

# Semi-Annual Financial Statements 2015

BMO Asset Management Inc.

## BMO Canadian Alpha Plus Fund

June 30, 2015

### NOTICE OF NO AUDITOR REVIEW OF THE SEMI-ANNUAL FINANCIAL STATEMENTS

BMO Investments Inc., the Manager of the Fund, appoints independent auditors to audit the Fund's Annual Financial Statements. Under Canadian securities laws (National Instrument 81-106), if an auditor has not reviewed the Semi-Annual Financial Statements, this must be disclosed in an accompanying notice.

The Fund's independent auditors have not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Chartered Professional Accountants of Canada.

**BMO**  **Global Asset Management**

## SEMI-ANNUAL FINANCIAL STATEMENTS

## Statement of Financial Position

<b>As at</b> (All amounts in thousands of Canadian dollars, except per unit data)	<b>June 30 2015</b>	<b>December 31 2014</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	1,224	406
Investments		
Non-derivative financial assets	17,739	14,022
Subscriptions receivable	33	23
Dividends receivable	25	22
Distribution receivable from investment trusts	1	1
<b>Total assets</b>	<b>19,022</b>	<b>14,474</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Redemptions payable	1	5
Short positions	2,038	1,402
Accrued expenses	18	15
Dividends payable on investments sold short	3	5
<b>Total liabilities</b>	<b>2,060</b>	<b>1,427</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>16,962</b>	<b>13,047</b>
<b>Net assets attributable to holders of redeemable units</b>		
Advisor Series Units	1,438	1,391
Series F Units	1	1
Series O Units	15,523	11,655
<b>Net assets attributable to holders of redeemable units per unit</b>		
Advisor Series Units	\$11.21	\$10.84
Series F Units	\$11.34	\$10.91
Series O Units	\$12.04	\$11.52

## SEMI-ANNUAL FINANCIAL STATEMENTS

## Statement of Comprehensive Income

<b>For the periods ended</b> (All amounts in thousands of Canadian dollars, except per unit data)	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>INVESTMENT INCOME</b>		
Interest income	2	0
Dividend income	156	44
Distributions from investment trusts	9	1
Other changes in fair value of investments and derivatives		
Net realized gain (loss)	(478)	351
Change in unrealized appreciation (depreciation)	1,010	(128)
Net gain on investments and derivatives	699	268
Foreign exchange gain	4	0
Total other income	4	0
<b>Total income</b>	<b>703</b>	<b>268</b>
<b>EXPENSES</b>		
Management fees (note 6)	27	24
Audit fees	5	3
Withholding taxes	—	0
Unitholder reporting costs	11	—
Security borrowing fees	9	3
Dividends paid on investments sold short	21	12
Commissions and other portfolio transaction costs (note 6)	7	6
Other expenses	—	1
<b>Total expenses</b>	<b>80</b>	<b>49</b>
<b>Increase in net assets attributable to holders of redeemable units before tax</b>	<b>623</b>	<b>219</b>
<b>Increase in net assets attributable to holders of redeemable units after tax</b>	<b>623</b>	<b>219</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		
Advisor Series Units	47	84
Series F Units	0	0
Series O Units	576	135
<b>Increase in net assets attributable to holders of redeemable units per unit (note 3)</b>		
Advisor Series Units	\$0.37	\$0.66
Series F Units	\$0.43	\$0.13
Series O Units	\$0.50	\$0.76

## Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

<b>For the periods ended</b> (All amounts in thousands of Canadian dollars)	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Advisor Series Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>1,391</b>	<b>1,301</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>47</b>	<b>84</b>
<b>Distributions to holders of redeemable units</b>		
Net investment income	—	(66)
<b>Total distributions to holders of redeemable units</b>	<b>—</b>	<b>(66)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	—	0
Reinvestments of distributions to holders of redeemable units	—	66
<b>Net increase from redeemable unit transactions</b>	<b>—</b>	<b>66</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>47</b>	<b>84</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>1,438</b>	<b>1,385</b>
<b>Series F Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>1</b>	<b>—</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>0</b>	<b>0</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	—	1
<b>Net increase from redeemable unit transactions</b>	<b>—</b>	<b>1</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>0</b>	<b>1</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>1</b>	<b>1</b>

## Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

CONTINUED

For the periods ended (All amounts in thousands of Canadian dollars)	June 30, 2015	June 30, 2014
<b>Series O Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>11,655</b>	<b>1,871</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>576</b>	<b>135</b>
<b>Distributions to holders of redeemable units</b>		
Net investment income	—	(106)
<b>Total distributions to holders of redeemable units</b>	<b>—</b>	<b>(106)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	4,250	65
Reinvestments of distributions to holders of redeemable units	—	106
Redemption of redeemable units	(958)	(61)
<b>Net increase from redeemable unit transactions</b>	<b>3,292</b>	<b>110</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>3,868</b>	<b>139</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>15,523</b>	<b>2,010</b>
<b>Total Fund</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>13,047</b>	<b>3,172</b>
Increase in net assets attributable to holders of redeemable units	623	219
<b>Distributions to holders of redeemable units</b>		
Net investment income	—	(172)
<b>Total distributions paid to holders of redeemable units</b>	<b>—</b>	<b>(172)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	4,250	66
Reinvestments of distributions to holders of redeemable units	—	172
Redemption of redeemable units	(958)	(61)
<b>Net increase from redeemable unit transactions</b>	<b>3,292</b>	<b>177</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>3,915</b>	<b>224</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>16,962</b>	<b>3,396</b>

## Statement of Cash Flows

For the periods ended (All amounts in thousands of Canadian dollars)	June 30, 2015	June 30, 2014
<b>Cash flows from operating activities</b>		
Increase in net assets attributable to holders of redeemable units	623	219
Adjustments for:		
Foreign exchange gain on cash	(3)	—
Net realized loss (gain) on sale of investments and derivatives	478	(351)
Change in unrealized (appreciation) depreciation of investments and derivatives	(1,010)	128
Increase in dividends receivable	(3)	(2)
Decrease in distribution receivable from investment trusts	—	1
Increase (decrease) in accrued expenses	3	(8)
(Decrease) increase in dividends payable on investments sold short	(2)	1
Return of capital distributions received	2	—
Purchases of investments	(4,864)	(1,865)
Proceeds from sale and maturity of investments	1,804	1,928
Cash inflows on derivatives	509	21
<b>Net cash from operating activities</b>	<b>(2,463)</b>	<b>72</b>
<b>Cash flows used in financing activities</b>		
Proceeds from issuances of redeemable units	4,240	66
Amounts paid on redemption of redeemable units	(962)	(60)
<b>Net cash used in financing activities</b>	<b>3,278</b>	<b>6</b>
Foreign exchange gain on cash	3	—
Net increase in cash	815	78
Cash at beginning of period	406	24
<b>Cash at end of period</b>	<b>1,224</b>	<b>102</b>
<b>Supplementary Information</b>		
Interest received, net of withholding taxes*	2	—
Dividends received, net of withholding taxes*	153	42
Distributions received from investment trusts*	9	2

\*These items are from operating activities

**Schedule of Investment Portfolio** (All amounts in thousands of Canadian dollars, unless otherwise noted)

As at June 30, 2015

	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Long Positions</b>			
<b>EQUITIES</b>			
<b>Consumer Discretionary – 12.3%</b>			
Amaya Inc.	4,600	151	157
Gildan Activewear Inc.	7,800	239	324
Great Canadian Gaming Corporation	8,800	167	212
Linamar Corporation	5,100	315	414
Magna International Inc.	7,900	414	554
Performance Sports Group Ltd.	18,800	334	423
		<b>1,620</b>	<b>2,084</b>
<b>Consumer Staples – 10.4%</b>			
Alimentation Couche-Tard Inc., Class B	28,400	784	1,517
Loblaw Companies Limited	3,800	243	240
		<b>1,027</b>	<b>1,757</b>
<b>Energy – 16.9%</b>			
ARC Resources Ltd.	7,000	209	150
Bankers Petroleum Ltd.	40,300	229	125
Cameco Corporation	12,800	248	229
Canadian Energy Services & Technology Corp.	40,100	252	289
Canadian Natural Resources Limited	5,080	228	172
Enbridge Inc.	6,500	304	380
Keyera Corp.	15,636	523	652
PrairieSky Royalty Ltd.	7,900	249	249
Raging River Exploration Inc.	23,850	229	208
Storm Resources Ltd.	52,900	257	251
Vermilion Energy Inc.	3,300	182	178
		<b>2,910</b>	<b>2,883</b>
<b>Financials – 30.2%</b>			
Bank of Nova Scotia	7,000	422	451
Brookfield Asset Management Inc., Class A	13,200	463	577
Brookfield Property Partners L.P.	12,600	321	348
Canadian Western Bank	9,600	336	276
Fairfax Financial Holdings Limited	450	230	277
Genworth MI Canada Inc.	5,700	214	187
Gluskin Sheff + Associates Inc.	11,750	325	294
Home Capital Group Inc.	6,500	268	281
Industrial Alliance Insurance and Financial Services Inc.	5,250	241	220
Intact Financial Corporation	3,800	317	330
Laurentian Bank of Canada	4,200	203	202
Manulife Financial Corporation	13,850	289	321
National Bank of Canada	11,650	507	547
Royal Bank of Canada	4,500	331	344
Sun Life Financial Inc.	11,200	411	467
		<b>4,878</b>	<b>5,122</b>
<b>Health Care – 5.1%</b>			
Valeant Pharmaceuticals International, Inc.	3,100	628	859
<b>Industrials – 12.6%</b>			
AG Growth International Inc.	3,700	179	173

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

## SEMI-ANNUAL FINANCIAL STATEMENTS

**Schedule of Investment Portfolio** (All amounts in thousands of Canadian dollars, unless otherwise noted)

CONTINUED

As at June 30, 2015

	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Air Canada	28,700	289	379
Badger Daylighting Ltd.	4,400	140	115
Boyd Group Income Fund	16,600	620	875
Canadian Pacific Railway Limited	2,250	454	450
Stantec Inc.	4,000	136	146
		<b>1,818</b>	<b>2,138</b>
<b>Information Technology – 7.6%</b>			
Absolute Software Corporation	19,900	181	179
CGI Group Inc., Class A	4,050	160	198
Constellation Software Inc.	1,850	524	917
		<b>865</b>	<b>1,294</b>
<b>Materials – 5.7%</b>			
Lundin Mining Corporation	40,900	253	210
Potash Corporation of Saskatchewan Inc.	8,100	313	313
Tahoe Resources Inc.	11,705	137	177
West Fraser Timber Co. Ltd.	3,800	238	261
		<b>941</b>	<b>961</b>
<b>Telecommunication Services – 1.8%</b>			
Rogers Communications Inc., Class B	6,700	280	297
<b>Utilities – 2.1%</b>			
Canadian Utilities Limited, Class A	5,400	186	194
Innergex Renewable Energy Inc.	14,100	165	150
		<b>351</b>	<b>344</b>
<b>Total Long Positions – 104.7%</b>		<b>15,318</b>	<b>17,739</b>
	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Short Positions</b>			
<b>EQUITIES</b>			
<b>Consumer Discretionary – (3.1)%</b>			
Cineplex Inc.	(3,600)	(151)	(169)
Dorel Industries Inc., Class B	(5,200)	(173)	(174)
Restaurant Brands International Inc.	(3,800)	(180)	(182)
		<b>(504)</b>	<b>(525)</b>
<b>Consumer Staples – (1.0)%</b>			
Maple Leaf Foods Inc.	(6,950)	(140)	(165)
<b>Energy – (2.2)%</b>			
MEG Energy Corp.	(9,200)	(177)	(188)
Penn West Petroleum Ltd.	(83,800)	(180)	(180)
		<b>(357)</b>	<b>(368)</b>
<b>Financials – (2.2)%</b>			
DREAM Unlimited Corp., Class A	(9,600)	(126)	(93)
Dundee Corporation, Class A	(8,050)	(130)	(101)
Onex Corporation	(2,700)	(188)	(186)
		<b>(444)</b>	<b>(380)</b>

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



## SEMI-ANNUAL FINANCIAL STATEMENTS

**Schedule of Investment Portfolio** (All amounts in thousands of Canadian dollars, unless otherwise noted)

CONTINUED

As at June 30, 2015

	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Information Technology – (0.8)%</b>			
Redknee Solutions Inc.	(29,350)	(141)	(139)
<b>Materials – (1.9)%</b>			
Canexus Corporation	(27,350)	(122)	(40)
HudBay Minerals Inc.	(11,300)	(111)	(118)
Sherritt International Corporation	(29,400)	(115)	(61)
Tembec Inc.	(45,300)	(125)	(96)
		<b>(473)</b>	<b>(315)</b>
<b>Utilities – (0.9)%</b>			
Just Energy Group Inc.	(22,400)	(141)	(146)
<b>Total Short Positions – (12.1)%</b>		<b>(2,200)</b>	<b>(2,038)</b>
<b>Total Investment Portfolio – 92.6%</b>		<b>13,118</b>	<b>15,701</b>
<b>Other Assets Less Liabilities – 7.4%</b>			<b>1,261</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS – 100.0%</b>			<b>16,962</b>

+ 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.

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

**1. The Fund**

BMO Canadian Alpha Plus Fund ("the Fund") is a pooled trust fund established by a Trust Indenture under the laws of the Province of Ontario. The Fund is relying on the exemption in Section 2.11 of National Instrument 81-106 that exempts the Fund from filing these financial statements with a securities regulatory authority. The address of the Fund's registered office is 100 King Street West, Toronto, Ontario.

The information provided in these unaudited interim financial statements is for the periods ended June 30, 2015 and June 30, 2014, except for the comparative information on the Statement of Financial Position and related notes, which is as at December 31, 2014.

These financial statements were authorized for issue by BMO Asset Management Inc. (the "Manager") on August 26, 2015.

**2. Basis of preparation and presentation**

These unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Fund adopted this basis of accounting effective January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Certain prior period balances have been reclassified to conform with the current period presentation.

**3. Summary of significant accounting policies**

**Fund merger**

At the close of business on June 6, 2014, BMO Harris Canadian Alpha Plus Portfolio merged into BMO Canadian Alpha Plus Fund.

**Financial instruments**

The Fund records financial instruments at fair value. Investment transactions are accounted for on the trade date. The Fund's investments are either designated at fair value through profit or loss ("FVTPL") at inception or classified as held for trading. The changes in the investment fair values and related transaction costs are recorded in the Fund's Statement of Comprehensive Income.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future, or on initial recognition, are part of a portfolio of identified financial instruments that the Fund manages together and that have a recent actual pattern of short-term profit taking. The Fund classifies all derivatives and short positions as held for trading. The Fund does not designate any derivatives as hedges in a hedging relationship.

The Fund designates all other investments at FVTPL as they have reliably measurable fair values, are part of a group of financial assets or financial liabilities that are managed and that have their performance evaluated on a fair value basis in accordance with the Fund's investment strategy.

The Fund's outstanding redeemable units, which are puttable instruments, are entitled to a contractual obligation of annual distribution of any net income and net realized capital gains by the Fund. This annual distribution can be in cash or reinvested in the units of the Fund at the option of the unitholders, and therefore the ongoing redemption feature is not the redeemable units' only contractual obligation. Consequently, the units of the Fund do not meet the conditions to be classified as equity and therefore are classified as financial liabilities and presented at the redemption amounts.

All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid or discounted, when appropriate, at the contract's effective interest rate.

**Cost of investments**

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

June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

### **Fair value measurement**

Investments are recorded at their fair value with the change between this amount and their average cost being recorded as "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income.

For exchange traded securities, close prices are considered to be fair value if they fall within the bid-ask spread. In circumstances where the close price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

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.

For bonds, debentures, asset-backed securities and other debt securities, fair value is represented by bid prices provided by independent security pricing services. Short-term investments, if any, are at amortized cost which approximates fair value.

Mutual fund units held as investments are valued at their respective Net Asset Value ("NAV") on each Valuation Date (the "Valuation Date" is each day on which the Toronto Stock Exchange is open for trading) as these values are the most readily and regularly available.

For securities where market quotes are not available, unreliable or not considered to reflect the current value, the Fund may determine another value which it considers to be fair and reasonable or use 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. These estimation techniques include discounted cash flows, internal models that utilize observable data or comparisons with other securities that are substantially similar. In limited circumstances, the Fund uses internal models where the inputs are not based on observable market data.

### **Derivative instruments**

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial or commodity prices or indices.

Derivative instruments are either regulated exchange traded contracts or negotiated over-the-counter contracts. The Fund may use these instruments for trading purposes, as well as to manage the Fund's risk exposures.

Derivatives are marked to fair value. Realized and unrealized gains and losses are recorded in the Statement of Comprehensive Income.

### **Income recognition**

Dividend income and distributions from investment trust units are recognized on the ex-dividend and ex-distribution date, respectively.

Interest income from interest-bearing investments is recognized in the Statement of Comprehensive Income using the effective interest rate. Interest receivable shown in the Statement of Financial Position is accrued based on the interest-bearing investments' stated rates of interest.

### **Foreign currency translation**

The fair value of investments and other assets and liabilities in foreign currencies are translated into the Fund's functional currency at the rates of exchange prevailing at the period-end date. Purchases and sales of investments, and income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in "Realized gains (losses)" and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to cash, receivables and payables are included as "Foreign exchange gain (loss)":

June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

### Cash

Cash is comprised of cash and deposits with banks which include bankers' acceptances and overnight demand deposits. Cash is recorded at amortized cost.

### Other assets and other liabilities

Dividends receivable, interest receivable, distributions from investment trust units, due from brokers and subscriptions receivable are initially measured at fair value and subsequently measured at amortized cost. Similarly, redemptions payable, due to brokers and accrued expenses are initially measured at amortized cost. Other assets and liabilities are short-term in nature and are carried at cost or amortized cost.

### Increase or decrease in net assets attributable to holders of redeemable units

"Increase (decrease) in net assets attributable to holders of redeemable units per unit" in the Statement of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units ("Net Assets") divided by the weighted average number of units outstanding during the period.

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the periods ended June 30, 2015 and June 30, 2014 is calculated as follows:

<b>For the periods ended</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Advisor Series Units</b>		
Increase in net assets attributable to holders of redeemable units	47	84
Weighted average units outstanding during the period	128	127
Increase in net assets attributable to holders of redeemable units per unit	0.37	0.66
<b>Series F Units</b>		
Increase in net assets attributable to holders of redeemable units	0	0
Weighted average units outstanding during the period	0	0
Increase in net assets attributable to holders of redeemable units per unit	0.43	0.13
<b>Series O Units</b>		
Increase in net assets attributable to holders of redeemable units	576	135
Weighted average units outstanding during the period	1,153	178
Increase in net assets attributable to holders of redeemable units per unit	0.50	0.76

### Taxation

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders so that the Fund will not be subject to income tax. As a result, the Fund has determined that it is in substance not taxable and therefore does not record income taxes in the Statement of Comprehensive Income nor does it recognize any deferred tax assets in the Statement of Financial Position.

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.

As of the tax year-ended December 31, 2014, the Fund's capital losses carried forward were \$274.

The Fund may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and capital gains are recorded on a gross basis with the related withholding taxes shown as a separate expense in the Statement of Comprehensive Income.

June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

### **Investments in associates, joint ventures and subsidiaries**

Subsidiaries are entities over which the Fund has control through its exposure or rights to variable returns from its investment and has the ability to affect those returns through its power over the entity. The Fund has determined that it is an investment entity and as such, it accounts for subsidiaries at fair value. Joint ventures are those where the Fund exercises joint control through an agreement with other shareholders, and associates are investments in which the Fund exerts significant influence over operating, investing, and financing decisions (such as entities in which the Fund owns 20% - 50% of voting shares), all of which have been designated at FVTPL.

### **Unconsolidated structured entities**

The Fund invests in securitizations, asset-backed securities and mortgage-backed securities.

The Fund has determined that its investments in securitizations, asset-backed securities and mortgage-backed securities are unconsolidated structured entities. The determination is based on the fact that decision making about the securitizations, asset-backed securities and mortgage-backed securities is not governed by the voting right or other similar right held by the Fund.

Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

The Fund does not provide and has not committed to providing any additional significant financial information or other support to the unconsolidated structured entities other than its investments in the unconsolidated structured entities. During the periods, the Fund had no sponsored unconsolidated structured entities.

### **Offsetting of financial assets and financial liabilities**

Financial instruments are presented at net or gross amounts on the Statement of Financial Position depending on the existence of intention and legal right to offset opposite positions of such instruments held with the same counterparties. Amounts offset in the Statement of Financial Position are transactions for which the Fund has legally enforceable rights to offset and intends to settle the positions on a net basis. Amounts not offset in the Statement of Financial Position relate to transactions where a master netting arrangement or similar agreement is in place with a right of offset only in the event of default, insolvency or bankruptcy, or where the offset criteria are otherwise not met, including where the Fund has no intention of settling on a net basis. There were no master netting arrangements during the periods.

### **Accounting standards issued but not yet adopted**

Below are accounting standards issued or amended, but not yet effective and not yet adopted. The Manager does not expect the adoption of these standards or amendments to have significant impact on the Fund's financial statements.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which addresses classification and measurement, impairment and hedge accounting.

The new standard requires assets to be carried at amortized cost, FVTPL or fair value through other comprehensive income based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The classification and measurement of liabilities remains generally unchanged with the exception of liabilities recorded at fair value through profit and loss. For these liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income.

The new standard also addresses impairment of financial assets. It also introduced a new hedge accounting model that expands the scope of eligible hedged items and risks eligible for hedge accounting, and aligns hedge accounting more closely with risk management.

The new standard is effective for the Fund for its fiscal year beginning January 1, 2018. The Fund is evaluating the impact of this standard on its financial statements.

June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

#### 4. Critical accounting judgments and estimates

The preparation of financial statements requires the use of judgement in applying the Fund's accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgements and estimates that the Fund has made in preparing its financial statements:

##### Accounting judgements:

###### Functional and presentation currency

The Fund unitholders are mainly Canadian residents, with the subscriptions and redemptions of the redeemable units denominated in Canadian dollars. The Fund invests in Canadian and U.S. dollars and other foreign denominated securities, as applicable. The performance of the Fund is measured and reported to the investors in Canadian dollars. The Manager considers the Canadian dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Canadian dollars, which is the Fund's functional and presentation currency.

###### Classification of measurement of financial instruments and application of fair value option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgements about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value options for financial assets.

##### Accounting estimates:

###### Fair value measurement of securities not quoted in an active market

The Fund has established policies and control procedures that are intended to ensure these judgements are well controlled, independently reviewed, and consistently applied from period to period. The estimates of the value of the Fund's assets and liabilities are believed to be appropriate as at the reporting date.

The Fund may hold financial instruments that are not quoted in active markets. Note 3 discusses the policies used by the Fund for the estimates used in determining fair value.

#### 5. Units and unit transactions

The redeemable units of the Fund are classified as financial liabilities.

The units have no par value and are entitled to distributions, if any. Upon redemption, a unit is entitled to a proportionate share of the Fund's NAV. The Fund is required to pay distributions in an amount not less than the amount necessary to ensure the Fund will not be liable for income taxes. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements in redeemable units are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. 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, with such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

Redeemable units of the Fund 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 Fund (that is, the total fair value of the assets attributable less the liabilities) by the total number of the units outstanding at such time.

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

## BMO Canadian Alpha Plus Fund (unaudited)

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

<b>CHANGE IN UNITS</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
(in thousands of units)		
<b>Advisor Series Units</b>		
Units issued and outstanding, beginning of period	128	127
Issued for cash	—	0
Issued on reinvestment of distributions	—	6
Redeemed during the period	—	(5)
Units issued and outstanding, end of period	128	128
<b>Series F Units</b>		
Units issued and outstanding, beginning of period	0	—
Issued for cash	—	0
Units issued and outstanding, end of period	0	0
<b>Series O Units</b>		
Units issued and outstanding, beginning of period	1,012	175
Issued for cash	358	6
Issued on reinvestment of distributions	—	10
Redeemed during the period	(80)	(14)
Units issued and outstanding, end of period	1,290	177

#### Reconciliation of NAV to Net Assets

As at June 30, 2015 and December 31, 2014, there were no differences between the Fund's NAV per unit and its Net Assets per unit calculated in accordance with IFRS.

#### Related party transactions

From time to time, the Manager may, on behalf of the Fund, enter into transactions or arrangements with or involving subsidiaries or affiliates of the Bank of Montreal, 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 subsidiaries or affiliates of the Bank of Montreal, including BMO Nesbitt Burns Inc., BMO Investments Inc., BMO Private Investment Counsel Inc., BMO InvestorLine, Money Inc., BMO Trust Company, Pyrford International Limited, F&C Asset Management Limited, Lloyd George Management (Europe) Limited, or other investment funds offered by Bank of Montreal and may involve the purchase or sale of portfolio securities through or from a subsidiary or affiliate of the Bank of Montreal, the purchase or sale of securities issued or guaranteed by a subsidiary or affiliate of the Bank of Montreal, entering into forward contracts with a subsidiary or affiliate of the Bank of Montreal acting as counterparty, the purchase or redemption of units of other Bank of Montreal affiliated funds or the provision of services to the Manager.

#### Brokerage commissions

The Fund may execute trades with and through BMO Nesbitt 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 Comprehensive Income.

Brokerage commissions paid (excluding transaction costs) on security transactions and amounts paid to related parties of the Manager for brokerage services provided to the Fund for the periods are as follows:

<b>For the periods ended</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Total brokerage amounts paid	7	6
Total brokerage amounts paid to related parties	6	6

There were no ascertainable soft dollars paid or payable to dealers by the Fund during the periods.



June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

## 6. Financial instruments risks

The Fund's activities expose it to a variety of risks associated with the financial instruments as follows: market risk (including currency risk, interest rate risk and other market risk), credit risk and liquidity risk. The concentration table groups securities by asset type, geographic location and/or market segment. The Fund's risk management practice outlines 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 and market events and diversify investment portfolios within the constraints of the investment guidelines.

The Fund's objective is to provide above average long-term returns and enhanced risk-adjusted returns through investing in both long and short positions primarily in securities of liquid Canadian public companies and income trusts.

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

### (a) Currency risk

Currency risk is the risk that the value of financial instruments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value.

As at June 30, 2015 and December 31, 2014, the Fund did not have any significant exposure to currency risk as it invested fully in Canadian securities.

### (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 investments, 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.

As at June 30, 2015 and December 31, 2014, the Fund did not have any significant exposure to interest rate risk.

### (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, as such they are not subject to other market risk.

The Fund has a significant exposure to other market risk arising from its investment in equity securities. Using historical correlation between the Fund's return and the return of its benchmark, if the benchmark, S&P/TMX Composite TR Index, had increased or decreased by 10%, with all other variables held constant, the Net Assets of the Fund would have increased or decreased, respectively, by \$1,211 (December 31, 2014 -\$1,262). Historical correlation may not be representative of future correlation, and accordingly, actual results may differ and the difference could be material.



June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

**(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 creditworthiness 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.

As at June 30, 2015 and December 31, 2014, the Fund did not have any significant exposure to credit risk.

**(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. The proportion of illiquid assets to NAV 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. There were no such illiquid securities held by the Fund as at June 30, 2015 and December 31, 2014.

**(f) Short selling risk**

Short selling risk is the risk of loss related to short selling transactions. The Fund will profit from a short sale transaction if the value of the borrowed security declines in value from the time the Fund sells the stock to the time the Fund closes out its short position. There is no certainty that the security price will decline, and unlike long positions, where the risk of loss is limited to the amount of the initial investment, short positions may be closed out at a price that would result in a significant loss for the Fund. The Fund's discretion may be limited in an open short sale transaction. For example, the lender may recall the security unexpectedly, or go bankrupt thereby jeopardizing the recoverability of collateral. As well, the Fund may encounter difficulty repurchasing the security should that security's liquidity become compromised in the marketplace. The Fund mitigates such risk by shorting only liquid securities, and by depositing the appropriate collateral against the short positions. As at June 30, 2015, 12.1% (December 31, 2014 – 10.8%) of the Fund's Net Assets were short sale positions.

**(g) Concentration risk**

The following is a summary of the Fund's concentration risk:

<b>As at</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>Equities</b>		
Consumer Discretionary	9.2%	11.8%
Consumer Staples	9.4%	7.0%
Energy	14.7%	18.8%
Financials	28.0%	32.6%
Health Care	5.1%	1.9%
Industrials	12.6%	12.1%
Information Technology	6.8%	6.9%
Materials	3.8%	3.8%
Telecommunication Services	1.8%	1.9%
Utilities	1.2%	(0.1)%
Other Assets Less Liabilities	7.4%	3.3%
	<b>100.0%</b>	<b>100.0%</b>

June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

## 7. Financial assets and financial liabilities

### Categories of financial assets and financial liabilities

The table below shows the categories of financial assets and financial liabilities:

As at	June 30, 2015	December 31, 2014
Financial assets designated at FVTPL	17,739	14,022
Loans and receivables	59	46
Financial liabilities held for trading	2,038	1,402
Financial liabilities measured at amortized cost	22	25

### Net gains and losses on financial assets and financial liabilities at fair value

For the periods ended	June 30, 2015	June 30, 2014
<b>Net realized gains (losses) on financial assets</b>		
Designated at FVTPL	(207)	414
	<b>(207)</b>	<b>414</b>
<b>Net realized gains (losses) on financial liabilities</b>		
Held for trading	(104)	(18)
	<b>(104)</b>	<b>(18)</b>
<b>Total net realized gains (losses) on financial assets and financial liabilities</b>	<b>(311)</b>	<b>396</b>
<b>Change in unrealized gains (losses) on financial assets</b>		
Designated at FVTPL	1,038	(109)
	<b>1,038</b>	<b>(109)</b>
<b>Change in unrealized gains (losses) on financial liabilities</b>		
Held for trading	(28)	(19)
	<b>(28)</b>	<b>(19)</b>
<b>Total change in unrealized gains (losses) on financial assets and financial liabilities</b>	<b>1,010</b>	<b>(128)</b>

## 8. Fair value hierarchy levels

The Fund classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on 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 observable 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 tables below show the relevant disclosure.

### As at June 30, 2015

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities – Long Positions	17,739	–	–	17,739
<b>Financial liabilities</b>				
Equity Securities – Short Positions	(2,038)	–	–	(2,038)

## BMO Canadian Alpha Plus Fund (unaudited)

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

June 30, 2015 (All amounts in thousands of Canadian dollars, except per unit data)

#### As at December 31, 2014

<b>Financial assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity Securities – Long Positions	14,022	–	–	14,022

  

<b>Financial liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity Securities – Short Positions	(1,402)	–	–	(1,402)

#### Transfer between levels

There were no transfers between levels during the periods.



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