b>			
CAE Inc.	66,850	713,196	456,586
Canadian Pacific Railway Limited	14,580	787,386	673,596
Finning International Inc.	10,000	144,575	166,800
Toromont Industries Limited	21,650	541,799	516,136
		<b>2,186,956</b>	<b>1,813,118</b>
<b>Information Technology – 1.6%</b>			
Gennum Corporation	5,200	63,552	20,696
Research In Motion Limited	9,200	899,585	760,104
		<b>963,137</b>	<b>780,800</b>
<b>Materials – 8.4%</b>			
Agrium Inc.	8,500	425,623	394,825
Barrick Gold Corporation	30,606	1,092,110	1,194,552
FNX Mining Company Inc.	18,200	244,592	145,782
Goldcorp Inc.	19,100	735,952	772,213
Kinross Gold Corporation	37,250	660,688	785,975
Potash Corporation of Saskatchewan	7,950	157,695	860,031
		<b>3,316,660</b>	<b>4,153,378</b>
<b>Telecommunication Services – 2.9%</b>			
BCE Inc.	54,838	1,718,277	1,316,112
Rogers Communications Inc., Class B	4,422	90,139	132,085
		<b>1,808,416</b>	<b>1,448,197</b>
<b>Total Equities – 51.3%</b>		<b>25,296,642</b>	<b>25,485,560</b>
<b>Total Investments – 99.3%</b>		<b>48,939,557</b>	<b>49,329,752</b>
<b>Other Assets and Liabilities – 0.7%</b>			<b>334,502</b>
<b>Total Net Assets – 100.0%</b>			<b>49,664,254</b>

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

	June 30 2009	December 31 2008
Money Market Investments	3.6%	4.8%
Bonds and Debentures - Canada	42.4%	44.2%
Bonds and Debentures - Foreign	2.0%	2.2%
Consumer Discretionary	2.4%	2.8%
Consumer Staples	1.3%	0.9%
Energy	15.0%	13.6%
Financials	16.0%	14.7%
Industrials	3.7%	2.4%
Information Technology	1.6%	2.4%
Materials	8.4%	8.1%
Telecommunication Services	2.9%	3.5%
Other Assets less Liabilities	0.7%	0.4%
	<b>100.0%</b>	<b>100.0%</b>

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

June 30, 2009

**1. THE FUND**

The Fund is an open-ended mutual fund trust established under the laws of the province of Ontario. BMO Nesbitt Burns Inc. (the “Manager”) is responsible for the management of the Fund.

The information provided in these unaudited financial statements is for the six month period(s) ended as at June 30, 2009 and 2008 except for the comparative information presented in the Statement of Net Assets which is as at December 31, 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).

**Independent review committee**

On May 1, 2007, the Independent Review Committee (“IRC”) for the Fund was established pursuant to National Instrument 81-107 (“NI 81-107”) Independent Review Committee for Investment Funds. On September 12, 2007, the IRC became operational. The IRC provides independent oversight regarding actual and perceived conflicts of interest involving the Fund and performs all other functions required of an independent review committee under NI 81-107.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Actual results could differ from estimates. Certain prior period balances have been reclassified to conform with the current period presentation.

**Adoption of new accounting policies —  
Financial Instruments Disclosure and Presentation**

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation”. The new standards replaced Section 3861, “Financial Instruments – Disclosure and Presentation”. The new disclosure standards increase the emphasis on the disclosure of risks associated with financial instruments and how those risks are managed. The previous requirements related to presentation of financial instruments have been carried forward unchanged. Adoption of the new standards does 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 new disclosures relating to adoption of the new requirements.

**Capital Disclosures**

On January 1, 2008 the Fund adopted CICA Handbook Section 1535, which establishes standards for disclosing information about an entity’s capital and how it is managed. This standard applies to financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of this standard results in additional disclosures relating to the redeemable units of the Funds but does not affect the Funds’ results or financial positions. The disclosure requirements pertaining to Section 1535 are contained in Note 3.

**Valuation of investments**

The 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”) allows 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” from hereon forward.

Investments are categorized as held for trading in accordance with Section 3855, “Financial Instruments – Recognition and Measurement”. Investments are recorded at their fair value with the difference between this amount and cost being recorded as unrealized appreciation or 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 and debentures, 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 cost including applicable foreign exchange translation. This value, together with accrued interest, approximates fair value using current bid price. 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 requires the 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 income, net realized gains (losses), unrealized appreciation (depreciation) in value, and transaction costs are attributable to investments and derivative instruments.

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.

**Cost of investments**

The cost of investments represents the amount paid for each security and is determined on an average cost basis. Cost includes commission and other portfolio transaction costs.

**Income recognition**

Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

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.

June 30, 2009

Distributions received from Mutual Fund units are recognized by the Fund in the same form in which they were received from the underlying funds.

#### 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, 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 June 30, 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, 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 business. 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 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 June 30, 2009 and December 31, 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.

The capital of the Fund is represented by issued redeemable units with no par value. They 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.

### 4. INCOME TAXES

The Fund qualifies as a mutual fund trust under the provisions of the Income 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 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 2008 are included in Note 8(c).

June 30, 2009

## 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 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 June 30, where applicable.

### (c) Initial investments

In order to establish a new fund, or class of a fund, BMO Nesbitt Burns Inc., the Manager, may make an initial investment in the fund or class. Refer to Note 8(d) for the investment in units of the Fund held by BMO Nesbitt Burns Inc. as at June 30, 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. 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, a fund entering into forward contracts with a member of Bank of Montreal Group of Companies acting as counterparty, 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 advisors that regularly monitor the Fund's positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

### (a) Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. All investments and derivative instruments, denominated in foreign currencies are identifiable on the Statement of Investment Portfolio. 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 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).

### (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 assets to the total Net Assets 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.

June 30, 2009

## 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 semi-annual period ended June 30, 2011 prepared in accordance with IFRS. It will also provide comparative data on an IFRS basis, including an opening statement of net assets as at January 1, 2010.

In order to meet the requirements to changeover to IFRS, the Manager is following an orderly transition plan. Due to anticipated changes in IFRS prior to transition, the Manager is not in a position to determine the impact on the Fund's financial statements.

## 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	June 30, 2009		
	Net Asset Value per Unit	Section 3855 Adjustment	Net Assets per Unit
Class A Units	12.39	(0.01)	12.38
Class F Units	12.64	(0.01)	12.63

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 2008, 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 (\$)
773,187	-	-	-	-

### (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

#### 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	June 30, 2009	June 30, 2008
	Securityholder Servicing (\$)	Securityholder Servicing (\$)
Class A Units	28,826	42,610
Class F Units	49	-

#### Initial investments

As at June 30, 2009, BMO Nesbitt Burns Inc. held the following investments in units of the Fund:

Unit Class	Units held by BMO Nesbitt Burns Inc.	Value of units held as at June 30, 2009 (\$)
Class A Units	-	-
Class F Units	1,253	15,825

### (e) Financial instrument risk

The Fund's objective was 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 June 30, 2009 and December 31, 2008, the Fund did not have any significant exposure to currency risk.

June 30, 2009

**Interest rate risk**

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

**Interest Rate Exposure  
as at June 30, 2009**

<1 year (\$)	1-3 years (\$)	3-5 years (\$)	5-10 years (\$)	>10 years (\$)	Total (\$)
2,262,524	5,724,456	2,747,672	7,991,868	5,117,672	23,844,192
All amounts in CA\$					

**Interest Rate Exposure  
as at December 31, 2008**

<1 year (\$)	1-3 years (\$)	3-5 years (\$)	5-10 years (\$)	>10 years (\$)	Total (\$)
2,599,857	5,589,752	2,886,893	6,883,231	6,221,602	24,181,335
All amounts in CA\$					

As at June 30, 2009, 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 \$10,238 (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**

The fund is exposed to other market risk from its investment in equity securities (including income trust securities). If 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 \$2,548,556 (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	
	June 30, 2009	December 31, 2008
AAA	23.6	28.2
AA	7.9	15.2
A	11.6	6.7
BBB	0.4	0.4
Below BBB/Unrated	0.9	0.7
<b>Total</b>	<b>44.4</b>	<b>51.2</b>

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, 2009 (\$)	December 31, 2008 (\$)
Aggregate Fair Value of Securities on Loan	9,311,762	9,490,016
Aggregate Fair Value of Collateral for Loan	9,860,224	10,194,175

**9. ADOPTION OF FUTURE ACCOUNTING STANDARDS**

The Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") recently issued an amendment to CICA Handbook Section 3862: Financial Instruments – Disclosures. The new financial reporting standards are effective for annual financial statements relating to fiscal years ending after September 30, 2009.

The amendments to the existing standard require classification of the Fund's assets and liabilities into three levels based on the method used to value the assets or liabilities. Level 1 values are based on quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values 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.

The Fund has a financial year ending December 31, 2009, and as such, these changes will not be reflected until the annual financial statements are prepared for December 31, 2009.

#### 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

#### 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

#### 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](mailto:contact.centre@bmonb.com)  
Website: [www.bmonesbittburns.com](http://www.bmonesbittburns.com)

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