

# Annual Financial Statements 2014

BMO Asset Management Inc.

## BMO Canadian Alpha Plus Fund (formerly BMO Harris Canadian Alpha Plus Portfolio)

December 31, 2014

## Independent Auditor's Report

### To the Unitholders of

BMO Asset Management Canadian Equity Fund  
BMO Asset Management Small Cap Fund  
BMO Asset Management Balanced Fund  
BMO Asset Management Bond Fund  
BMO Asset Management Money Market Fund  
BMO Asset Management Short Term Fund  
BMO Asset Management Canadian Core Alpha Fund  
BMO Asset Management Liability Sensitive Equity Fund  
BMO Asset Management Global Emerging Markets Growth and Income Fund  
BMO Asset Management Frontier Markets Fund  
BMO Asset Management Global Equity Fund  
Money Low Volatility High Yield Bond Fund  
BMO Canadian Alpha Plus Fund (formerly BMO Harris Canadian Alpha Plus Portfolio)  
*(collectively the Funds)*

We have audited the accompanying financial statements of each of the Funds, which comprise the statements of financial position, comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows as at and for the periods indicated in Note 1, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements of each of the Funds in accordance with International Financial Reporting Standards, 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 Funds based on 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 the 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.

## Independent Auditor's Report

### Opinion

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position, financial performance and cash flows of each of the Funds as at and for the periods indicated in Note 1 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Ontario  
March 31, 2015

## Statement of Financial Position

<b>As at</b> (in thousands of Canadian dollars, except per unit data)	<b>December 31 2014</b>	<b>December 31 2013</b>	<b>January 1 2013</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash	406	24	35
Investments			
Non-derivative financial assets	14,022	3,629	2,834
Subscriptions receivable	23	—	—
Dividends receivable	22	6	10
Distribution receivable from investment trusts	1	1	0
<b>Total assets</b>	<b>14,474</b>	<b>3,660</b>	<b>2,879</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Redemptions payable	5	—	—
Short positions	1,402	475	371
Distributions payable	—	0	0
Accrued expenses	15	11	12
Dividends payable on investments sold short	5	2	1
<b>Total liabilities</b>	<b>1,427</b>	<b>488</b>	<b>384</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>13,047</b>	<b>3,172</b>	<b>2,495</b>
<b>Net assets attributable to holders of redeemable units</b>			
Advisor Series Units	1,391	1,301	1,043
Series F Units	1	—	—
Series O Units	11,655	1,871	1,452
<b>Net assets attributable to holders of redeemable units per unit</b>			
Advisor Series Units	\$10.84	\$10.23	\$10.32
Series F Units	\$10.91	\$—	\$—
Series O Units	\$11.52	\$10.71	\$10.80

## Statement of Comprehensive Income

<b>For the periods ended</b> (in thousands of Canadian dollars, except per unit data)	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>INVESTMENT INCOME</b>		
Interest income	3	0
Dividend income	163	73
Distributions from investment trusts	5	2
Other changes in fair value of investments and derivatives		
Net realized gain	54	120
Change in unrealized appreciation	253	568
Net gain on investments and derivatives	478	763
Foreign exchange gain	0	0
Total other income	0	0
<b>Total income</b>	<b>478</b>	<b>763</b>
<b>EXPENSES</b>		
Management fees (note 5)	47	44
Performance fees (note 5)	—	43
Audit fees	15	6
Withholding taxes	0	0
Custodian fees	0	—
Unitholder reporting costs	1	—
Security borrowing fees	10	7
Dividends paid on investments sold short	33	16
Commissions and other portfolio transaction costs (note 5)	18	6
<b>Total expenses</b>	<b>124</b>	<b>122</b>
<b>Increase in net assets attributable to holders of redeemable units before tax</b>	<b>354</b>	<b>641</b>
Income taxes	—	8
<b>Increase in net assets attributable to holders of redeemable units after tax</b>	<b>354</b>	<b>649</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		
Advisor Series Units	90	258
Series F Units	—	—
Series O Units	264	391
<b>Increase in net assets attributable to holders of redeemable units per unit (note 3)</b>		
Advisor Series Units	\$0.71	\$2.55
Series F Units	0.25	—
Series O Units	0.53	2.86

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

For the periods ended (in thousands of Canadian dollars)	December 31, 2014	December 31, 2013
<b>Advisor Series Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>1,301</b>	<b>1,043</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>90</b>	<b>258</b>
<b>Distributions to holders of redeemable units</b>		
Net investment income	(66)	(263)
Return of capital	(0)	(5)
<b>Total distributions to holders of redeemable units</b>	<b>(66)</b>	<b>(268)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	0	—
Reinvestments of distributions to holders of redeemable units	66	268
<b>Net increase from redeemable unit transactions</b>	<b>66</b>	<b>268</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>90</b>	<b>258</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>1,391</b>	<b>1,301</b>
<b>Series F Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>—</b>	<b>—</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>0</b>	<b>—</b>
<b>Distributions to holders of redeemable units</b>		
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	1	—
<b>Net increase from redeemable unit transactions</b>	<b>1</b>	<b>—</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>1</b>	<b>—</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>1</b>	<b>—</b>

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

For the periods ended (in thousands of Canadian dollars)	December 31, 2014	December 31, 2013
<b>Series O Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>1,871</b>	<b>1,452</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>264</b>	<b>391</b>
<b>Distributions to holders of redeemable units</b>		
Net investment income	(143)	(397)
Return of capital	(1)	(8)
<b>Total distributions to holders of redeemable units</b>	<b>(144)</b>	<b>(405)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	10,318	30
Reinvestments of distributions to holders of redeemable units	144	405
Redemption of redeemable units	(798)	(2)
<b>Net increase from redeemable unit transactions</b>	<b>9,664</b>	<b>433</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>9,784</b>	<b>419</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>11,655</b>	<b>1,871</b>

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

<b>For the periods ended</b> (in thousands of Canadian dollars)	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Total Fund</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>3,172</b>	<b>2,495</b>
Increase in net assets attributable to holders of redeemable units	354	649
<b>Distributions to holders of redeemable units from</b>		
Net investment income	(209)	(660)
Return of capital	(1)	(13)
<b>Total distributions paid to holders of redeemable units</b>	<b>(210)</b>	<b>(673)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	10,319	30
Reinvestments of distributions to holders of redeemable units	210	673
Redemption of redeemable units	(798)	(2)
<b>Net increase from redeemable unit transactions</b>	<b>9,731</b>	<b>701</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>9,875</b>	<b>677</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>13,047</b>	<b>3,172</b>



## Statement of Cash Flows

For the periods ended (in thousands of Canadian dollars)	December 31, 2014	December 31, 2013
<b>Cash flows from operating activities</b>		
Increase in net assets attributable to holders of redeemable units	354	649
Adjustments for:		
Net realized gain on sale of investments and derivatives	(54)	(120)
Change in unrealized appreciation of investments and derivatives	(253)	(568)
(Increase) decrease in dividends receivable	(16)	4
Increase in distribution receivable from investment trusts	—	(1)
Increase (decrease) in accrued expenses	4	(1)
Increase in dividends payable on investments sold short	3	1
Return of capital distributions received	2	—
Dividend reinvestments	(1)	—
Purchases of investments	(13,451)	(809)
Proceeds from sale and maturity of investments	3,169	670
Cash inflows/outflows on derivatives	1,122	136
<b>Net cash from operating activities</b>	<b>(9,121)</b>	<b>(39)</b>
<b>Cash flows used in financing activities</b>		
Proceeds from issuances of redeemable units	10,296	30
Amounts paid on redemption of redeemable units	(793)	(2)
<b>Net cash used in financing activities</b>	<b>9,503</b>	<b>28</b>
Net increase (decrease) in cash	382	(11)
Cash at beginning of period	24	35
<b>Cash at end of period</b>	<b>406</b>	<b>24</b>
<b>Supplementary Information</b>		
Interest received, net of withholding taxes*	3	—
Dividends received, net of withholding taxes*	147	77

\*These items are from operating activities

# BMO Canadian Alpha Plus Fund

## ANNUAL FINANCIAL STATEMENTS

### Schedule of Investment Portfolio (in thousands of Canadian dollars, unless otherwise noted)

As at December 31, 2014

	Number of Shares or Units	Cost +* (\$)	Fair Value (\$)
<b>Long Positions</b>			
<b>EQUITIES</b>			
<b>Consumer Discretionary – 12.8%</b>			
Amaya Inc.	3,900	128	111
Gildan Activewear Inc.	3,250	189	214
Great Canadian Gaming Corporation	7,400	136	153
IMAX Corporation	3,900	128	140
Linamar Corporation	4,400	260	312
Magna International Inc.	3,300	328	416
Performance Sports Group Ltd.	15,700	261	332
		<b>1,430</b>	<b>1,678</b>
<b>Consumer Staples – 8.9%</b>			
Alimentation Couche-Tard Inc., Class B	23,800	556	1,159
<b>Energy – 19.3%</b>			
ARC Resources Ltd.	6,300	192	159
Bankers Petroleum Ltd.	35,600	214	116
Birchcliff Energy Ltd.	15,200	176	119
Canadian Natural Resources Limited	4,580	209	165
Crescent Point Energy Corp.	4,400	195	118
Enbridge Inc.	5,400	236	322
EnCana Corporation	10,350	227	167
Gibson Energy Inc.	6,350	209	173
Keyera Corp.	6,518	419	527
Raging River Exploration Inc.	19,950	195	146
Suncor Energy Inc.	7,050	291	260
Surge Energy Inc.	28,150	219	104
Vermilion Energy Inc.	2,650	190	151
		<b>2,972</b>	<b>2,527</b>
<b>Financials – 33.8%</b>			
Bank of Nova Scotia	5,900	352	391
Brookfield Asset Management Inc., Class A	7,400	370	430
Brookfield Property Partners L.P.	10,500	262	278
Canadian Western Bank	8,100	294	265
Fairfax Financial Holdings Limited	450	230	274
Genworth MI Canada Inc.	4,700	182	174
Gluskin Sheff + Associates Inc.	9,850	275	273
Home Capital Group Inc.	5,400	220	259
Industrial Alliance Insurance and Financial Services Inc.	4,450	207	198
Intact Financial Corporation	3,100	254	260
Laurentian Bank of Canada	3,500	169	175
Manulife Financial Corporation	11,750	242	261
National Bank of Canada	9,750	417	482
Royal Bank of Canada	3,800	278	305
Sun Life Financial Inc.	9,400	340	394
		<b>4,092</b>	<b>4,419</b>
<b>Health Care – 1.9%</b>			
Valeant Pharmaceuticals International, Inc.	1,500	183	249

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

# BMO Canadian Alpha Plus Fund

## ANNUAL FINANCIAL STATEMENTS

### Schedule of Investment Portfolio CONTINUED (in thousands of Canadian dollars, unless otherwise noted)

As at December 31, 2014

	Number of Shares or Units (continued)	Cost +* (\$)	Fair Value (\$)
<b>Industrials — 12.1%</b>			
Air Canada	24,100	229	286
Badger Daylighting Ltd.	3,700	121	98
Boyd Group Income Fund	13,800	479	656
Canadian Pacific Railway Limited	1,850	367	414
Stantec Inc.	3,400	117	109
		<b>1,313</b>	<b>1,563</b>
<b>Information Technology — 7.6%</b>			
CGI Group Inc., Class A	3,450	128	153
Constellation Software Inc.	1,450	338	501
Open Text Corporation	5,000	240	338
		<b>706</b>	<b>992</b>
<b>Materials — 7.6%</b>			
Lundin Mining Corporation	36,100	228	207
Methanex Corporation	3,100	214	165
Potash Corporation of Saskatchewan Inc.	6,800	260	280
Rio Alto Mining Limited	45,400	131	128
West Fraser Timber Co. Ltd.	3,100	191	206
		<b>1,024</b>	<b>986</b>
<b>Telecommunication Services — 1.9%</b>			
Rogers Communications Inc., Class B	5,600	233	253
<b>Utilities — 1.6%</b>			
Canadian Utilities Limited, Class A	4,800	164	196
<b>Total Long Positions — 107.5%</b>			
		<b>12,673</b>	<b>14,022</b>
<b>Security</b>			
<b>Short Positions</b>			
<b>EQUITIES</b>			
<b>Consumer Discretionary — (1.0)%</b>			
Cineplex Inc.	(2,900)	(117)	(130)
<b>Consumer Staples — (1.9)%</b>			
Cott Corporation	(16,350)	(127)	(131)
Maple Leaf Foods Inc.	(5,850)	(113)	(114)
		(240)	(245)
<b>Energy — (0.5)%</b>			
Ensign Energy Services Inc.	(6,500)	(108)	(66)
<b>Financials — (1.2)%</b>			
DREAM Unlimited Corp., Class A	(8,100)	(112)	(78)

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

# BMO Canadian Alpha Plus Fund

## ANNUAL FINANCIAL STATEMENTS

### Schedule of Investment Portfolio CONTINUED (in thousands of Canadian dollars, unless otherwise noted)

As at December 31, 2014

		<b>Cost+*</b> <b>(\$)</b>	<b>Fair Value</b> <b>(\$)</b>
<b>Security</b>			
Dundee Corporation, Class A	(6,450)	(111)	(83)
		(223)	(161)
<b>Information Technology — (0.7)%</b>			
Redknee Solutions Inc.	(24,650)	(120)	(92)
<b>Materials — (3.8)%</b>			
Canexus Corporation	(24,650)	(116)	(81)
HudBay Minerals Inc.	(9,500)	(92)	(96)
NovaGold Resources Inc.	(40,000)	(127)	(137)
Sherritt International Corporation	(24,600)	(105)	(74)
Tembec Inc.	(37,900)	(106)	(107)
		(546)	(495)
<b>Utilities — (1.7)%</b>			
Just Energy Group Inc.	(18,900)	(118)	(115)
TransAlta Corporation	(9,350)	(116)	(98)
		(234)	(213)
<b>Total Short Positions — (10.8)%</b>		<b>(1,588)</b>	<b>(1,402)</b>
<b>Total Investment Portfolio — 96.7%</b>		<b>11,085</b>	<b>12,620</b>
Other Assets Less Liabilities — 3.3%			427
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS — 100.0%</b>			<b>13,047</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

\* For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction cost (note 3).

December 31, 2014 (*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 the annual financial statements is as at and for the periods ended December 31, 2014, December 31, 2013 and opening Statement of Financial Position as at January 1, 2013.

These financial statements were authorized for issue by BMO Asset Management Inc. (the "Manager") on March 12, 2015.

### 2. Basis of preparation and presentation

These annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Fund has adopted this basis of accounting effective January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously the Fund prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles as defined in Part V of the Chartered Professional Accountant ("CPA") Handbook ("Canadian GAAP"). The Fund has consistently applied the accounting policies used in the preparation of their opening IFRS statements of financial position at January 1, 2013 and throughout all periods presented as if these policies had always been in effect.

As required under IFRS, the Fund has:

- provided comparative financial information, including an opening Statement of Financial Position as at the transition date;
- retroactively applied all IFRS, other than in respect of elections taken under IFRS 1; and
- applied all mandatory exceptions as applicable for the first-time adopters of IFRS.

Note 9 contains reconciliations and descriptions of the effects of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows.

### 3. Summary of significant accounting policies

#### Fund mergers

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 has issued multiple series of redeemable units which are equally subordinated but are not identical and consequently, do not meet the conditions to be classified as equity. As a result, the Fund's obligations for net assets attributable to holders of redeemable units are presented at the redemption amounts.

December 31, 2014 (*in thousands of Canadian dollars, except per unit data*)

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.

#### **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 and exchange traded funds 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 instruments' 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

## BMO Canadian Alpha Plus Fund

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

December 31, 2014 (in thousands of Canadian dollars, except per unit data)

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)".

#### Cash

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

#### Other assets and other liabilities

Dividend receivable, interest receivable, distributions from investment trusts, 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, which approximates fair value.

#### 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 December 31, 2014 and December 31, 2013 is calculated as follows:

	December 31, 2014	December 31, 2013
<b>Series F Units</b>		
Increase in net assets attributable to holders of redeemable units	0.00	—
Weighted average units outstanding during the period	0.00	—
Increase in net assets attributable to holders of redeemable units	0.25	—
<b>Advisor Series Units</b>		
Increase in net assets attributable to holders of redeemable units	90	258
Weighted average units outstanding during the period	128	101
Increase in net assets attributable to holders of redeemable units	0.71	2.55
<b>Series O Units</b>		
Increase in net assets attributable to holders of redeemable units	264	391
Weighted average units outstanding during the period	500	137
Increase in net assets attributable to holders of redeemable units	0.53	2.86

#### 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.

December 31, 2014 (in thousands of Canadian dollars, except per unit data)

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 2014, the fund's estimated 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.

#### **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. 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, such as derivative instruments. 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 to settle 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 most recent 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, fair value through profit and loss or fair value through 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



December 31, 2014 (in thousands of Canadian dollars, except per unit data)

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.

#### **4. Critical accounting judgements 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 shares 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 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

## BMO Canadian Alpha Plus Fund

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

December 31, 2014 (in thousands of Canadian dollars, except per unit data)

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.

<b>CHANGE IN UNITS</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
(in thousands of units)		
<b>Series F Units</b>		
Units issued and outstanding, beginning of period	—	—
Issued for cash	0	—
Units issued and outstanding, end of period	0	—
<b>Advisor Series Units</b>		
Units issued and outstanding, beginning of period	127	101
Issued for cash	0	—
Issued on reinvestment of distributions	6	26
Redeemed during the period	(5)	—
Units issued and outstanding, end of period	128	127
<b>Series O Units</b>		
Units issued and outstanding, beginning of period	175	134
Issued for cash	903	3
Issued on reinvestment of distributions	13	38
Redeemed during the period	(79)	—
Units issued and outstanding, end of period	1,012	175

#### Reconciliation of NAV to net assets

As at December 31, 2014, December 31, 2013 and January 1, 2013, 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 Inc., Money Inc., BMO Trust Company, Pyrford International Inc., F&C Asset Management plc, LGM Investments Limited, or other investment funds offered by BMO 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 BMO affiliated funds or the provision of services to the Manager.

## BMO Canadian Alpha Plus Fund

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

December 31, 2014 (in thousands of Canadian dollars, except per unit data)

#### Management fees

For providing its services to the Fund, the Manager receives monthly Management Fees (expressed as annualized rates) from the Fund calculated and payable on the Valuation Date in each month based on the series NAV of each series determined on that date as follows:

<b>Advisor Series</b>	2.00%
<b>Series F</b>	1.00%
<b>Series O</b>	0.15%*
	0.05%**

\*First \$100,00

\*\*Greater than \$100,00

The Fund is also required to pay applicable taxes on the Management Fees payable by the Fund in respect of each series.

#### Performance fees

Prior to June 6, 2014, the Manager may have been entitled to receive a Performance Fee from the Fund depending upon the performance of each series of the Fund (after taking into consideration the payment of the Management Fee and portion of the Fund's operating expenses applicable to the series). If payable, the Performance Fee will be calculated and payable on each Valuation Date which is 20% of the amount by which the series NAV of the Fund exceeds the highest series NAV that has previously been achieved by that series relative to the S&P/TSX Composite return for that period (expressed in dollar terms using the series NAV at the start of the period as the starting reference point) minus any accumulated Performance Fee deficit. To the extent that the NAV of a series declines relative to the S&P/TSX Composite Index, no Performance Fee will be paid and the negative amount will be carried forward and deducted in calculating whether a Performance Fee is payable in the future.

#### 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 on securities transactions and amounts paid to related parties of the Manager for brokerage services provided to the Fund for the periods are as follows

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Total brokerage amounts paid	6	18
Total brokerage amounts paid to related parties	6	18

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

#### 6. Financial instrument 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 a high level of total return through a combination of income and capital appreciation by investing primarily in fixed income securities issued by U.S. corporations.

December 31, 2014 (in thousands of Canadian dollars, except per unit data)

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 December 31, 2014, December 31, 2013 and January 1, 2013, 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 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.

As at December 31, 2014, December 31, 2013 and January 1, 2013, 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 \$1,262 (December 31, 2013 - \$—; January 1, 2013 - \$—). Historical correlation may not be representative of future correlation, and accordingly, actual results may differ and the difference could be material.

#### **(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 December 31, 2014, December 31, 2013 and January 1, 2013, 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 December 31, 2014, December 31, 2013 and January 1, 2013.

## BMO Canadian Alpha Plus Fund

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

December 31, 2014 (in thousands of Canadian dollars, except per unit data)

#### (f) Concentration risk

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>	<b>January 1, 2013</b>
<b>Equities</b>			
Consumer Discretionary	11.8%	5.6%	3.4%
Consumer Staples	7.0%	5.4%	4.4%
Energy	18.8%	16.4%	21.9%
Financials	32.6%	32.3%	20.3%
Health Care	1.9%	5.1%	7.8%
Industrials	12.1%	7.2%	8.0%
Information Technology	6.9%	9.6%	7.1%
Materials	3.8%	12.8%	18.0%
Telecommunication Services	1.9%	2.5%	2.9%
Utilities	(0.1)%	2.6%	4.9%
Other Assets Less Liabilities	3.3%	0.5%	1.3%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

#### 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:

	<b>December 31 2014</b>	<b>December 31 2013</b>	<b>January 1 2013</b>
Financial assets designated as FVTPL	14,022	3,629	2,834
Financial liabilities designated as held for trading	1,402	475	371
Loans and receivables	46	7	10
Financial liabilities measured at amortized cost	25	13	13

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Net realized gains (losses) on financial assets at FVTPL</b>		
Designated at FVTPL	237	66
	<b>237</b>	<b>66</b>
<b>Net realized gains (losses) on financial liabilities at FVTPL</b>		
Held for trading	(12)	129
<b>Total net realized gains (losses) on financial assets and liabilities at FVTPL</b>	<b>225</b>	<b>195</b>
<b>Change in unrealized gains (losses) on financial assets at FVTPL</b>		
Designated at FVTPL	46	666
	<b>46</b>	<b>568</b>
<b>Change in unrealized gains (losses) on financial liabilities at FVTPL</b>		
Held for trading	207	(98)
<b>Total change in unrealized gains (losses) on financial assets and liabilities at FVTPL</b>	<b>253</b>	<b>568</b>

December 31, 2014 (in thousands of Canadian dollars, except per unit data)

### 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 December 31, 2014

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	14,022	—	—	14,022

  

Financial liabilities	Level 1	Level 2	Level 3	Total
Equity Securities	(1,402)	—	—	(1,402)

#### As at December 31, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	3,629	—	—	3,629

  

Financial liabilities	Level 1	Level 2	Level 3	Total
Equity Securities	(475)	—	—	(475)

#### As at January 1, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	2,834	—	—	2,834

  

Financial liabilities	Level 1	Level 2	Level 3	Total
Equity Securities	(371)	—	—	(371)

### Transfer between levels

There were no transfers between levels during the periods.

### 9. Transition to IFRS

The differences between the Fund's Canadian GAAP accounting policies and IFRS requirements resulted in measurement and classification differences on transition to IFRS. The net impact of these differences was recorded in opening Net Assets as of January 1, 2013.

The following information reflects the Fund's first-time adoption transition elections under IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), the standard for first-time adoption and the significant accounting changes resulting from our adoption of IFRS. The general principle under IFRS 1 is retroactive application, such that the Fund's Statement of Financial Position as at January 1, 2013 was restated as though the Fund has always applied IFRS with the net impact shown as an adjustment to opening Net Assets.

### Transition elections

The Fund had applied the voluntary exemption upon transition to designate financial assets or financial liabilities at FVTPL. All financial assets designated at FVTPL upon transition were previously recorded at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

## BMO Canadian Alpha Plus Fund

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

December 31, 2014 (in thousands of Canadian dollars, except per unit data)

#### Classification of redeemable units issued by the Fund

Under Canadian GAAP, redeemable units of the Fund were presented as Net Assets. IAS 32, Financial Instruments: Disclosure and Presentation ("IAS 32"), however, requires an assessment to determine whether the units issued to unitholders are puttable instruments that qualify for equity classification. The Fund's units do not meet the criteria in IAS 32 for equity classification and therefore, have been reclassified as financial liabilities on transition to IFRS and presented on the Statement of Financial Position as Net Assets.

#### Reclassification adjustments

In addition to the measurement adjustments noted above, the Fund reclassified certain amounts upon transition in order to conform its financial statement presentation under IFRS. Under Canadian GAAP, the Fund presented withholding taxes by netting them against investment income, whereas they have been reclassified and presented separately as an expense under IFRS.

#### Revaluation of investments at FVTPL

Canadian GAAP required the use of bid prices for long positions and ask prices for short positions in determining fair valuation of investments traded in an active market, rather than the use of close prices used for the purpose of determining NAV. IFRS 13, Fair Value Measurement ("IFRS 13"), requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. The standard also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. Upon adoption of IFRS, the Fund has determined that for traded securities, close prices are considered to be fair value, if they fall within the bid-ask spread.

#### Reconciliation of Net Assets as reported under Canadian GAAP to IFRS

As at	December 31, 2013	January 1, 2013
Net assets representing unitholders' equity under Canadian GAAP	3,162	2,483
Revaluation of investments at FVTPL	10	12
Net assets attributable to holders of redeemable units	3,172	2,495

#### Reconciliation of increase (decrease) in net assets reported under Canadian GAAP to IFRS

For the period ended	December 31, 2013
Increase in net assets from operations under Canadian GAAP	651
Revaluation of investments at FVTPL	(2)
Increase in net assets attributable to holders of redeemable units	649

## **BMO Asset Management Inc.**

### **Management's Responsibility for Financial Reporting**

The accompanying financial statements have been prepared by BMO Asset Management Inc. Management is responsible for the information and representations contained in these financial statements.

BMO Asset Management Inc. has maintained appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and include certain amounts that are based on estimates and judgements. The significant accounting policies which management believes are appropriate for the Funds are described in Note 2 to the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities.

PricewaterhouseCoopers LLP is the external auditor of the Fund. The auditor has been appointed by the Board and cannot be changed without the prior approval of 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.

Rajiv Silgado  
*Chief Executive Officer*  
*BMO Asset Management Inc.*

Robert J. Schauer  
*Chief Financial Officer*  
*BMO Asset Management Pooled Funds*

March 12, 2015





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