Annual Financial Statements

BMO Harris Private Portfolios
December 31, 2011

BMO Harris U.S. Equity Portfolio

BMO Harris Private Banking®

Auditor's Report

To the Unitholders of:

BMO Harris Canadian Money Money Market Portfolio
BMO Harris Canadian Special Growth Portfolio
BMO Harris U.S. Equity Portfolio
BMO Harris International Equity Portfolio
BMO Harris U.S. Growth Portfolio
BMO Harris Canadian Income Equity Portfolio
BMO Harris Canadian Bond Income Portfolio
BMO Harris Canadian Growth Equity Portfolio
BMO Harris Canadian Conservative Equity Portfolio
BMO Harris Canadian Total Return Bond Portfolio
BMO Harris Canadian Corporate Bond Portfolio
BMO Harris Diversified Yield Portfolio
BMO Harris Emerging Markets Equity Portfolio
BMO Harris International Special Equity Portfolio
(referred to as the "Portfolios")

We have audited the accompanying financial statements of each of the Portfolios, which comprise the statement of investment portfolio as at December 31, 2011 and the statements of net assets as at December 31, 2011 and 2010 and the statements of operations and changes in net assets as at and for the years then ended, and the related notes, which comprise a summary of significant accounting policies.

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 26, 2012

BMO Harris U.S. Equity Portfolio

STATEMENT OF NET ASSETS *As at (in thousands of Canadian dollars, except per unit data)*	**December 31, 2011**	**December 31, 2010**
Assets		
Cash	10,289	20,235
Investments at fair value	609,959	565,424
Income receivable	598	225
Subscriptions receivable	127	924
Total assets	620,973	586,808
Liabilities		
Accrued expenses	82	64
Redemptions payable	258	679
Total liabilities	340	743
Net assets representing unitholders' equity	620,633	586,065
Net assets per unit	$11.22	$10.65

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

BMO Harris U.S. Equity Portfolio

STATEMENT OF OPERATIONS *For the periods ended (in thousands of Canadian dollars, except per unit data)*	**December 31, 2011**	**December 31, 2010**
Investment Income		
Dividends	10,696	7,813
Interest	1	4
Securities lending revenue	23	—
Foreign taxes	(1,576)	(1,172)
	9,144	6,645
Expenses		
Audit fees	13	12
Independent Review Committee fees	2	4
Custodian fees	16	12
Legal and filing fees	49	40
Unitholder servicing fees (note 5)	378	376
Printing and stationery fees	9	21
Commissions and other portfolio transaction costs (note 5)	567	620
	1,034	1,085
Net investment income for the period	8,110	5,560
Realized gain on sale of investments	29,522	3,010
Realized loss on foreign exchange	(378)	(418)
Change in unrealized appreciation in value of investments	2,330	42,264
Increase in net assets from operations	39,584	50,416
Increase in net assets from operations per unit (note 2)	0.72	0.96

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

BMO Harris U.S. Equity Portfolio

STATEMENT OF CHANGES IN NET ASSETS *For the periods ended (in thousands of Canadian dollars)*	**December 31, 2011**	**December 31, 2010**
Net assets – beginning of period	586,065	442,804
Increase in net assets from operations	39,584	50,416
Unit Transactions:		
Proceeds from sale of units	147,484	191,587
Reinvested distributions	8,936	5,830
Amounts paid on units redeemed	(152,232)	(98,558)
Total unit transactions	4,188	98,859
Distributions to Unitholders from:		
Net investment income	(9,158)	(6,002)
Return of capital	(46)	(12)
Total distributions paid to unitholders	(9,204)	(6,014)
Net assets – end of period	620,633	586,065

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

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2011 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost†* ($)	Fair Value ($)
Equities			
Consumer Discretionary – 13.7%			
Bed Bath & Beyond Inc.	81,300	4,605	4,801
Big Lots, Inc.	86,500	3,259	3,328
CBS Corporation, Class B	454,100	10,671	12,555
Dillard's, Inc., Class A	89,400	4,513	4,087
DIRECTV, Class A	280,900	10,011	12,237
GameStop Corp., Class A	121,700	3,086	2,992
Kohl's Corporation	86,900	4,601	4,369
Macy's, Inc.	320,600	6,645	10,507
PetSmart, Inc.	99,200	3,377	5,182
Time Warner Cable	176,400	11,788	11,422
TJX Companies, Inc., The	206,770	8,245	13,600
		70,801	85,080
Consumer Staples – 10.7%			
Dr Pepper Snapple Group, Inc.	123,000	4,879	4,947
Kroger Co., The	317,400	7,797	7,832
Lorillard, Inc.	30,900	2,600	3,587
Philip Morris International Inc.	233,700	15,550	18,680
Tyson Foods Inc., Class A	292,000	5,805	6,137
Walgreen Co.	363,200	14,156	12,233
Wal-Mart Stores, Inc.	211,200	11,453	12,851
		62,240	66,267
Energy – 14.1%			
Chevron Corporation	210,010	19,327	22,751
ConocoPhillips	240,100	15,083	17,827
CVR Energy, Inc.	115,800	2,707	2,208
Exxon Mobil Corporation	341,230	26,114	29,437
National-Oilwell Varco, Inc.	66,600	2,877	4,612
Tesoro Corporation	294,900	6,178	7,012
Valero Energy Corporation	176,600	4,003	3,784
		76,289	87,631
Financials – 8.7%			
Ameriprise Financial, Inc.	221,700	11,894	11,214
Assurant, Inc.	46,100	1,729	1,928
Discover Financial Services	488,200	12,118	11,932
JPMorgan Chase & Co.	166,720	7,615	5,646
Reinsurance Group of America Inc.	155,000	9,370	8,244

†Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

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

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

STATEMENT OF INVESTMENT PORTFOLIO *(cont'd)*
As at December 31, 2011 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost†* ($)	Fair Value ($)
Travelers Companies Inc., The	75,900	4,160	4,575
Unum Group	98,100	2,150	2,106
Wells Fargo & Company	304,560	8,927	8,551
		57,963	54,196
Health Care – 15.8%			
Abbott Laboratories	138,240	8,573	7,911
Aetna Inc.	110,500	4,507	4,749
Amgen Inc.	169,310	10,929	11,075
Eli Lilly and Company	343,300	12,663	14,532
Forest Laboratories, Inc.	297,800	9,567	9,180
Gilead Sciences, Inc.	142,800	5,946	5,954
Humana Inc.	135,950	6,892	12,135
Pfizer Inc.	874,400	17,393	19,277
UnitedHealth Group Incorporated	252,500	8,662	13,037
		85,132	97,850
Industrials – 5.8%			
AGCO Corporation	238,000	10,844	10,416
CSX Corporation	263,100	6,671	5,645
General Electric Company	593,800	14,629	10,834
Northrop Grumman Corporation	116,170	7,353	6,921
Raytheon Company	49,600	2,820	2,445
		42,317	36,261
Information Technology – 18.4%			
Alliance Data Systems Corp.	49,600	4,718	5,247
Apple Inc.	64,710	15,364	26,698
Dell Inc.	791,000	12,124	11,781
Intel Corporation	364,300	8,183	9,000
International Business Machines Corporation	96,380	12,285	18,055
Jabil Circuit, Inc.	228,500	4,794	4,574
Microsoft Corporation	703,880	19,981	18,615
Novellus Systems, Inc.	160,100	6,199	6,735
Oracle Corporation	359,560	7,430	9,388
Symantec Corporation	252,900	4,311	4,032
		95,389	114,125
Materials – 5.2%			
CF Industries Holdings, Inc.	75,000	11,683	11,079
Domtar Corporation	119,500	8,317	9,737
Freeport-McMoRan Copper & Gold Inc.	307,000	12,048	11,506
		32,048	32,322

†Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.
**For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2).*
The accompanying notes are an integral part of these financial statements.

STATEMENT OF INVESTMENT PORTFOLIO *(cont'd)*

As at December 31, 2011 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost†* ($)	Fair Value ($)
Telecommunications Services – 1.6%			
Verizon Communications Inc.	235,300	7,875	9,610
Utilities – 4.3%			
AES Corporation, The	947,500	10,831	11,419
American Electric Power Company, Inc.	209,000	7,275	8,796
Portland General Electric Company	248,400	6,207	6,402
		24,313	26,617
Total Investment Portfolio – 98.3%		**554,367**	**609,959**
Other Assets Less Liabilities – 1.7%			**10,674**
NET ASSETS – 100.0%			**620,633**

The Portfolio's Investment Portfolio is concentrated in the following segments as at:

	December 31, 2011	December 31, 2010
Consumer Discretionary	13.7%	13.2%
Consumer Staples	10.7%	6.8%
Energy	14.1%	13.0%
Financials	8.7%	12.7%
Health Care	15.8%	14.2%
Industrials	5.8%	7.8%
Information Technology	18.4%	18.0%
Materials	5.2%	7.6%
Telecommunications Services	1.6%	2.7%
Utilities	4.3%	0.5%
Other Assets Less Liabilities	1.7%	3.5%
	100.0%	**100.0%**

†Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

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

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

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in thousands of Canadian dollars, except per unit data)
December 31, 2011

1. The Portfolio

BMO Harris U.S. Equity Portfolio ["the Portfolio"] is an open-ended mutual fund trust established by a Declaration of Trust under the laws of the Province of Ontario, most recently amended on September 18, 2007. BMO Harris Investment Management Inc. ("the Manager") is the manager of the Portfolio. The Manager is a wholly owned subsidiary of Bank of Montreal.

The information provided in these audited financial statements is for the periods ended December 31, 2011 and December 31, 2010.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including estimates and assumptions made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Actual results could differ from estimates.

Portfolio mergers

The Manager has adopted the purchase method of accounting for certain Portfolio mergers which occurred during the periods. Under this method, one of the Portfolios in each merger is identified as the acquiring Portfolio, and is referred to as the "Continuing Portfolio", and any other Portfolio involved in the merger is referred to as the "Terminated Portfolio". This identification is based on a comparison of the relative net asset values of the Portfolios as well as consideration of the continuation of such aspects of the Continuing Portfolio as: investment advisors; investment objectives and practices; type of portfolio securities; and management fees and expenses. Where applicable, refer to Note 8(a) for the details of the merger transactions.

Valuation of investments

Canadian GAAP requires the use of bid prices for long positions and ask prices for short positions in the fair valuation of investments traded in an active market, rather than the use of closing prices currently used for the purpose of determining Net Asset Value ("NAV"). For investments that are not traded in an active market, Canadian GAAP requires the use of valuation techniques, incorporating factors that market participants would consider in setting a price.

The NAV is the fair value of the total assets of a Portfolio less the fair value of its total liabilities at a Valuation Date ("the Valuation Date" is each day on which the Toronto Stock Exchange is open for trading) determined in accordance with Part 14 of National Instrument 81-106 – Investment Portfolio Continuous Disclosure ("NI 81-106") for the purpose of processing unitholder transactions. For financial statement purposes, valuations are determined in accordance with Canadian GAAP. This may result in a difference between the Net Assets per unit and the NAV per unit. Refer to Note 8(b) for the details of the comparison between NAV per unit and Net Assets per unit.

Investments are deemed to be held for trading. Investments are recorded at their fair value with the change between this amount and average cost being recorded as unrealized appreciation (depreciation) in value of investments in the Statement of Operations.

Securities listed on a recognized public securities exchange in North America and Latin America are valued for financial statement purposes at their bid prices for long positions and ask prices for short positions. The Manager uses fair value pricing when the price of a security held in a Portfolio is unavailable, unreliable or not considered to reflect the current value, and may determine another value which it considers to be fair and reasonable using the services of third-party valuation service providers, or using a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies and other applicable rates or prices. Procedures are in place to fair value securities traded in countries outside of North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*
(All amounts in thousands of Canadian dollars, except per unit data)
December 31, 2011

For bonds, debentures, asset-backed securities and other debt securities, the fair value represents the bid price provided by independent security pricing services. Short-term investments are included in the Statement of Investment Portfolio at their fair value. Unlisted warrants are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant.

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

Client brokerage commissions, where applicable, are used as payment for order execution services or research services. The portfolio advisors or Manager may select brokers, including their affiliates, who charge a commissions in excess of that charged by other brokers ("soft dollars") if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. It is the Manager's objective that over time, all clients receive benefits from client brokerage commissions.

Transaction costs, such as brokerage commissions, if any, incurred in the purchase and sale of securities by the Portfolio are expensed and included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

Cost of investments
The cost of investments represents the amount paid for each security and is determined on an average cost basis.

Income recognition
Interest income is recognized on the accrual basis. Dividend income and distributions from investment trust units are recognized on the ex-dividend and ex-distribution date, respectively.

Interest on inflation-indexed bonds will be paid based on a principal value, which is adjusted for inflation. The inflation adjustment of the principal value is recognized as part of interest income in the Statement of Operations. At maturity, the Portfolio will receive, in addition to a coupon interest payment, a final payment equal to the sum of the par value and the inflation compensation accrued from the original issue date. Interest is accrued on each Valuation Day based on the inflation adjusted par value at that time and is included in "Interest" in the Statement of Operations.

Translation of foreign currencies
The fair value of investments and other assets and liabilities denominated in foreign currencies is translated into the Portfolio's functional currency, the Canadian dollar at the rates of exchange prevailing at the period-end date. Purchases and sales of investments, and income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in "Realized gain (loss) on sale of investments" and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation) in value of investments" in the Statement of Operations. Realized and unrealized foreign exchange gains (losses) on assets (other than investments) and liabilities are included in "Realized gain (loss) on foreign exchange" in the Statement of Operations.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*
(All amounts in thousands of Canadian dollars, except per unit data)
December 31, 2011

Forward currency contracts

A forward currency contract is an agreement between two parties (the Portfolio and the counterparty) to purchase or sell a currency against another currency at a set price on a future date. The Portfolio may enter into forward currency contracts for hedging purposes which can include the hedging of all or a portion of the currency exposure of an investment or group of investments, either directly or indirectly. The Portfolio may also enter into these contracts for non-hedging purposes which can include increasing the exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one country to another.

The value of forward currency contracts entered into by the Portfolio is recorded as the difference between the value of the contract on the Valuation Date and the value on the date the contract originated.

Changes in the value of open forward currency contracts at each Valuation Date are recognized in the Statement of Operations as "Change in unrealized appreciation (deprecation) in value of forward currency contracts."

Amounts realized at the close of the contracts are recorded as "Realized gain (loss) on forward currency contracts" in the Statement of Operations.

Securities lending

A Portfolio 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, 2011, where applicable, are disclosed in Note 8(h).

Increase or decrease in net assets from operations per unit

"Increase (decrease) in net assets from operations per unit" in the Statement of Operations represents the increase (decrease) in net assets from operations divided by the weighted average number of units outstanding during the period.

Short-term trading penalty

To discourage excessive trading, the Portfolio may, at the Manager's sole discretion, charge a short-term trading penalty. This penalty is paid directly to the Portfolio and is included in "Interest" in the Statement of Operations.

Cash

Cash includes cash on deposit, bank overdrafts and cash equivalents and is deemed to be held for trading and is carried at fair value.

Other assets and liabilities

Income receivable, subscriptions receivable and due from broker are designated as loans and receivables and recorded at cost or amortized cost. Amounts due to broker, redemptions payable and accrued expenses are designated as financial liabilities and reported at amortized cost. Financial liabilities are generally settled within three months of issuance. Other assets and liabilities are short-term in nature, and are carried at amortized cost which approximates fair value.

3. Unit valuation

Units of the Portfolio are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit. The NAV per unit for the purposes of subscription or redemption is computed by dividing the NAV of the Portfolio (that is, the total fair value of the assets less its liabilities) by the total number of units outstanding at such time. This amount may be different from the Net Asset per unit which is presented on the Statement of Net Assets. Generally, any differences are due to valuing actively traded securities at bid prices for GAAP purposes while NAV typically utilizes closing price to determine fair value for the purchase and redemption of units. See Note 8(b) for the details of the comparison between NAV per unit and Net Assets per unit.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*
(All amounts in thousands of Canadian dollars, except per unit data)
December 31, 2011

Capital

The capital of the Portfolio is represented by issued and redeemable units with no par value. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Portfolio's NAV per unit upon redemption. The Portfolio has no restrictions or specific capital requirements on the subscriptions and redemptions of units except as disclosed in Note 8(a), if any. The relevant movements in capital are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 6, the Portfolio endeavors 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. Taxes

(a) Income taxes

The Portfolio qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders. Such part of the Portfolio's net income and net realized capital gains as is not so paid or payable, is subject to income tax. It is the intention of the Portfolio to distribute all of its income and sufficient net realized capital gains so that the Portfolio will not be subject to income tax. Income tax on net realized capital gains not paid or payable is generally recoverable by virtue of refunding provisions contained in tax legislation, as redemptions occur.

Non-capital losses that arose in 2004 and 2005 are available to be carried forward for ten years and applied against future taxable income. Non-capital losses that arose in 2006 and thereafter are available to be carried forward for twenty years. Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.

The Portfolio's estimated non-capital and capital losses for income tax purposes as of the tax year-ended December 2011 are included in Note 8(c), if applicable.

(b) Harmonized sales tax

Effective July 1, 2010, goods and services tax ("GST") was replaced by the harmonized sales tax ("HST") in certain provinces and is imposed at higher rates than the GST. The applicable HST is being paid by the Portfolio, which has resulted in an overall increase in expenses incurred by the Portfolio since the effective date of implementation.

5. Related party transactions

(a) Unitholder servicing, commissions and other portfolio transaction costs

The Portfolio is provided with certain facilities and services by affiliates of the Manager. Expenses incurred in the administration of the Portfolio were paid to BMO Trust Company (the Trustee) and to BMO Asset Management Inc. (the Registrar) and charged to the Portfolio. These expenses are included in "Unitholder servicing fees" in the Statement of Operations.

The Portfolio may execute trades with and or through BMO Nesbit Burns Inc., an affiliate of the Manager based on established standard brokerage agreements at market prices. These fees are included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

Refer to Note 8(d) for related party fees charged to the Portfolio for the periods ended December 31, 2011 and December 31, 2010.

(b) Other related party transactions

From time to time, the Manager may on behalf of the Portfolio 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 Portfolio. These transactions or arrangements may include transactions or arrangements with or involving Bank of Montreal Group of Companies, BMO Trust Company, BMO Nesbitt Burns Inc., Harris Investment Management Inc., BMO Asset Management Inc., BMO Investment Inc., Pyrford International Ltd, 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 sale of securities issued or guaranteed by a member of Bank of Montreal group of Companies, 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 Harris Private Portfolios or the provision of services to the Manager.

6. Financial Instrument Risk

The Portfolio may be exposed to a variety of financial risks that are concentrated in its investment holdings, including derivative instruments. The Statement of Investment Portfolio groups securities by asset type, geographic region and/or market segment. The Portfolio's risk management practice includes the monitoring of compliance to investment guidelines.

The Manager manages the potential effects of these financial risks on the Portfolio's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Portfolio'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 Portfolio, will fluctuate due to changes in foreign exchange rates. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Portfolio's functional currency in determining fair value. The Portfolio may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Portfolio's exposure to currency risk, if any, is further discussed in Note 8(f).

(b) Interest rate risk

Interest rate risk is the risk that the fair value of the Portfolio's interest-bearing investments will fluctuate due to changes in market interest rates. The Portfolio's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, money market instruments, short-term investments and debentures) and interest rate derivative instruments, if any. Other assets and liabilities are short-term in nature and/or non-interest bearing. The Portfolio's exposure to interest rate risk, if any, is further discussed in Note 8(f).

(c) Other market risk

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature, and as such they are not subject to other market risk. The Portfolio's exposure to other market risk, if any, is further discussed in Note 8(f).

(d) Credit risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet 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 Portfolio's unrealized gain (loss) 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 Portfolio's exposure to credit risk, if any, is further discussed in Note 8(f).

The Portfolio 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 Portfolio must be at least 102% of the fair value of securities loaned, if any, as disclosed in Note 8(f).

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*
(All amounts in thousands of Canadian dollars, except per unit data)
December 31, 2011

(e) Liquidity risk
The Portfolio's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Portfolio primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Portfolio retains sufficient cash and cash equivalent positions to maintain liquidity. The Portfolio may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. Securities for which a market quotation could not be obtained and may be illiquid are identified on the Statement of Investment Portfolio. The proportion of illiquid securities to NAV of the Portfolio 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 Portfolio's financial obligations.

7. Transition to International Financial Reporting Standards

In March 2011, the Canadian Accounting Standards Board ("AcSB") amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), permitting investment companies, which includes mutual funds, to defer the adoption of IFRS. On December 12, 2011, the AcSB decided to extend by one year the deferral from fiscal years beginning on or after January 1, 2013 to January 1, 2014.

The deferral of the mandatory IFRS changeover date to January 1, 2014 is to prevent Canadian investment companies and segregated accounts of life insurance enterprises from having to change their current accounting treatment for controlled investees while the IASB finalizes its proposed investment entities standard. The AcSB will continue to monitor the need to revise the IFRS changeover date for these entities. Under the current IFRS guidance, investment companies are required to consolidate their controlled investments. The IASB has issued an exposure draft that will exempt entities that qualify as investment entities from consolidating their controlled investments and requires such entities to record, with very limited exceptions, all of their investments at fair value through profit or loss account. This exposure draft is still under review. Canadian GAAP permits investment companies to fair value their investments regardless of whether those investments are controlled.

The Portfolio has not elected to early adopt IFRS, therefore it will adopt IFRS effective January 1, 2014. The Portfolio expects to report its financial results for the six month period ending June 30, 2014 prepared on an IFRS basis. The Portfolio will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013. Further revisions by the AcSB to the IFRS adoption date for investment companies are possible.

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of potential IFRS differences and as new standards are issued by the IASB prior to the Portfolio's adoption of IFRS. The criteria contained within the IFRS Financial Instruments: Presentation standard (IAS 32) may require Unitholders' equity to be classified as a liability within the Portfolio's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Portfolio's Unitholder structure to confirm the classification.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*
(All amounts in thousands of Canadian dollars, except per unit data)
December 31, 2011

8. Portfolio specific information

(a) Portfolio information and change in units

The Portfolio's inception date was May 15, 1997.

The number of units that have been issued and are outstanding are disclosed in the table below.

Change in units

(in thousands of units)	Dec. 31, 2011	Dec. 31, 2010
Units issued and outstanding, beginning of period	55,010	45,097
Issued for cash	13,463	19,234
Issued on reinvestment of distributions	799	536
Redeemed during the period	(13,955)	(9,857)
Units issued and outstanding, end of period	55,317	55,010

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

Dec. 31, 2011		Dec. 31, 2010	
Net Asset Value per unit	Net Assets per unit	Net Asset Value per unit	Net Assets per unit
11.22	11.22	10.65	10.65

(c) Income taxes

As at the tax year-ended December 2011, the Portfolio had the following estimated capital and non-capital losses available for income tax purposes:

Total capital losses ($)	Total non-capital losses ($)	Non-capital losses that expire in 2014 ($)	2015 ($)	2026 and thereafter ($)
157,382	—	—	—	—

(d) Related party transactions

The related party fees charged for unitholder servicing fees are as follows:

	Dec. 31, 2011	Dec. 31, 2010
Unitholder servicing ($)	273	265

(e) Brokerage commissions and soft dollars

Brokerage commissions paid on securities transactions and amounts paid to related parties of the Manager for brokerage services provided to the Portfolio for the periods are as follows:

	Dec. 31, 2011	Dec. 31, 2010
Total brokerage amounts paid ($)	560	615
Total brokerage amounts paid to related parties ($)	—	—

The ascertainable soft dollar value of services received as a percentage of total brokerage commissions paid under the soft dollar arrangement entered into by the portfolio adviser for the periods ended is as follows:

	Dec. 31, 2011	Dec. 31, 2010
Total soft dollars ($)	295	—
Total soft dollars as a percentage of total commissions (%)	53	—

(f) Financial instrument risk

The Portfolio's objective is to provide long term capital appreciation by investing primarily in larger capitalization U.S. equity securities.

No changes affecting the overall level of risk of investing in the Portfolio were made during the period.

Currency risk

The table below summarizes the Portfolio's exposure to currency risk. Amounts shown are based on the carrying value of monetary and non-monetary assets (including derivatives and the underlying principle (notional) amount of forward currency contracts, if any).

	Dec. 31, 2011		Dec. 31, 2010	
Currency	Currency exposure ($)	As a % of Net Assets (%)	Currency exposure ($)	As a % of Net Assets (%)
U.S. dollar	620,846	100.0	585,884	100.0

All amounts in CA$

As at the periods ended December 31, 2011 and December 31, 2010, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all factors remaining constant, Net Assets could possibly have decreased or increased, respectively, by approximately $31,042 (December 31, 2010 – $29,294). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*
(All amounts in thousands of Canadian dollars, except per unit data)
December 31, 2011

Interest rate risk

As at December 31, 2011 and December 31, 2010, the Portfolio did not have any significant exposure to interest rate risk.

Other market risk

As at December 31, 2011, 98% (December 31, 2010 – 97%) of the Portfolio's Net Assets were traded on respective stock exchanges. If equity prices on respective stock exchanges had increased or decreased by 10% as at the periods ended, with all other factors remaining constant, Net Assets could possibly have increased or decreased, respectively, by approximately $60,996 (December 31, 2010 – $56,542). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

As at December 31, 2011 and December 31, 2010, the Portfolio did not have any significant exposure to credit risk.

(g) Fair value hierarchy

The Portfolio classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on the quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets or based on unobservable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The table below shows the relevant disclosure.

As at December 31, 2011

Financial assets	Level 1	Level 2	Level 3	Total
Equity securities	609,959	—	—	609,959

As at December 31, 2010

Financial assets	Level 1	Level 2	Level 3	Total
Equity securities	565,424	—	—	565,424

Significant transfers

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

(h) Securities lending

The Portfolio had assets involved in securities lending transactions outstanding as at December 31, 2011 and December 31, 2010 as follows:

	Dec. 31, 2011	Dec. 31, 2010
Aggregate value of securities on loan ($)	27,227	—
Aggregate value of collateral received for the loan ($)	28,807	—

Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by an affiliate of the Manager and approved by the Board of Trustees of the Portfolios. 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 the 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 Portfolio are described in Note 2 of the financial statements. The Trustee (BMO Trust Company) is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Trustee reviews the financial statements of the Portfolios, adequacy of the internal controls, the audit process and financial reporting with management and external auditors.

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

Richard Mason
Chief Executive Officer
BMO Harris Investment Management Inc.
March 26, 2012

Robert J. Schauer
Chief Financial Officer
BMO Harris Private Portfolios
March 26, 2012

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