

# BMO Mutual Funds 2013

Annual Financial Statements

September 30, 2013

## BMO Preferred Share Fund

# Independent Auditor's Report

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## To the Unitholders and Trustee of:

BMO Equity Fund  
BMO Canadian Small Cap Equity Fund  
*(formerly BMO Special Equity Fund)*  
BMO Resource Fund  
BMO Mortgage and Short-Term Income Fund  
BMO Money Market Fund  
BMO Bond Fund  
BMO Canadian Equity ETF Fund  
BMO Asset Allocation Fund  
BMO Dividend Fund  
BMO Precious Metals Fund  
BMO Monthly Income Fund  
BMO Diversified Income Portfolio  
BMO Global Infrastructure Fund  
BMO Laddered Corporate Bond Fund  
BMO Enhanced Equity Income Fund  
BMO Emerging Markets Bond Fund  
BMO LifeStage Plus 2015 Fund  
BMO LifeStage Plus 2020 Fund  
BMO LifeStage Plus 2025 Fund  
BMO LifeStage Plus 2030 Fund  
BMO LifeStage Plus 2017 Fund  
BMO LifeStage Plus 2022 Fund  
BMO LifeStage Plus 2026 Fund  
BMO SelectTrust Fixed Income Portfolio  
BMO FundSelect Security Portfolio  
BMO FundSelect Balanced Portfolio  
BMO FundSelect Growth Portfolio  
BMO FundSelect Equity Growth Portfolio  
*(formerly BMO FundSelect Aggressive Growth Portfolio)*

BMO Target Yield ETF Portfolio  
BMO Target Enhanced Yield ETF Portfolio  
BMO Fixed Income ETF Portfolio  
BMO Security ETF Portfolio  
BMO Conservative ETF Portfolio  
BMO Balanced ETF Portfolio  
BMO Growth ETF Portfolio  
BMO Equity Growth ETF Portfolio  
BMO World Bond Fund  
BMO Emerging Markets Fund  
BMO European Fund  
BMO North American Dividend Fund  
BMO U.S. Equity ETF Fund  
BMO U.S. Equity Fund  
BMO Global Dividend Fund  
*(formerly BMO Global Science & Technology Fund)*  
BMO International Equity ETF Fund  
BMO Global Monthly Income Fund  
BMO Preferred Share Fund  
BMO Tactical Dividend ETF Fund  
BMO Global Strategic Bond Fund  
BMO U.S. High Yield Bond Fund  
BMO U.S. Dollar Money Market Fund  
BMO U.S. Dollar Equity Index Fund  
BMO U.S. Dollar Monthly Income Fund  
BMO U.S. Dollar Dividend Fund  
BMO U.S. Dollar Balanced Fund

## To the Shareholders and Directors of BMO Global Tax Advantage Funds Inc.:

BMO Global Dividend Class  
BMO Canadian Equity Class  
BMO Global Equity Class  
BMO Global Energy Class  
BMO Dividend Class  
BMO Greater China Class  
BMO International Value Class  
BMO Short-Term Income Class  
BMO Canadian Tactical ETF Class  
BMO Global Tactical ETF Class  
BMO LifeStage 2017 Class  
BMO LifeStage 2020 Class  
BMO LifeStage 2025 Class  
BMO LifeStage 2030 Class  
BMO LifeStage 2035 Class  
BMO LifeStage 2040 Class  
BMO SelectClass Security Portfolio  
BMO SelectClass Balanced Portfolio  
BMO SelectClass Growth Portfolio  
BMO SelectClass Equity Growth Portfolio  
*(formerly BMO SelectClass Aggressive Growth Portfolio)*  
BMO Security ETF Portfolio Class  
BMO Balanced ETF Portfolio Class  
BMO Growth ETF Portfolio Class  
BMO Equity Growth ETF Portfolio Class  
*(formerly BMO Aggressive Growth ETF Portfolio Class)*  
BMO American Equity Class  
BMO Asian Growth and Income Class

*(collectively the Funds)*

# Independent Auditor's Report *(continued)*

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We have audited the accompanying financial statements of each of the Funds, which comprise the statement of investment portfolio as at September 30, 2013 and the statements of net assets, operations and changes in net assets 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 Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements of each of the 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 audits 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 our audits is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position of each of the Funds, the results of each of their operations and the changes in each of their net assets as at and for the periods indicated in note 1 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Ontario  
December 20, 2013

# BMO Preferred Share Fund

## STATEMENT OF NET ASSETS

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

As at	September 30 2013
<b>ASSETS</b>	
Cash	17
Investments at fair value	446,142
Income receivable	806
Subscriptions receivable	2,341
Due from broker	2,324
<b>Total assets</b>	<b>451,630</b>
<b>LIABILITIES</b>	
Due to broker	7,450
Accrued expenses	44
Redemptions payable	461
<b>Total liabilities</b>	<b>7,955</b>
<b>Net assets representing unitholders' equity</b>	<b>443,675</b>
<b>Net assets representing unitholders' equity</b>	
Series A Units	12,453
Series I Units	16,284
Series F Units	20
Advisor Series Units	202
Series O Units	414,716
<b>Net assets per unit</b>	
Series A Units	\$ 10.03
Series I Units	\$ 10.05
Series F Units	\$ 10.04
Advisor Series Units	\$ 10.02
Series O Units	\$ 9.99

## STATEMENT OF OPERATIONS

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

For the period ended	September 30 2013
<b>INVESTMENT INCOME</b>	
Dividends	863
Interest	3
Distributions from exchange traded funds	7
Securities lending revenue	—
	<b>873</b>
<b>EXPENSES</b>	
Management fees (note 5)	19
Fixed administration fees (note 5)	28
Independent Review Committee fees	—
Fund Facts fees	1
Operating expenses absorbed by the Manager	(1)
Commissions and other portfolio transaction costs (note 5)	89
	<b>136</b>
Net investment income for the period	737
Realized loss on sale of investments	(29)
Unrealized depreciation in value of investments	(967)
Decrease in net assets from operations	(259)
<b>Increase (decrease) in net assets from operations</b>	
Series A Units	29
Series I Units	62
Series F Units	—
Advisor Series Units	—
Series O Units	(350)
<b>Increase (decrease) in net assets from operations per unit (note 2)</b>	
Series A Units	0.05
Series I Units	0.07
Series F Units	0.02
Advisor Series Units	0.06
Series O Units	(0.01)

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

# BMO Preferred Share Fund

## STATEMENT OF CHANGES IN NET ASSETS (in thousands of Canadian dollars)

For the period ended	September 30 2013	For the period ended	September 30 2013
<b>Series A Units</b>		<b>Series O Units</b>	
Net assets – beginning of period	—	Net assets – beginning of period	—
Increase in net assets from operations	29	Decrease in net assets from operations	(350)
<b>UNIT TRANSACTIONS:</b>		<b>UNIT TRANSACTIONS:</b>	
Proceeds from sale of units	12,804	Proceeds from sale of units	421,819
Amounts paid on units redeemed	(380)	Amounts paid on units redeemed	(6,753)
Total unit transactions	12,424	Total unit transactions	415,066
<b>Net assets – end of period</b>	<b>12,453</b>	<b>Net assets – end of period</b>	<b>414,716</b>
<b>Series I Units</b>		<b>Total Fund</b>	
Net assets – beginning of period	—	Net assets – beginning of period	—
Increase in net assets from operations	62	Decrease in net assets from operations	(259)
<b>UNIT TRANSACTIONS:</b>		<b>UNIT TRANSACTIONS:</b>	
Proceeds from sale of units	16,230	Proceeds from sale of units	451,075
Amounts paid on units redeemed	(8)	Amounts paid on units redeemed	(7,141)
Total unit transactions	16,222	Total unit transactions	443,934
<b>Net assets – end of period</b>	<b>16,284</b>	<b>Net assets – end of period</b>	<b>443,675</b>
<b>Series F Units</b>			
Net assets – beginning of period	—		
Increase in net assets from operations	—		
<b>UNIT TRANSACTIONS:</b>			
Proceeds from sale of units	20		
Total unit transactions	20		
<b>Net assets – end of period</b>	<b>20</b>		
<b>Advisor Series Units</b>			
Net assets – beginning of period	—		
Increase in net assets from operations	—		
<b>UNIT TRANSACTIONS:</b>			
Proceeds from sale of units	202		
Total unit transactions	202		
<b>Net assets – end of period</b>	<b>202</b>		

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



# BMO Preferred Share Fund

## STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at September 30, 2013 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost** (\$)	Fair Value (\$)		Number of Shares or Units	Cost** (\$)	Fair Value (\$)
IGM Financial Inc., Series B, Non-Cumulative First Preferred, Redeemable, Dec 31, 2014, \$26.00 . . . . .	28,600 . . . . .	722 . . . . .	724	Royal Bank of Canada, Series AA, Non-Cumulative, Preferred, Redeemable, May 24, 2014, \$25.25 . . . . .	121,920 . . . . .	3,065 . . . . .	3,078
National Bank of Canada, Series 16, Non-Cumulative, Preferred, Redeemable, May 15, 2014, \$25.00 . . . . .	55,925 . . . . .	1,398 . . . . .	1,410	Royal Bank of Canada, Series AB, Non-Cumulative, First Preferred, Perpetual, Redeemable, Aug 24, 2014, \$25.25 . . . . .	226,519 . . . . .	5,731 . . . . .	5,763
National Bank of Canada, Series 20, Non-Cumulative, Preferred, Redeemable, May 15, 2014, \$25.75 . . . . .	65,750 . . . . .	1,720 . . . . .	1,740	Royal Bank of Canada, Series AC, Non-Cumulative, Preferred, Redeemable, Nov 24, 2014, \$25.25 . . . . .	11,500 . . . . .	289 . . . . .	292
Power Corporation Canada, Series C, Non-Cumulative, Preferred, Redeemable, Oct 15, 2013, \$25.00 . . . . .	10,550 . . . . .	265 . . . . .	264	Royal Bank of Canada, Series AD, Non-Cumulative, Preferred, Redeemable, Feb 24, 2014, \$25.50 . . . . .	98,650 . . . . .	2,490 . . . . .	2,488
Power Corporation of Canada, Series A, Non-Cumulative, Preferred, Redeemable, Oct 7, 2013, \$25.00 . . . . .	81,495 . . . . .	1,976 . . . . .	1,989	Royal Bank of Canada, Series AF, Non-Cumulative, Preferred, Redeemable, May 24, 2014, \$25.50 . . . . .	174,793 . . . . .	4,380 . . . . .	4,408
Power Corporation of Canada, Series B, Non-Cumulative, Preferred, Redeemable, Dec 30, 2013, \$25.00 . . . . .	16,300 . . . . .	381 . . . . .	381	Royal Bank of Canada, Series W, Non-Cumulative, Preferred, Redeemable, Feb 24, 2014, \$25.00 . . . . .	31,400 . . . . .	780 . . . . .	784
Power Corporation Of Canada, Series D, Non-Cumulative, Preferred, Perpetual, Redeemable, Oct 31, 2014, \$25.00 . . . . .	382,635 . . . . .	8,667 . . . . .	8,743	Sun Life Financial Inc., Class A, Series 2, Non-Cumulative, Preferred, Exchangeable, Redeemable, Sep 30, 2014, \$25.00 . . . . .	147,495 . . . . .	3,323 . . . . .	3,329
Power Corporation of Canada, Series E, Non-Cumulative, Preferred, Redeemable, Oct 17, 2013, \$25.00 . . . . .	25,150 . . . . .	601 . . . . .	606	Toronto-Dominion Bank, The, Class A, Series Q Non-Cumulative, Preferred, Redeemable, Sep 30, 2014, \$25.00 . . . . .	73,400 . . . . .	1,916 . . . . .	1,916
Power Corporation of Canada, Series G, Non-Cumulative, Preferred, Redeemable, Apr 15, 2017, \$26.00 . . . . .	101,250 . . . . .	2,505 . . . . .	2,498	Toronto-Dominion Bank, The, Class A, Series R, Non-Cumulative, Preferred, Redeemable, Apr 29, 2014, \$25.75 . . . . .	410,570 . . . . .	10,711 . . . . .	10,708
Power Financial Corp, Series K, Non-Cumulative, Preferred, Redeemable, Oct 31, 2014, \$25.00 . . . . .	13,200 . . . . .	302 . . . . .	301	Toronto-Dominion Bank, The, Series O, Non-Cumulative, Preferred, Redeemable, Oct 30, 2014, \$25.00 . . . . .	105,370 . . . . .	2,661 . . . . .	2,672
Power Financial Corp, Series L, Non-Cumulative, Preferred, Redeemable, Oct 31, 2014, \$25.25 . . . . .	24,900 . . . . .	571 . . . . .	577	Toronto-Dominion Bank, The, Series P, Non-Cumulative, Preferred, Redeemable, Nov 11, 2014, \$25.50 . . . . .	115,435 . . . . .	2,974 . . . . .	2,995
Power Financial Corporation, Series F, Non-Cumulative, Preferred, Redeemable, Oct 22, 2013, \$25.00 . . . . .	134,440 . . . . .	3,392 . . . . .	3,395	105,430 . . . . .	105,430 . . . . .	105,289	
Power Financial Corporation, Series H, Non-Cumulative, First Preferred, Perpetual, Redeemable, Oct 22, 2013, \$25.00 . . . . .	36,025 . . . . .	896 . . . . .	903				
Power Financial Corporation, Series I, Non-Cumulative First Preferred, Perpetual, Redeemable, Oct 22, 2013, \$25.00 . . . . .	153,523 . . . . .	3,893 . . . . .	3,884				

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

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

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

# BMO Preferred Share Fund

## STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at September 30, 2013 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost** (\$)	Fair Value (\$)		Number of Shares or Units	Cost** (\$)	Fair Value (\$)
<b>Preferred Shares – Retractable – 5.5%</b>				<b>Preferred Shares – Fixed/Floaters – 63.9%</b>			
Bank of Nova Scotia, Series 12, Non-Cumulative, Preferred, Redeemable, Oct 29, 2013, \$25.00	36,410	916	909	Aimia Inc., Series 1, Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Mar 31, 2015, \$25.00	284,375	7,224	7,226
Bank of Nova Scotia, Series 28, Non-Cumulative, Retractable Preferred, Redeemable, Apr 26, 2014, \$25.00	25,000	644	635	AltaGas Ltd., Series A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2015, \$25.00	86,685	2,193	2,205
Brookfield Asset Management Inc., Series 32, Class A, Cumulative, Fixed, Convertible, Preferred, Redeemable, Sep 30, 2018, \$25.00	86,559	2,164	2,153	Bank of Montreal, Series 16, Class B, Non-Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Aug 25, 2018, \$25.00	15,107	374	373
Brookfield Office Properties Inc., Series K, Cumulative, Exchangeable, Soft Retractable Preferred, Redeemable, Dec 13, 2014, \$25.33	26,990	678	678	Bank of Montreal, Series 18, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Feb 24, 2014, \$25.00	28,900	738	739
Brookfield Office Properties Inc., Series N, Class AAA, Cumulative Exchangeable, Retractable Preferred, Redeemable, Jun 30, 2016, \$25.00	445,865	11,124	11,120	Bank of Montreal, Series 21, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Feb 25, 2014, \$25.00	108,217	2,794	2,793
Brookfield Properties Corporation, Series J, Cumulative Exchangeable, Soft Retractable Preferred, Redeemable, Dec 30, 2013, \$25.25	99,000	2,509	2,505	Bank of Montreal, Series 23, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Feb 25, 2015, \$25.00	279,135	7,257	7,271
Canadian Imperial Bank of Commerce, Series 26, Non-Cumulative, Retractable Preferred, Redeemable, Oct 7, 2013, \$25.00	153,735	3,876	3,849	Bank of Montreal, Series 25, Class B, Non-Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Aug 25, 2016, \$25.00	96,950	2,406	2,396
Canadian Imperial Bank of Commerce, Series 27, Preferred, Convertible, Perpetual, Redeemable, Oct 18, 2013, \$25.00	43,879	1,107	1,095	Bank of Nova Scotia, Series 20, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Oct 26, 2018, \$25.00	25,485	639	632
Manulife Financial Corporation, Series 1, Non-Cumulative, Soft Retractable Preferred, Redeemable, Jul 19, 2014, \$25.25	60,800	1,556	1,548	Bank of Nova Scotia, Series 22, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jan 26, 2014, \$25.00	191,800	4,853	4,810
Nova Scotia Power Inc., Series D, Cumulative, Exchangeable, Soft Retractable, Preferred, Redeemable, Oct 15, 2015, \$25.00	14,690	392	388	Bank of Nova Scotia, Series 32, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Feb 2, 2016, \$25.00	160,025	3,866	3,773
			24,966				

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

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

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



# BMO Preferred Share Fund

## STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at September 30, 2013 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost** (\$)	Fair Value (\$)		Number of Shares or Units	Cost** (\$)	Fair Value (\$)
BCE Inc., Series AB, Cumulative, Floating Perpetual, Preferred, Redeemable, Jan 13, 2014, \$25.50 . . . . .	32,350 . . . . .	745 . . . . .	739	Brookfield Asset Management Inc., Series 26, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 31, 2017, \$25.00 . . . . .	300,045 . . . . .	7,285 . . . . .	7,273
BCE Inc., Series AF, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 1, 2015, \$25.00 . . . . .	50,950 . . . . .	1,138 . . . . .	1,130	Brookfield Asset Management Inc., Series 28-A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2017, \$25.00 . . . . .	30,225 . . . . .	703 . . . . .	682
BCE Inc., Series AI, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 1, 2016, \$25.00 . . . . .	34,175 . . . . .	781 . . . . .	765	Brookfield Asset Management Inc., Series 30, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Dec 31, 2017, \$25.00 . . . . .	36,350 . . . . .	929 . . . . .	925
BCE Inc., Series AK, Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Dec 31, 2016, \$25.00 . . . . .	50,125 . . . . .	1,123 . . . . .	1,123	Brookfield Office Properties Inc., Series T, 5-Year Rate Reset, Convertible, Redeemable, Preferred, Dec 31, 2018, \$25.00 . . . . .	65,960 . . . . .	1,570 . . . . .	1,611
BCE Inc., Series R, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2015, \$25.00 . . . . .	150,075 . . . . .	3,332 . . . . .	3,356	Brookfield Office Properties Inc., Series L, Class AAA, Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Sep 30, 2014, \$25.00 . . . . .	476,375 . . . . .	12,171 . . . . .	12,200
BCE Inc., Series Y, Cumulative, Convertible, 5-Year Rate Reset Preferred, Redeemable, Oct 23, 2013, \$25.00 . . . . .	70,700 . . . . .	1,628 . . . . .	1,633	Brookfield Office Properties Inc., Series P, Class AAA, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2017, \$25.00 . . . . .	264,331 . . . . .	6,325 . . . . .	6,384
Bell Aliant Preferred Equity Inc., Series A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 31, 2016, \$25.00 . . . . .	11,025 . . . . .	253 . . . . .	251	Brookfield Office Properties Inc., Series R, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2016, \$25.00 . . . . .	331,175 . . . . .	8,216 . . . . .	8,183
Bell Aliant Preferred Equity Inc., Series C, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 31, 2017, \$25.00 . . . . .	157,215 . . . . .	3,902 . . . . .	3,869	Brookfield Renewable Power Preferred Equity Inc., Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jul 31, 2019, \$25.00 . . . . .	67,050 . . . . .	1,584 . . . . .	1,549
Bell Aliant Preferred Equity Inc., Series E, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2018, \$25.00 . . . . .	44,900 . . . . .	1,071 . . . . .	1,056	Brookfield Renewable Power Preferred Equity Inc., Series 1, Class A, Cumulative, Preferred, Exchangeable, Perpetual, Redeemable, Apr 30, 2015, \$25.00 . . . . .	126,000 . . . . .	3,045 . . . . .	3,013
Brookfield Asset Management Inc., Series 18, Class A, Cumulative, Preferred, Redeemable, Jun 30, 2014, \$25.50 . . . . .	158,782 . . . . .	3,268 . . . . .	3,169				
Brookfield Asset Management Inc., Series 22, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2014, \$25.00 . . . . .	202,100 . . . . .	5,246 . . . . .	5,214				
Brookfield Asset Management Inc., Series 24, Class A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2016, \$25.00 . . . . .	382,770 . . . . .	9,630 . . . . .	9,611				

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

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

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

# BMO Preferred Share Fund

## STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at September 30, 2013 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost** (\$)	Fair Value (\$)		Number of Shares or Units	Cost** (\$)	Fair Value (\$)
Canadian Imperial Bank of Commerce, Series 33, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jul 31, 2014, \$25.00 . . . . .	269,285	6,929	6,867	Enbridge Inc., Series R, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 1, 2019, \$25.00 . . . . .	71,400	1,719	1,714
Canadian Imperial Bank of Commerce, Series 35, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Apr 30, 2014, \$25.00 . . . . .	77,691	2,007	1,981	Great-West Lifeco Inc., Series J, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Dec 31, 2018, \$25.00 . . . . .	42,925	1,082	1,080
Canadian Imperial Bank of Commerce, Series 37, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jul 28, 2014, \$25.00 . . . . .	89,135	2,335	2,286	Great-West Lifeco Inc., Series N, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Dec 31, 2018, \$25.00 . . . . .	41,200	925	913
Canadian Utilities Ltd., Series Y, Cumulative, Fixed/Floating Rate Preferred, Exchangeable, Redeemable, Jun 1, 2017, \$25.00 . . . . .	208,005	5,223	5,200	HSBC Bank Canada, Series E, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2014, \$25.00 . . . . .	43,925	1,137	1,126
Canadian Wester Bank & Trust, Series 3, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Apr 30, 2014, \$25.00 . . . . .	47,250	1,223	1,219	Industrial Alliance Insurance and Financial Service Inc., Series C, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Dec 31, 2018, \$25.00 . . . . .	24,797	627	624
Emera Inc., Series C, Cumulative, Fixed/Floating Rate Preferred, Convertible, Redeemable, Aug 15, 2018, \$25.00 . . . . .	15,300	370	373	Industrial Alliance Insurance and Financial Service Inc., Series G, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jun 30, 2017, \$25.00 . . . . .	170,710	4,357	4,353
Enbridge Inc., Series 3, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 1, 2018, \$25.00 . . . . .	121,000	2,894	2,898	Intact Financial Corporation, Series 1, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Dec 31, 2017, \$25.00 . . . . .	123,855	2,935	3,025
Enbridge Inc., Series B, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 1, 2017, \$25.00 . . . . .	342,380	8,318	8,320	Intact Financial Corporation, Series 3, Non-Cumulative, Preferred, Redeemable, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Sep 30, 2016, \$25.00 . . . . .	318,290	8,129	8,148
Enbridge Inc., Series D, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 1, 2018, \$25.00 . . . . .	789,690	19,063	18,992	Manulife Financial Corp., Class 7, Series 1 Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 19, 2017, \$25.00 . . . . .	105,700	2,775	2,733
Enbridge Inc., Series F, Cumulative, 5-Year Rate Reset, Preferred, Convertible, Redeemable, Jun 1, 2018, \$25.00 . . . . .	105,907	2,558	2,552				
Enbridge Inc., Series N, Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Dec 1, 2018, \$25.00 . . . . .	32,950	810	801				
Enbridge Inc., Series P, 5-Year Rate Reset, Preferred, Redeemable, Mar 1, 2019, \$25.00 . . . . .	127,050	3,072	3,044				

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

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

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

# BMO Preferred Share Fund

## STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at September 30, 2013 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost** (\$)	Fair Value (\$)		Number of Shares or Units	Cost** (\$)	Fair Value (\$)
Manulife Financial Corp., Series 5, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Dec 19, 2016, \$25.00 . . . . .	351,855	8,986	8,972	Royal Bank of Canada, Series AR, Non-Cumulative, 5-Year Rate Reset First Preferred, Exchangeable, Redeemable, Feb 24, 2014, \$25.00 . . . . .	203,105	5,181	5,173
Manulife Financial Corp., Series 9, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Sep 19, 2017, \$25.00 . . . . .	49,400	1,282	1,270	Royal Bank of Canada, Series AT, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 24, 2014, \$25.00 . . . . .	43,460	1,128	1,123
Manulife Financial Corporation, Class 1, Series Non-Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Sep 19, 2014, \$25.00 . . . . .	604,919	15,456	15,498	Royal Bank of Canada, Series AV, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Aug 24, 2014, \$25.00 . . . . .	202,040	5,241	5,239
Manulife Financial Corporation, Class A, Series 4, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jun 19, 2014, \$25.00 . . . . .	223,764	5,780	5,742	Royal Bank of Canada, Series AX, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Nov 24, 2014, \$25.00 . . . . .	215,410	5,650	5,644
Manulife Financial Corporation, Series 11, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Mar 19, 2018, \$25.00 . . . . .	320,320	7,976	8,011	Shaw Communications Inc., Class 2, Series A, Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jun 30, 2016, \$25.00 . . . . .	53,000	1,223	1,212
National Bank of Canada, Series 28, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Nov 15, 2017, \$25.00 . . . . .	53,550	1,351	1,353	Sun Life Financial Inc., Class A, Series 6R Non-Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Jun 30, 2014, \$25.00 . . . . .	94,550	2,423	2,418
Power Financial Corporation, Series M, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Jan 31, 2014, \$25.00 . . . . .	46,200	1,171	1,178	Sun Life Financial Inc., Series 10R, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2016, \$25.00 . . . . .	49,950	1,241	1,226
Royal Bank of Canada, Series AJ, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 24, 2014, \$25.00 . . . . .	154,910	3,926	3,936	Sun Life Financial Inc., Series 12R, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Dec 31, 2016, \$25.00 . . . . .	198,430	5,080	5,054
Royal Bank of Canada, Series AN, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Feb 24, 2014, \$25.00 . . . . .	25,400	646	646	Sun Life Financial Inc., Series 8R, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2015, \$25.00 . . . . .	39,400	946	914
Royal Bank of Canada, Series AP, Non-Cumulative, Fixed/Floating Rate Preferred, Perpetual, Redeemable, Feb 24, 2014, \$25.00 . . . . .	81,671	2,080	2,083	Toronto Dominion Bank, The, Series AC, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2014, \$25.00 . . . . .	376,415	9,576	9,565

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

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

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

# BMO Preferred Share Fund

## STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at September 30, 2013 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost** (\$)	Fair Value (\$)		Number of Shares or Units	Cost** (\$)	Fair Value (\$)
Toronto Dominion Bank, The, Series AE, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Apr 30, 2014, \$25.00	31,250	808	806	BCE Inc., Series AD, Cumulative, Floating Perpetual Preferred, Convertible, Redeemable, Nov 4, 2013, \$25.00	311,775	7,206	7,161
Toronto Dominion Bank, The, Series AG, Non-Cumulative, 5 Year Rate Reset, Preferred, Redeemable, Apr 14, 2014, \$25.00	78,956	2,038	2,037	Brookfield Asset Management Inc., Class A, Series 34, Cumulative, Floating Perpetual Preferred, Mar 31, 2019, Redeemable, \$25.00	73,150	1,734	1,748
Toronto Dominion Bank, The, Series AI, Non-Cumulative, 5 Year Rate Reset, Preferred, Perpetual, Redeemable, Apr 30, 2014, \$25.00	160,100	4,169	4,172	Brookfield Asset Management Inc., Series 13, Class A, Cumulative, Floating Rate Preferred, Redeemable, Oct 7, 2013, \$25.00	25,600	464	466
Toronto Dominion Bank, The, Series AK, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2014, \$25.00	67,050	1,747	1,744	Toronto Dominion Bank, The, Series T, Non-Cumulative, Floating Rate, Preferred, Perpetual, Redeemable, Jul 31, 2018, \$25.00	60,133	1,515	1,512
Toronto Dominion Bank, The, Series Y, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Oct 31, 2018, \$25.00	13,150	330	331	.....	18,706	18,605	
Toronto-Dominion Bank, The, Series AA, Non-Cumulative 5-Year Rate Reset Preferred, Redeemable, Jan 31, 2014, \$25.00	40,000	1,015	1,014	<b>Total Preferred Shares - 97.4%</b>	<b>433,314</b>	<b>432,299</b>	
Toronto-Dominion Bank, The, Series S, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jul 31, 2018, \$25.00	10,350	257	257	<b>Total Investment Portfolio - 100.6%</b>	<b>447,162</b>	<b>446,142</b>	
TransCanada Corporation, Series 7, Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Apr 30, 2019, \$25.00	109,330	2,728	2,704	Other Assets Less Liabilities - (0.6%)	(2,467)		
.....	284,212	283,525		<b>NET ASSETS - 100.0%</b>	<b>443,675</b>		

### Preferred Shares - Floating Perpetual - 4.2%

Bank of Montreal, Class B, Series 17, Non-Cumulative, Floating Perpetual Preferred, Redeemable, Aug 25, 2018, \$25.00	11,950	301	301
Bank of Nova Scotia, Series 19, Non-Cumulative, Floating Rate, Perpetual, Preferred, Redeemable, Apr 28, 2018, \$25.00	287,149	7,486	7,417

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

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

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

# BMO Preferred Share Fund

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## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in thousands of Canadian dollars, except per unit data)  
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### 1. The Fund

BMO Preferred Share Fund (“the Fund”) is an open-ended mutual fund trust established under the laws of the province of Ontario and is governed by a Master Declaration of Trust dated November 6, 2007. The Master Declaration of Trust was amended on October 23, 2008 and November 3, 2009 to permit certain funds to offer a multi-series structure. In addition to the existing Series A units, certain Funds are permitted to offer Series I, Series F, Advisor Series, Series T5, Series T6 and/or Classic Series units. Each series is intended for different kinds of investors and has different management fees and fixed administration fees. Refer to Note 7(a) for the Fund’s series and respective launch date(s) and Note 7(d) for management fee rates and fixed administration fee rates for each series.

BMO Investments Inc. (the “Manager”) is the manager and Trustee of the Fund. The Manager is a wholly-owned subsidiary of Bank of Montreal.

The information provided in these audited financial statements is for the period(s) ended September 30, 2013 and 2012. Financial information provided for a fund established during the period(s) is presented from the date of inception as noted in Note 7(a). Financial information provided for a series established during the period(s) is presented from the launch date as noted in Note 7(a).

### 2. Summary of significant accounting policies

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

### Fund mergers

The Manager has adopted the purchase method of accounting for certain Fund mergers which occurred during the periods. Under this method, one of the Funds in each merger is identified as the acquiring Fund, and is referred to as the “Continuing Fund”, and the other Fund involved in the merger is referred to as the “Terminated Fund”. This identification is based on the comparison of the relative net asset values of the Funds as well as consideration of the continuation of such aspects of the Continuing Fund as: investment advisors; investment objectives and practices; type of portfolio securities; and management fees and expenses. Where applicable, refer to Note 7(a) for the details of the merger transactions.

### Valuation of investments

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

The NAV is the value of the total assets of a Fund less the fair value of its total liabilities at a Valuation Date (the “Valuation Date” is each day on which the Toronto Stock Exchange is open for trading) determined in accordance with Part 14 of National Instrument 81-106 – Investment Fund Continuous Disclosure (“NI 81-106”) for the purpose of processing unitholder transactions. For financial statement purposes, valuations are determined in accordance with Canadian GAAP. This may result in a difference between the net assets per unit for each series and the NAV per unit for each series. Refer to Note 7(b) for the comparison between NAV per unit and net assets per unit for each series.

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

# BMO Preferred Share Fund

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2013

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Securities and exchange traded funds listed on a recognized public securities exchange in North America are valued for financial statement purposes at their bid prices for long positions and ask prices for short positions. 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, the fair value represents the bid price provided by independent security pricing services. Short-term investments, if any, are included in the Statement of Investment Portfolio at their fair value. Unlisted warrants, if any, are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant. Mutual fund units held as investments are valued at their respective NAVs on each Valuation Date, as these values are the most readily and regularly available.

The Manager uses fair value pricing when the price of a security held in the Fund is unavailable, unreliable or not considered to reflect the current fair value, and may determine another value which it considers to be fair and reasonable using the services of third-party valuation service providers, or using a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies and other applicable rates or prices.

## Investment transactions

Investment transactions are accounted for on the trade date. Realized gains (losses) from the sale of investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments which exclude brokerage commissions and other trading expenses. All net

realized gains (losses), unrealized appreciation (depreciation) in value, and transaction costs are attributable to investments and derivative instruments which are deemed held for trading, and are included in the Statement of Operations.

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

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

## Cost of investments

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

## Income recognition

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

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

# BMO Preferred Share Fund

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2013

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## Translation of foreign currencies

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

## Forward currency contracts

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

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

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

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

## Futures contracts

Futures contracts are financial agreements to purchase or sell a financial instrument at a contracted price on a specified future date. Futures contracts are valued at the gain or loss that would arise as a result of closing the position at the Valuation Date, the "notional value". Any difference between the notional value on each Valuation Date and the notional value on the previous Valuation Date is recorded as "Net income (loss) from derivative contracts" in the Statement of Operations. Treasury bills or cash are held as margin against the futures contracts.

## Credit default swap contracts

A credit default swap contract is an agreement to transfer credit risk from one party, a buyer of protection, to another party, a seller of protection. The Fund as a seller of protection would be required to pay a notional or other agreed upon value to the buyer of protection in the event of a default by a third party. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations.

The Fund as a buyer of protection would receive a notional or other agreed upon value from the seller of protection in the event of a default by a third party. In return, the Fund would be required to pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs.

Credit default swap contracts are fair valued daily based upon quotations from independent security pricing sources. Premiums paid or received, if any, are included in "Net income from derivative contracts" in the Statement of Operations. Net periodic payments are accrued daily and recorded as "Net income (loss) from derivative contracts" in the Statement of Operations. When credit default swap contracts expire or are closed out, gains or losses are recorded as "Net income (loss) from derivative contracts" in the Statement of Operations.

# BMO Preferred Share Fund

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
(All amounts in thousands of Canadian dollars, except per unit data)  
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## **Option contracts**

The Fund may engage in option contract transactions by purchasing (long positions) or writing (short positions) call or put option contracts. These contracts have different risk exposures for the Fund whereas the risk for long positions will be limited to the premium paid to purchase the option contracts, the risk exposure for the short position is potentially unlimited until closed or expired.

### *Purchased option contracts*

The premium paid for purchasing a call option is recorded as an asset in the Statement of Net Assets. The premium is valued at every Valuation Date at an amount equal to the fair value of the option that would have the effect of closing the position. The change in the difference between the premium and the fair value is shown as "Change in unrealized appreciation (depreciation) in value of investments" in the Statement of Operations.

When a purchased option expires, the Fund will realize a loss equal to the premium paid. When a purchased option is closed, the gain or loss the Fund will realize will be the difference between the proceeds and the premium paid. When a purchased call option is exercised, the premium paid is added to the cost of acquiring the underlying security. When a purchased put option is exercised, the premium paid will be subtracted from the proceeds from the sale of the underlying security that had to be sold.

### *Written option contracts*

The premium received from writing a call or put option is recorded as a liability in the Statement of Net Assets.

When a written option expires, the Fund will realize a gain equal to the premium received. When a written option is closed, the Fund will realize a gain or loss equal to the difference between the cost at which the contract was closed and the premium received. When

a written call option is exercised, the premium received is added to the proceeds from the sale of the underlying investments to determine the realized gain or loss. When a written put option is exercised, the premium received will be subtracted from the cost of the underlying investment the Fund had purchased.

The gain or loss that the Fund realizes when a purchased or written option is expired or closed is recorded as "Net income (loss) from derivative contracts" in the Statement of Operations.

## **Securities lending**

A Fund may engage in securities lending, where applicable, pursuant to the terms of an agreement which includes restrictions as set out in Canadian securities legislation. Collateral held is government Treasury Bills and qualified Notes.

Income from securities lending, where applicable, is included in the Statement of Operations and is recognized when earned. The securities on loan continue to be displayed in the Statement of Investment Portfolio. The market value of the securities loaned and collateral held is determined daily. Aggregate fair values of securities on loan and related collateral held in trust as at September 30, 2013 and September 30, 2012, where applicable, are disclosed in Note 7(h).

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

## **Short-term trading penalty**

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



# BMO Preferred Share Fund

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
(All amounts in thousands of Canadian dollars, except per unit data)  
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## **Other assets and liabilities**

Income receivable, subscriptions receivable, futures contract margin receivable, and due from broker are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to broker, futures contract margin payable, redemptions payable, distributions payable and accrued expenses are designated as financial liabilities and reported at amortized cost. Other assets and liabilities are short-term in nature, and are carried at cost or amortized cost which approximates fair value.

## **Future accounting standards**

Canadian investment entities will be required to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), for fiscal years beginning on or after January 1, 2014. As a result, the Fund will report its financial results for the interim period ending March 31, 2015, prepared on an IFRS basis. It will also provide comparative data on an IFRS basis, including an opening balance sheet as at October 1, 2013 (“transition date”).

The differences between the Fund’s accounting policies under Canadian GAAP and IFRS requirements will result in measurement and recognition differences on transition to IFRS. The net impact of these differences will be recorded in the increase/ decrease in net assets attributable to redeemable unitholders.

## **Significant accounting changes resulting from our adoption of IFRS**

The main accounting changes listed below should not be considered a comprehensive list of impacts of adopting IFRS, but rather the most significant of certain key changes.

The framework for fair valuation is set out under IFRS 13 Fair Value Measurement (“IFRS 13”), which includes the requirements for the measurement and disclosure of fair value. If an asset or liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on

a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. Thus this standard will impact the net assets per unit for financial statement reporting purposes compared to current standards, and may also result in the elimination of the differences between the net asset per unit and NAV per unit at the financial statement reporting date. While IFRS does not require interest income to be disclosed for debt instruments measured at Fair Value through Profit or Loss, when interest income is disclosed, IFRS requires that the effective interest rate method of calculating accrued interest be used rather than the straight-line amortization method. The Manager is assessing the impact of this change to the Fund’s financial statements. The Manager has not identified any changes that will impact NAV per unit as a result of the transition to IFRS.

Where the Fund holds controlling interest in an investment, it is the Manager’s expectation that the Fund will qualify as an Investment Entity in accordance with IFRS 10 Consolidated Financial Statements. As such, the Fund will not be required to consolidate its investments, but rather to hold the investments at Fair Value through Profit or Loss regardless of whether those investments are controlled. If the Fund fair values the investments it controls, it may be required to make additional financial statement disclosures on its controlled investments in accordance with IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”). IFRS 12 also requires additional disclosures if the Fund is determined to qualify as an investment entity without having all of the typical characteristics of an investment entity.

The criteria contained within IAS 32 Financial Instruments: Presentation (“IAS 32”) will result in the classification of the unitholders’ equity as a liability within the Fund’s Statement of Net Assets, unless all conditions required for equity classification are met. The Manager is currently assessing the Fund’s unitholder structure to determine classification under IAS 32.

# BMO Preferred Share Fund

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
(All amounts in thousands of Canadian dollars, except per unit data)  
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Under IFRS, cash flows statement is one of the primary financial statements required to be presented. The Fund will therefore be presenting cash flows statement in its set of financial statements in accordance with the presentation requirements in IAS 7 Statement of Cash Flows ("IAS 7").

### 3. Unit valuation

Units of the Fund are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit of a particular series. The NAV per unit of a series for the purposes of subscription or redemption is computed by dividing the NAV of the Fund attributable to the series (that is, the total fair value of the assets attributable to the series less the liabilities attributable to the series) by the total number of units of the series of the Fund outstanding at such time. This amount may be different from the net asset per unit of a series calculation, which is presented on the Statement of Net Assets. Generally, any differences are due to valuing actively traded securities at bid prices for Canadian GAAP purposes while NAV typically utilizes closing price to determine fair value for the purchase and redemption of units. See Note 7(b) for the comparison between NAV per unit and net assets per unit for each series.

Expenses directly attributable to a series are charged to that series. Other expenses, income, realized and unrealized gains and losses from investment transactions are allocated proportionately to each series based upon the relative NAV of each series.

### Capital

The capital of the Fund is represented by issued and redeemable units with no par value. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's NAV per unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and

redemptions of units except as disclosed in Note 7(a), if any. The relevant movements in capital are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 6, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

### 4. Income taxes

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

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

The Fund's non-capital and capital losses for income tax purposes as of the tax year-ended December 2012 are included in Note 7(c), if applicable.

# BMO Preferred Share Fund

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
(All amounts in thousands of Canadian dollars, except per unit data)  
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## 5. Related party transactions

### (a) Management fees

The Manager is responsible for the day-to-day management of the Fund and its investment portfolio in compliance with the Fund's constating documents. The Manager monitors and evaluates the performance of the Fund, pays for the investment management services of the investment advisors and provides all related administrative services required by the Fund. As compensation for its services the Manager is entitled to receive a fee payable monthly, calculated at the maximum annual rates included in Note 7(d).

### (b) Fixed administration fee

The Manager pays certain operating expenses of the Fund in return for a fixed administration fee, which is paid for by the Fund. Certain specified expenses are paid directly by the Fund and include interest and borrowing expenses, costs and expenses related to the operation of the Fund's Independent Review Committee, taxes to which the Fund is or might be subject, and costs associated with compliance with any new governmental or regulatory requirement introduced after December 1, 2007 (e.g., cost associated with the production of Fund Facts). The fixed administration fee is calculated daily as a fixed annual percentage of the average NAV of the Fund. Refer to Note 7(d) for the fixed administration fee rates charged to the Fund.

The Manager may, in some years and in certain cases, absorb a portion of management fees, fixed administration fees or certain specified expenses of the Fund or series of the Fund. The decision to absorb these expenses is reviewed periodically and determined at the discretion of the Manager, without notice to unitholders.

### (c) Commissions and other portfolio transaction costs

The Fund may execute trades with and or 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 Operations. Refer to Note 7(e) for related party fees charged to the Fund for the periods ended September 30, 2013 and 2012, where applicable.

### (d) Initial investments

In order to establish a new Fund, the Manager makes an initial investment in the Fund. Pursuant to the policies of the Canadian Securities Administrators, an initial investor cannot redeem its investments until an additional \$500 has been received from other investors with respect to the same series of units. Refer to Note 7(d) for the investment in units of the Fund held by the Manager as at September 30, 2013 and September 30, 2012, where applicable.

### (e) Other related party transactions

From time to time, the Manager may on behalf of the Fund enter into transactions or arrangements with or involving other members of Bank of Montreal Group of Companies, or certain other persons or companies that are related or connected to the Manager of the Fund. These transactions or arrangements may include transactions or arrangements with or involving Bank of Montreal Group of Companies, BMO Nesbitt Burns Inc., BMO Harris Investment Management Inc., BMO Asset Management Inc., BMO InvestorLine Inc., HIM Money Inc., BMO Trust Company, Pymfod International Limited, Lloyd George Management Inc., or other investment funds offered by BMO and may involve the purchase or sale of portfolio securities through or from a member of Bank of Montreal Group of Companies, the purchase or sale of securities issued or guaranteed by a member of Bank of Montreal Group of Companies, the purchase or redemption of units or shares of other BMO Mutual Funds or the provision of services to the Manager.

## 6. Financial instrument risk

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

The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Fund's positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

# BMO Preferred Share Fund

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2013

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Where the Fund invests in other investment fund(s), it may be indirectly exposed to the financial instrument risks of the underlying fund(s), depending on the investment objectives and the type of securities held by the underlying fund(s). The decision to buy or sell an underlying fund is based on the investment guidelines and positions, rather than the exposure of the underlying fund(s).

## **(a) Currency risk**

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. 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. The Fund may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Fund's exposure to currency risk, if any, is further discussed in Note 7(f).

## **(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. The Fund's exposure to interest rate risk, if any, is further discussed in Note 7(f).

## **(c) Other market risk**

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments

traded in a market. Other assets and liabilities are monetary items that are short-term in nature, as such they are not subject to other market risk. The Fund's exposure to other market risk, if any, is further discussed in Note 7(f).

## **(d) Credit risk**

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Fund's unrealized gain of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. The Fund's exposure to credit risk, if any, is further discussed in Note 7(f).

The Fund may enter into securities lending transactions with approved counterparties. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient approved credit rating and the market value of collateral held by the Fund must be at least 102% of the fair value of securities loaned, if any, as disclosed in Note 7(h).

## **(e) Liquidity risk**

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

# BMO Preferred Share Fund

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
 (All amounts in thousands of Canadian dollars, except per unit data)  
 September 30, 2013

## 7. Fund specific information

### (a) Fund and series information, change in units and significant events

The Fund's inception date was August 7, 2013. The Fund is authorized to issue an unlimited number of units in each of Series A, Series I, Series F, Advisor Series and BMO Private Preferred Share Fund Series O ("Series O").

Series	Launch Date
Series A	August 12, 2013
Series I	August 12, 2013
Series F	August 12, 2013
Advisor Series	August 12, 2013
Series O	September 20, 2013

Series A units are offered on a no-load basis and are available to all investors.

Series I units are available for purchase by institutional investors who make the required minimum investments and have entered into an agreement with the Manager. No management fees and fixed administration fees are charged to the Fund in respect of the Series I units as each investor or dealer negotiates a separate fee with the Manager.

Series F units are available for purchase by investors who are enrolled in dealer-sponsored wrap programs or flat fee accounts. Instead of paying a commission on each transaction, these investors pay an annual fee to the Manager based on the value of their assets.

Advisor Series units are available to all investors through authorized dealers and brokers.

Series O units are available to investors who have entered into an investment management agreement with BMO Harris Investment Management Inc. There are no sales charges applicable on a purchase of Series O units. Investors pay an investment management fee directly to BMO Trust Company and to BMO Harris Investment Management Inc.

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

For the period ended (in thousands of units)	Sep. 30 2013
<b>Series A</b>	
Units issued and outstanding, beginning of period	—
Issued	1,280
Redeemed during the period	(38)
Units issued and outstanding, end of period	1,242
<b>Series I</b>	
Units issued and outstanding, beginning of period	—
Issued	1,621
Redeemed during the period	(1)
Units issued and outstanding, end of period	1,620
<b>Series F</b>	
Units issued and outstanding, beginning of period	—
Issued	2
Units issued and outstanding, end of period	2
<b>Advisor Series</b>	
Units issued and outstanding, beginning of period	—
Issued	20
Units issued and outstanding, end of period	20
<b>Series O</b>	
Units issued and outstanding, beginning of period	—
Issued	42,182
Redeemed during the period	(675)
Units issued and outstanding, end of period	41,507

### (b) Comparison of NAV per unit to net assets per unit

Series	Sep. 30, 2013	
	NAV per Unit	Net Assets per Unit
Series A	10.05	10.03
Series I	10.08	10.05
Series F	10.06	10.04
Advisor Series	10.05	10.02
Series O	10.02	9.99

### (c) Income taxes

The Fund's first tax reporting period will be December 2013.

# BMO Preferred Share Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

September 30, 2013

### (d) Related party transactions

#### Management and fixed administration fees

The Manager is entitled to receive the following fees payable monthly, calculated at the following maximum annual rates:

Series	Management	Fixed
	Fees	Administration
	(%)	Fees
		(%)
Series A	1.550	0.200
Series I	*	*
Series F	0.650	0.200
Advisor Series	1.550	0.200
Series O	0.025	0.200

\*Negotiated and paid by each Series I investor directly to the Manager.

### Initial investments

The Manager held the following units of the Fund:

Series	Sep. 30, 2013	
	Number of Units	Value of Units (\$)
Series A	97,000	975
Series I	1,000	10
Series F	1,000	10
Advisor Series	1,000	10
Series O	1	0

### (e) Brokerage commissions and soft dollars

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

	Sep. 30, 2013
	(\$)
Total brokerage amounts paid	89
Total brokerage amounts paid to related parties	21

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

### (f) Financial instrument risk

The Fund's objective is to generate steady income and achieve capital preservation and appreciation by investing primarily in preferred shares of Canadian companies and other types of securities that are expected to distribute income.

No changes to the Fund's objective or strategy, which would have had an affect on the overall level of risk of investing in the Fund, were made during the period.

### Currency risk

As at September 30, 2013, the Fund did not have significant exposure, directly and through its investment in mutual fund units, to currency risk.

### Interest rate risk

As at September 30, 2013, the Fund did not have significant exposure to interest rate risk.

### Other market risk

As at September 30, 2013, 98.6% of the Fund's Net Assets were traded on respective stock exchanges. If equity prices on the respective stock exchanges had increased or decreased by 10% as at the period ended, with all other factors remaining constant, Net Assets could possibly have increased or decreased, respectively, by approximately \$43,736. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

### Credit risk

The Fund's credit risk exposure grouped by credit ratings are listed in the following table:

Credit Rating	As a % of Net Assets as at
	Sep. 30, 2013
R-1 High	2.0
A	40.0
BBB	38.7
Below BBB	18.7
<b>Total</b>	<b>99.4</b>

### (g) Fair value hierarchy

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 the quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets

# BMO Preferred Share Fund

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

September 30, 2013

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or based on unobservable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The table below shows the relevant disclosure.

### As at September 30, 2013

<b>Financial assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity Securities	5,062	—	—	5,062
Preferred Securities	432,299	—	—	432,299
Debt Securities	—	8,781	—	8,781
<b>Total</b>	<b>437,361</b>	<b>8,781</b>	<b>—</b>	<b>446,142</b>

### (h) Securities lending

The Fund had assets involved in securities lending transactions outstanding as at September 30, 2013 as follows:

	<b>Sep. 30, 2013</b>
	<b>(\$)</b>
Aggregate value of securities on loan	1,171
Aggregate value of collateral received for the loan	1,238

# Management's Responsibility for Financial Reporting

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The accompanying financial statements have been prepared by management of BMO Investments Inc. Management is responsible for the information and representations made in these financial statements.

Management has maintained appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been produced in accordance with accounting principles generally accepted in Canada and include certain amounts based on estimates and judgements. The significant accounting policies which management believes are appropriate for the BMO Mutual Funds are described in Note 2 to the financial statements.

The Trustee of each of the Trusts is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Trustee reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors.

The Board of Directors of BMO Global Tax Advantage Funds Inc. is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Audit Committee of the Board of Directors reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Board of Directors prior to the Board approval of the financial statements.

PricewaterhouseCoopers LLP are the external auditors of the BMO Mutual Funds. The auditors have been appointed by the respective Boards and cannot be changed without the prior approval of the Independent Review Committee and 60 days notice to the Securityholders. They have audited the financial statements in accordance with generally accepted auditing standards in Canada to enable them to express their opinion on the financial statements. Their report is included as an integral part of the financial statements.

Rajiv Silgado  
*Chief Executive Officer*  
BMO Investments Inc.  
December 10, 2013

R.J. Schauer  
*Treasurer and Chief Financial Officer*  
BMO Mutual Funds  
December 10, 2013



## Trustee and Officers

**Trustee of BMO Mutual Fund Trusts**  
BMO Investments Inc.

**Officers of BMO Mutual Fund Trusts**  
Robert J. Schauer, CPA, CA  
*Treasurer & Chief Financial Officer*

Michelle Magnaye  
*Corporate Secretary*

**Fund Manager**  
BMO Investments Inc.  
Member of the Investment Funds Institute of Canada

### **Directors of BMO Investments Inc.**

Myra Cridland

Barry M. Cooper

Ross F. Kappelé

Rajiv R. Silgardo

Robert J. Schauer, CPA, CA

### **Directors of BMO Global Tax Advantage Funds Inc.**

Barry M. Cooper

Ross F. Kappelé

Helen Killoch\*

Douglas E. Kirk\*

Thomas A. Pippy, CPA, CA\*

Rajiv R. Silgardo

## Directors and Officers

### **Officers of BMO Investments Inc.**

Barry M. Cooper, *Chairman*

Rajiv R. Silgardo, *Chief Executive Officer*

Ross F. Kappelé, *Executive Vice-President  
& Head of Retail Distribution*

Kevin Gopaul, *Chief Product Officer  
& Senior Vice President*

Subhas Sen, *Senior Vice President*

Dirk McRobb, *Senior Vice President*

Stella Vranes, CPA, CA, *Chief Financial Officer*

William Chinkiwsky, *Chief Compliance Officer*

Michelle Magnaye, *Corporate Secretary*

Penelope Muradya, *Assistant Corporate Secretary*

### **Officers of BMO Global Tax Advantage Funds Inc.**

Barry M. Cooper, *Chairman*

Rajiv R. Silgardo, *Chief Executive Officer*

Robert J. Schauer, CPA, CA  
*Treasurer & Chief Financial Officer*

Michelle Magnaye, *Corporate Secretary*

Penelope Muradya, *Assistant Corporate Secretary*

### **Fund Manager**

BMO Investments Inc.

Member of the Investment Funds Institute of Canada

\*Audit Committee member for BMO Global Tax Advantage Funds Inc.

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

**BMO Investments Inc.**

**First Canadian Place, 43rd Floor, 100 King Street West  
Toronto, ON M5X 1A1**

**For more information please call 1-800-665-7700**



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