

# BMO Canadian Money Market Fund (the "Fund")

(formerly "BMO AIR MILES<sup>®†</sup> Money Market Fund")

For the period ended September 30, 2011 • Manager: BMO Investments Inc.

Portfolio manager: BMO Asset Management Inc., Toronto, Ontario

## Annual Management Report of Fund Performance

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 may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-800-665-7700, by writing to us at BMO Investments Inc., 77 King Street West, 42nd Floor, Toronto, Ontario, M5K 1J5 or by visiting our website at [www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds) or SEDAR at [www.sedar.com](http://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 Objective and Strategies

The Fund's objectives are to preserve the value of your investment and to provide a high level of liquidity and interest income. The Fund invests primarily in high-quality money market instruments issued by governments and corporations in Canada, including treasury bills, bankers' acceptances, and commercial paper.

#### Risk

No changes affecting the overall level of risk associated with investing in the Fund were made during the period. The risks of this Fund remain as discussed in the Fund's most recent simplified prospectus or its amendments.

#### Results of Operations

Over the 12-month period ended September 30, 2011 (the "period"), Series A units of the Fund returned 0.10%. Please see *Past Performance* for information on the performance returns of the Fund's other series.

In a year marred by ongoing geopolitical uncertainties, spiralling sovereign debt, banking industry concerns in Europe, and tragic natural disasters ranging from flooding to earthquakes, markets were extremely volatile. Combined with the weak economic growth backdrop in the U.S., external factors remained the greatest risks to the Canadian economy.

As a result of these elevated risks, the Bank of Canada ("BoC") held its overnight rate at 1% throughout the period, as inflation eased and the need to withdraw monetary stimulus diminished. At the end of the period, the BoC still expected the economy to post positive growth in the second half of 2011, supported by both business and household spending. However, with the marked deterioration of the

global financial system and economies, this growth will be at a slower pace, with net exports remaining a major source of weakness. In the portfolio manager's opinion, the economy appears poised for third quarter growth of approximately 2.0%, slower than the 2.8% forecast by the BoC in the July Monetary Policy Report.

The three-month Government of Canada treasury bill yield ended the period at 0.79%, lower than its September 2010 close of 0.93%. The prime rate remained at 3.00% during the period, while the Canadian dollar closed at US\$0.95, approximately two cents weaker compared to its September 2010 close.

Throughout the period, the Fund's weightings in government holdings remained close to 50%. Within this category, allocation to provincial money market instruments was higher than Canadian treasury bills, to take advantage of yield enhancement opportunities. At the end of the period, provincial issues were yielding approximately 0.12% higher than corresponding federal treasury bills.

The Fund's corporate exposure remained at a combined 45% in banker's acceptance paper and corporate bond issuers, which was maximized to provide additional yield enhancement to the Fund. The Fund continues to maintain a diversified maturity and issuer structure, with the primary objectives to preserve capital and provide a high level of liquidity and interest income.

In an effort to ensure a positive yield and preserve the Fund's net asset value, the Manager continues to temporarily waive in part the management fees normally charged to the Fund.

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# BMO Canadian Money Market Fund

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

## Recent Developments

In the portfolio manager's view, the BoC has clearly stepped away from any imminent tightening in monetary policy, and will keep considerable monetary stimulus in place to mitigate downside risks currently emanating from the U.S. and Europe. As a result, it is expected that the BoC will continue to maintain its overnight rate at 1% well into 2012, until a clearer resolution on these issues is determined, which in turn should alleviate the downside risks to Canada's growth prospects.

The U.S. economy remains fragile with a lack of growth catalysts, consequently weighing on investors confidence. Businesses remain risk averse with limited hirings, which is depressing consumer spending and constraining the housing sector. As a result, the Federal Open Market Committee recently kept its target range for the Federal Funds rate unchanged at 0 to 0.25%, reconfirming its commitment to hold official rates highly accommodative. The U.S. Federal Reserve Board (the "Fed") has now implemented another initiative designed to help spur the economy, through "Operation Twist", a process by which the Fed will now reinvest the coupon payments it receives into longer-dated treasury securities in an effort to decrease long-term borrowing rates.

Going forward, the term to maturity of the Fund will be adjusted in response to the portfolio manager's assessment of the economy and any anticipated changes in interest rates in Canada, while emphasizing high quality government and corporate holdings to help enhance returns.

## *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 to fiscal years beginning on or after January 1, 2013.

The AcSB has deferred the mandatory IFRS adoption date to coincide with a new consolidation standard for investment companies that the IASB is planning to publish. 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 their investments at fair value through profit or loss account. This exposure draft is still under review and comments will be received until January 5, 2012. Canadian Generally Accepted Accounting Principles ("GAAP") permits investment companies to fair value their investments regardless of whether those investments are controlled.

The Fund has not elected to early adopt IFRS, therefore it will adopt IFRS effective October 1, 2013. The Fund expects to report its financial results for the six month period ending March 31, 2014 prepared on an IFRS basis. The Fund will also provide comparative data on an IFRS basis, including an opening balance sheet as at October 1, 2012. Further revisions by the AcSB to the IFRS adoption date for investment companies are possible.

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

The diagnostic assessment of the Fund revealed the following: the criteria contained within the IFRS Financial Instruments: Presentation standard (IAS 32) may require unitholders' equity to be classified as a liability within the Fund's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Fund's unitholder structure to confirm classification. Presentation changes to unitholders' equity will not have an impact on the Fund's results of operations or financial position.

Subject to the IASB publishing a new consolidation standard for investment companies that is effective prior to the Fund's adoption of IFRS, and subject to the Fund being in scope of this new standard, the Fund would be permitted to continue to fair value all its investments, including any investments in other funds that it may have a controlling interest in, when it transitions to IFRS.

The diagnostic assessment did not reveal any other potential material differences between the Fund's current accounting policies and the requirements under IFRS. The Manager does not foresee any impact or change to the Fund's business arrangements that the Fund will need to make as a result of the changeover to IFRS.

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The Manager has not identified any changes that will impact Net Asset Value (“NAV”) per unit as a result of the changeover to IFRS. However, this determination is subject to change as we finalize our assessment of IFRS differences and as new standards are issued by the IASB prior to the Fund’s adoption of IFRS.

## RELATED PARTY TRANSACTIONS

BMO Investments Inc. (“BMOII”), an indirect, wholly-owned subsidiary of Bank of Montreal, is the Manager of the Fund. From time to time, the Manager may, on behalf of the Fund, enter into transactions or arrangements with or involving other members of BMO Financial Group, or certain other persons or companies that are related or connected to the Manager (each a “Related Party”). The purpose of this section is to provide a brief description of any transaction involving the Fund and a Related Party.

### Portfolio Manager

The Fund’s portfolio manager is BMO Asset Management Inc. (“BMOAM”), an affiliate of the Manager. BMOAM provides portfolio management services to the Fund. BMOAM receives a management fee based on assets under management, calculated daily and payable monthly.

### Administration Fees

The Fund pays a fixed administration fee to the Manager. The Manager in return pays the operating expenses of the Fund, other than certain specified expenses that are paid directly by the Fund (“Fund Expenses”). Fund Expenses include interest or other borrowing expenses, costs and expenses related to the operation of the Fund’s Independent Review Committee (“IRC”), including fees and expenses of IRC members, taxes to which the Fund is or might be subject, and costs associated with compliance with any new governmental or regulatory requirement introduced after December 1, 2007 (e.g., cost associated with the production of Fund Facts, filed in compliance with the recent relevant amendments to NI 81-101). The fixed administration fee is calculated as a fixed annual percentage of the average net assets of the Fund and, for the most part, replaces the previous cost recovery method under which operating expenses were charged or allocated to the Fund. Further details about the fixed administration fee and/or Fund Expenses can be found in the Fund’s most recent simplified prospectus at [www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds) or [www.sedar.com](http://www.sedar.com).

### Buying and Selling Securities

*Trades in Debt Securities with a Related Entity,  
Trading as Principal*

During the period, the Manager relied on an approval and standing instruction provided by the Fund’s IRC to enable

the Fund to trade in debt securities in the secondary market with BMO Nesbitt Burns Inc., an affiliate of the Manager, who is trading with the Fund as principal (each trade, a “Related Party Transaction”). In accordance with the IRC’s approval and standing instruction, in making a decision to cause the Fund to make a Related Party Transaction, the Manager and portfolio manager of the Fund are required to comply with the Manager’s written policies and procedures governing the Related-Party Transaction and report periodically to the IRC, describing each instance that the Manager and/or portfolio manager relied on the approval and standing instruction and their compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to ensure the Related Party Transaction (i) is made free from any influence of BMO Nesbitt Burns Inc. or an associate or affiliate of BMO Nesbitt Burns Inc. and without taking into account any considerations relevant to BMO Nesbitt Burns Inc. or an associate or affiliate of BMO Nesbitt Burns Inc., (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.

### Distribution Services

The Manager markets and distributes the Fund directly through Bank of Montreal branches and through registered dealers and brokers, including BMO InvestorLine Inc. and BMO Nesbitt Burns Inc., both affiliates of the Manager. The Manager pays to these affiliates on an ongoing basis annual service or trailing commissions based on the average daily value of the units that are held in investor accounts.

### Management Fees

The Manager is responsible for the day-to-day management of the business and operations of the Fund. The Manager 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 the Manager is entitled to receive a management fee payable monthly, calculated based on the daily net asset value of the Fund at the maximum annual rate set out in the table below.

|                | Maximum Annual<br>Management<br>Fee Rate<br>% | As a Percentage<br>of Management Fees |  |
|----------------|---|---------------------------------------|--|
|                |   | Dealer<br>Compensation<br>%           | General<br>Administration,<br>Investment<br>Advice and Profit<br>% |
| Series A Units | 1.00  | 3                                     | 97   |

# BMO Canadian Money Market Fund

## 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 Unit <sup>(1)</sup>

#### Series A

|  |    | Periods ended Sep. 30 |       |       |       |       |
|--|----|-----------------------|-------|-------|-------|-------|
|  |    | 2011                  | 2010  | 2009  | 2008  | 2007  |
| Net assets, beginning of period                  | \$ | 1.00                  | 1.00  | 1.00  | 1.00  | 1.00  |
| <b>Increase (decrease)</b>                       |    |                       |       |       |       |       |
| <b>from operations:</b>                          |    |                       |       |       |       |       |
| Total revenue                                    | \$ | 0.01                  | 0.01  | 0.02  | 0.04  | 0.04  |
| Total expenses                                   | \$ | -0.01                 | -0.01 | -0.01 | -0.01 | -0.01 |
| Realized gains (losses)<br>for the period        | \$ | —                     | —     | —     | —     | —     |
| Unrealized gains (losses)<br>for the period      | \$ | —                     | —     | —     | —     | —     |
| <b>Total increase (decrease)</b>                 |    |                       |       |       |       |       |
| <b>from operations <sup>(2)</sup></b>            | \$ | 0.00                  | 0.00  | 0.01  | 0.03  | 0.03  |
| <b>Distributions:</b>                            |    |                       |       |       |       |       |
| From income<br>(excluding dividends)             | \$ | 0.00                  | 0.00  | 0.01  | 0.03  | 0.03  |
| From dividends                                   | \$ | —                     | —     | —     | —     | —     |
| From capital gains                               | \$ | —                     | —     | —     | —     | —     |
| Return of capital                                | \$ | —                     | —     | —     | —     | —     |
| <b>Total Annual Distributions <sup>(3)</sup></b> | \$ | 0.00                  | 0.00  | 0.01  | 0.03  | 0.03  |
| <b>Net assets, end of period</b>                 | \$ | 1.00                  | 1.00  | 1.00  | 1.00  | 1.00  |

<sup>(1)</sup> 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 calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the Fund's financial statements.

<sup>(2)</sup> 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. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>(3)</sup> Distributions were either paid in cash or reinvested in additional units of the Fund, or both.

## Ratios and Supplemental Data

#### Series A

|   |    | Periods ended Sep. 30 |        |        |        |        |
|---|----|-----------------------|--------|--------|--------|--------|
|   |    | 2011                  | 2010   | 2009   | 2008   | 2007   |
| Total net asset value (000's) <sup>(1)</sup>              | \$ | 11,419                | 17,600 | 28,241 | 31,014 | 29,436 |
| Number of units<br>outstanding (000's) <sup>(1)</sup>     |    | 11,419                | 17,600 | 28,241 | 31,014 | 29,436 |
| Management expense ratio <sup>(2)</sup>                   | %  | 1.04                  | 0.72   | 1.09   | 1.22   | 1.24   |
| Management expense ratio<br>before waivers or absorptions | %  | 1.29                  | 1.23   | 1.21   | 1.22   | 1.24   |
| Net asset value per unit                                  | \$ | 1.00                  | 1.00   | 1.00   | 1.00   | 1.00   |

<sup>(1)</sup> This information is provided as at September 30 of the period shown, as applicable.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transactions costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

## PAST PERFORMANCE

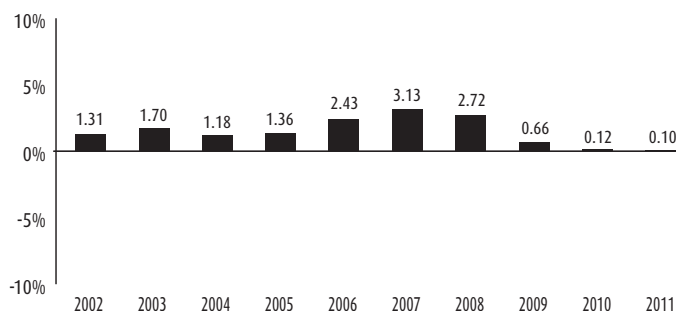
The Fund's performance information assumes that all distributions made by the Fund in the periods shown were used to purchase additional units or shares of the Fund and is based on the net asset value of the Fund.

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 that how the Fund has performed in the past does not indicate how it will perform in the future.

### Year-by-Year Returns

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

#### Series A



# BMO Canadian Money Market Fund

## SUMMARY OF INVESTMENT PORTFOLIO

As at September 30, 2011

| <b>Portfolio Allocation</b>           | <b>% of Net Asset Value</b> |
|---------------------------------------|-----------------------------|
| Treasury Bills – Provincial . . . . . | 26.7                        |
| Corporate Bonds . . . . .             | 24.3                        |
| Bankers Acceptances . . . . .         | 17.1                        |
| Treasury Bills – Federal . . . . .    | 8.7                         |
| Government Bonds . . . . .            | 6.2                         |
| Money Market – Provincial . . . . .   | 6.1                         |
| Bearer Deposit Notes . . . . .        | 4.8                         |
| Provincial Bonds . . . . .            | 3.4                         |
| Commercial Paper . . . . .            | 2.2                         |
| Cash/Receivables/Payables . . . . .   | 0.5                         |

| <b>Top 25 Holdings</b>  | <b>% of Net Asset Value</b> |
|---|-----------------------------|
| <b>Issuer</b>   |                             |
| Province of Quebec, Treasury Bills, 0.987% Dec 9, 2011 . . . . .  | 8.3                         |
| Government of Canada, Treasury Bills, 0.985% Nov 10, 2011 . . . . .   | 6.1                         |
| Province of Ontario, Treasury Bills, 0.968% Nov 23, 2011 . . . . .  | 6.1                         |
| Province of Ontario, Treasury Bills, 1.016% Jan 18, 2012 . . . . .  | 5.7                         |
| Canada Housing Trust, Mortgage Bonds, Series 15,<br>Secured, 3.950% Dec 15, 2011 . . . . .                                    | 5.3                         |
| Canadian Imperial Bank of Commerce,<br>Deposit Notes, 4.350% Nov 1, 2011 . . . . .  | 4.5                         |
| Bank of Nova Scotia, The,<br>Bankers Acceptances, 1.057% Oct 14, 2011 . . . . .   | 4.4                         |
| Toronto-Dominion Bank, The,<br>Bankers Acceptances, 1.361% Jan 26, 2012 . . . . .   | 4.4                         |
| Province of Quebec, Promissory Notes, 1.037% Oct 20, 2011 . . . . .   | 3.1                         |
| Toronto-Dominion Bank, The,<br>Bankers Acceptances, 1.049% Oct 3, 2011 . . . . .  | 2.6                         |
| Bank of Nova Scotia, The, Bearer Deposit Notes, 1.034% Oct 18, 2011 . . . . .   | 2.6                         |
| Bell Canada, Series M-12, Medium Term Notes,<br>Callable, 6.900% Dec 15, 2011 . . . . .                                       | 2.3                         |
| Province of British Columbia, 5.750% Jan 9, 2012 . . . . .  | 2.2                         |
| Glacier Credit Card Trust, Series 2006-1, Credit Card Asset-Backed,<br>Senior, Secured, Notes, 4.271% Nov 18, 2011 . . . . .  | 2.2                         |
| Caterpillar Financial Services Limited, Medium Term Notes,<br>Senior, Unsecured, Unsubordinated, 4.940% Jun 1, 2012 . . . . . | 1.8                         |
| Canadian Imperial Bank of Commerce, Deposit Notes,<br>Senior, 5.000% Sep 10, 2012 . . . . .                                   | 1.8                         |
| Algonquin Credit Card Trust, Series 2007-1, Class A,<br>Asset-Backed Notes, 4.562% Jun 15, 2012 . . . . .                     | 1.8                         |
| Greater Toronto Airports Authority, Series 2002-1,<br>Medium Term Notes, Secured, Callable, 6.250% Jan 30, 2012 . . . . .     | 1.8                         |
| Canadian Imperial Bank of Commerce,<br>Bankers Acceptances, 1.069% Oct 7, 2011 . . . . .                                      | 1.8                         |
| Royal Bank of Canada, Bankers Acceptances, 1.029% Oct 14, 2011 . . . . .  | 1.8                         |
| Province of Alberta, Promissory Notes, 1.018% Oct 20, 2011 . . . . .  | 1.8                         |
| Province of Ontario, Treasury Bills, 1.027% Oct 26, 2011 . . . . .  | 1.8                         |
| Province of Ontario, Treasury Bills, 0.998% Dec 7, 2011 . . . . .   | 1.7                         |
| Province of Ontario, Treasury Bills, 0.987% Dec 21, 2011 . . . . .  | 1.7                         |
| Shoppers Drug Mart Corporation. Series 3, Medium Term Notes,<br>Unsecured, 4.800% Jan 20, 2012 . . . . .                      | 1.3                         |
| <b>Top holdings as a percentage of total net asset value</b>  | <b>78.9</b>                 |
| <b>Total Net Asset Value</b>  | <b>\$11,418,829</b>         |

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

[www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds)

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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 or implied 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 in and the risks detailed from time to time in BMO Mutual 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 Investments 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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