

BMO Mutual Funds 2014

Semi-Annual Financial Statements

March 31, 2014

BMO Preferred Share Fund

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

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

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

BMO Preferred Share Fund

(unaudited)

STATEMENT OF NET ASSETS

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

As at	March 31 2014	September 30 2013
ASSETS		
Cash	11,775	17
Investments at fair value	852,805	446,142
Income receivable	2,293	806
Subscriptions receivable	2,739	2,341
Due from broker	—	2,324
Total assets	869,612	451,630
LIABILITIES		
Due to broker	6,923	7,450
Accrued expenses	165	44
Redemptions payable	431	461
Total liabilities	7,519	7,955
Net assets representing unitholders' equity	862,093	443,675
Net assets representing unitholders' equity		
Series A Units	21,178	12,453
Advisor Series Units	723	202
Series F Units	361	20
Series I Units	128,990	16,284
Series O Units	710,841	414,716
Net assets per unit		
Series A Units	\$ 10.09	\$ 10.03
Advisor Series Units	\$ 10.11	\$ 10.02
Series F Units	\$ 10.14	\$ 10.04
Series I Units	\$ 10.17	\$ 10.05
Series O Units	\$ 10.08	\$ 9.99

STATEMENT OF OPERATIONS

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

For the period ended	March 31 2014
INVESTMENT INCOME	
Dividends	15,071
Interest	586
Distributions from exchange traded funds	1,095
Securities lending revenue	8
	16,760
EXPENSES	
Management fees (note 5)	160
Fixed administration fees (note 5)	706
Independent Review Committee fees	2
Fund Facts fees	—
Operating expenses absorbed by the Manager	(10)
Commissions and other portfolio transaction costs (note 5)	569
	1,427
Net investment income for the period	15,333
Realized loss on sale of investments	(423)
Change in unrealized appreciation in value of investments	1,221
Increase in net assets from operations	16,131
Increase in net assets from operations	
Series A Units	299
Advisor Series Units	8
Series F Units	3
Series I Units	1,741
Series O Units	14,080
Increase in net assets from operations per unit (note 2)	
Series A Units	0.15
Advisor Series Units	0.17
Series F Units	0.33
Series I Units	0.29
Series O Units	0.23

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

BMO Preferred Share Fund

(unaudited)

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

For the period ended	March 31 2014	For the period ended	March 31 2014
Series A Units		Series F Units	
Net assets - beginning of period	12,453	Net assets - beginning of period	20
Increase in net assets from operations	299	Increase in net assets from operations	3
UNIT TRANSACTIONS:		UNIT TRANSACTIONS:	
Proceeds from sale of units	11,952	Proceeds from sale of units	349
Reinvested distributions	158	Reinvested distributions	—
Amounts paid on units redeemed	(3,506)	Amounts paid on units redeemed	(10)
Total unit transactions	8,604	Total unit transactions	339
DISTRIBUTIONS TO UNITHOLDERS FROM:		DISTRIBUTIONS TO UNITHOLDERS FROM:	
Net investment income	(175)	Net investment income	(1)
Return of capital	(3)	Return of capital	—
Total distributions paid to unitholders	(178)	Total distributions paid to unitholders	(1)
Net assets - end of period	21,178	Net assets - end of period	361
Advisor Series Units		Series I Units	
Net assets - beginning of period	202	Net assets - beginning of period	16,284
Increase in net assets from operations	8	Increase in net assets from operations	1,741
UNIT TRANSACTIONS:		UNIT TRANSACTIONS:	
Proceeds from sale of units	525	Proceeds from sale of units	110,987
Reinvested distributions	2	Reinvested distributions	807
Amounts paid on units redeemed	(10)	Amounts paid on units redeemed	(22)
Total unit transactions	517	Total unit transactions	111,772
DISTRIBUTIONS TO UNITHOLDERS FROM:		DISTRIBUTIONS TO UNITHOLDERS FROM:	
Net investment income	(4)	Net investment income	(801)
Return of capital	—	Return of capital	(6)
Total distributions paid to unitholders	(4)	Total distributions paid to unitholders	(807)
Net assets - end of period	723	Net assets - end of period	128,990

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BMO Preferred Share Fund

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STATEMENT OF CHANGES IN NET ASSETS (cont'd) (in thousands of Canadian dollars)

For the period ended	March 31 2014
Series 0 Units	
Net assets - beginning of period	414,716
Increase in net assets from operations	14,080
UNIT TRANSACTIONS:	
Proceeds from sale of units	368,828
Reinvested distributions	10,210
Amounts paid on units redeemed	(86,591)
Total unit transactions	292,447
DISTRIBUTIONS TO UNITHOLDERS FROM:	
Net investment income	(10,308)
Return of capital	(94)
Total distributions paid to unitholders	(10,402)
Net assets - end of period	710,841
Total Fund	
Net assets - beginning of period	443,675
Increase in net assets from operations	16,131
UNIT TRANSACTIONS:	
Proceeds from sale of units	492,641
Reinvested distributions	11,177
Amounts paid on units redeemed	(90,139)
Total unit transactions	413,679
DISTRIBUTIONS TO UNITHOLDERS FROM:	
Net investment income	(11,289)
Return of capital	(103)
Total distributions paid to unitholders	(11,392)
Net assets - end of period	862,093

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BMO Preferred Share Fund

(unaudited)

STATEMENT OF INVESTMENT PORTFOLIO

As at March 31, 2014 (in thousands of Canadian dollars, unless otherwise noted)

	Par Value (in thousands)	Cost (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
BONDS & DEBENTURES							
Federal Bonds — 2.4%							
Government of Canada, 2.750% Sep 1, 2016	12,000	12,483	12,450				
Government of Canada, 4.250% Jun 1, 2018	7,400	8,204	8,221				
.....		20,687	20,671				
Total Bonds & Debentures — 2.4%		20,687	20,671				
	Number of Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
HOLDINGS IN EXCHANGE TRADED FUNDS — 6.7%							
BMO S&P/TSX Laddered Preferred Share Index ETF ..	3,890,610	55,091	54,769	George Weston Ltd., Series III, Cumulative, Preferred, Redeemable, Jul 1, 2014, \$25.00.....	42,100	1,003	1,004
iShares S&P/TSX Canadian Preferred Share Index Fund.....	170,645	2,768	2,760	Great-West Lifeco Inc., Series F, Non-Cumulative, Preferred, Redeemable, Apr 23, 2014, \$25.00	112,875	2,852	2,858
Total Holdings in Exchange Traded Funds — 6.7%		57,859	57,529	Great-West Lifeco Inc., Series G, Non-Cumulative, Preferred, Redeemable, Jun 18, 2014, \$25.00	11,075	261	269
				Great-West Lifeco Inc., Series H, Non-Cumulative, Preferred, Redeemable, Sep 30, 2014, \$25.00	58,051	1,313	1,331
				Great-West Lifeco Inc., Series M, Non-Cumulative, First Preferred, Exchangeable, Redeemable, Mar 31, 2015, \$25.00.....	112,000	2,869	2,906
				Great-West Lifeco Inc., Series Q, Non-Cumulative, Preferred, Redeemable, Sep 30, 2017, \$26.00	25,000	583	598
				IGM Financial Inc., Series B, Non-Cumulative First Preferred, Redeemable, Dec 31, 2014, \$26.00	153,000	3,884	3,917
				Industrial Alliance Insurance and Financial, Services Inc., Series F, Non-Cumulative, Preferred, Redeemable, March 31, 2015, \$26.00	125,000	3,203	3,255
				Manulife Financial Corp., Series 2, Non-Cumulative, Preferred, Redeemable, Mar 19, 2015, \$25.00	154,100	3,339	3,406
				Manulife Financial Corporation, Series 3, Class A, Non-Cumulative, Preferred, Redeemable, May 8, 2014, \$25.25	110,000	2,345	2,394
				National Bank of Canada, Series 16, Non- Cumulative, Preferred, Redeemable, May 15, 2014, \$25.00	223,025	5,614	5,629
				National Bank of Canada, Series 20, Non- Cumulative, Preferred, Redeemable, May 15, 2014, \$25.75	103,950	2,733	2,730
				Power Corporation of Canada, Series A, Non- Cumulative, Preferred, Redeemable, May 8, 2014, \$25.00	131,495	3,211	3,282
				Power Corporation of Canada, Series B, Non- Cumulative, Preferred, Redeemable, Jun 5, 2014, \$25.00	31,800	753	763
				Power Corporation of Canada, Series C, Non- Cumulative, Preferred, Redeemable, Oct 15, 2014, \$25.00	40,550	1,022	1,030
				Power Corporation Of Canada, Series D, Non- Cumulative, Preferred, Perpetual, Redeemable, Oct 31, 2014, \$25.00	417,635	9,463	9,635
				Power Corporation of Canada, Series E, Non- Cumulative, Preferred, Redeemable, Jun 5, 2014, \$25.00	45,750	1,089	1,105
				Power Corporation of Canada, Series G, Non- Cumulative, Preferred, Redeemable, Apr 15, 2017, \$26.00	161,250	3,989	4,088
				Power Financial Corp, Series I, Non-Cumulative, Preferred, Redeemable, Oct 31, 2014, \$25.25	24,900	571	598
				Power Financial Corp, Series S, Non-Cumulative, Preferred, Redeemable, Apr 30, 2018, \$26.00	51,000	1,111	1,166
				Power Financial Corporation, Series F, Non- Cumulative, First Preferred, Perpetual, Redeemable, Jul 17, 2014, \$25.00	219,440	5,532	5,598

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BMO Preferred Share Fund

(unaudited)

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at March 31, 2014 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
Power Financial Corporation, Series H, Non-Cumulative, First Preferred, Perpetual, Redeemable, Dec 10, 2014, \$25.00	153,425	3,854	3,903	Manulife Financial Corporation, Series 1, Non-Cumulative, Soft Retractable Preferred, Redeemable, Jul 19, 2014, \$25.25	204,600	5,242	5,221
Power Financial Corporation, Series I, Non-Cumulative, First Preferred, Perpetual, Redeemable, Apr 30, 2014, \$25.00	208,523	5,293	5,317			25,089	25,081
Power Financial Corporation, Series K, Non-Cumulative, Preferred, Redeemable, Oct 31, 2014, \$25.00	93,200	2,103	2,176	Preferred Shares - Fixed/Floaters — 55.5%			
Royal Bank of Canada, Series AA, Non-Cumulative, Preferred, Redeemable, May 24, 2014, \$25.25	287,720	7,286	7,351	Aimia Inc., Series 1, Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Mar 31, 2015, \$25.00	352,675	8,969	9,028
Royal Bank of Canada, Series AB, Non-Cumulative, First Preferred, Perpetual, Redeemable, Aug 24, 2014, \$25.25	287,819	7,304	7,397	Aimia Inc., Series 3, Cumulative, Fixed/Floater Rate, Preferred, Redeemable, Mar 31, 2019, \$25.00	450,000	11,254	11,723
Royal Bank of Canada, Series AC, Non-Cumulative, Preferred, Redeemable, Nov 24, 2014, \$25.25	110,700	2,824	2,839	AltaGas Ltd., Series A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2015, \$25.00	86,685	2,193	2,178
Royal Bank of Canada, Series AD, Non-Cumulative, Preferred, Redeemable, Jun 5, 2014, \$25.50	283,450	7,212	7,273	Bank of Montreal, Series 16, Class B, Non-Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Aug 25, 2018, \$25.00	51,000	1,292	1,289
Royal Bank of Canada, Series AF, Non-Cumulative, Preferred, Redeemable, May 24, 2014, \$25.50	210,123	5,284	5,400	Bank of Montreal, Series 21, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, May 21, 2014, \$25.00	208,217	5,353	5,285
Royal Bank of Canada, Series W, Non-Cumulative, Preferred, Redeemable, Jun 3, 2014, \$25.00	132,500	3,317	3,326	Bank of Montreal, Series 23, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Feb 25, 2015, \$25.00	379,135	9,878	9,846
Sun Life Financial Inc., Class A, Series 2, Non-Cumulative, Preferred, Exchangeable, Redeemable, Sep 30, 2014, \$25.00	164,595	3,715	3,758	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	2,380
Sun Life Financial Inc., Series 1, Non-Cumulative, Preferred, Redeemable, Jun 3, 2014, \$25.00	56,100	1,269	1,271	Bank of Nova Scotia, Series 21, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Oct 26, 2018, \$25.00	275,485	6,904	6,832
Toronto-Dominion Bank, The, Class A, Series Q Non-Cumulative, Preferred, Redeemable, Sep 30, 2014, \$25.00	143,400	3,764	3,787	Bank of Nova Scotia, Series 26, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, May 26, 2019, \$25.00	470,600	11,983	11,751
Toronto-Dominion Bank, The, Class A, Series R, Non-Cumulative, Preferred, Redeemable, Apr 29, 2014, \$25.75	460,570	12,034	12,154	Bank of Nova Scotia, Series 28, Non-Cumulative, Convertible Preferred, Redeemable, Apr 26, 2014, \$25.00	426,400	10,813	10,643
Toronto-Dominion Bank, The, Series O, Non-Cumulative, Preferred, Redeemable, Oct 30, 2014, \$25.00	298,670	7,572	7,622	Bank of Nova Scotia, Series 32, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Feb 2, 2016, \$25.00	185,025	4,460	4,463
Toronto-Dominion Bank, The, Series P, Non-Cumulative, Preferred, Redeemable, Nov 11, 2014, \$25.50	187,035	4,840	4,895	BCE Inc., Series AB, Cumulative, Floating Rate, Perpetual, Preferred, Redeemable, Jun 20, 2014, \$25.50	227,350	5,170	4,808
		202,074	204,109	BCE Inc., Series AF, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 1, 2015, \$25.00	70,150	1,570	1,482
Preferred Shares - Retractable — 2.8%				BCE Inc., Series AI, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Aug 1, 2016, \$25.00	48,375	1,103	1,014
Brookfield Asset Management Inc., Series 32, Class A, Cumulative, Fixed, Convertible, Preferred, Redeemable, Sep 30, 2018, \$25.00	86,559	2,164	2,190	BCE Inc., Series R, Cumulative, Fixed/Floating Rate, Preferred, Redeemable, Dec 1, 2015, \$25.00	150,075	3,332	3,227
Brookfield Office Properties Inc., Series H, Cumulative, Exchangeable, Soft Retractable Preferred, Redeemable, Dec 31, 2014, \$25.33	159,090	4,072	4,057	BCE Inc., Series Y, Cumulative, Convertible, 5-Year Rate Reset Preferred, Redeemable, Apr 21, 2014, \$25.50	70,700	1,628	1,538
Brookfield Office Properties Inc., Series K, Cumulative, Exchangeable, Soft Retractable Preferred, Redeemable, Dec 13, 2014, \$25.33	71,990	1,839	1,856	Bell Aliant Preferred Equity Inc., Series C, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 31, 2017, \$25.00	157,215	3,902	3,915
Brookfield Properties Corporation, Series J, Cumulative Exchangeable, Soft Retractable Preferred, Redeemable, Jun 30, 2014, \$26.00	257,800	6,536	6,489				
Canadian Imperial Bank of Commerce, Series 26, Non-Cumulative, Retractable Preferred, Redeemable, Jun 5, 2014, \$25.00	153,735	3,876	3,905				
Canadian Imperial Bank of Commerce, Series 27, Preferred, Convertible, Perpetual, Redeemable, May 8, 2014, \$25.00	53,879	1,360	1,363				

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

BMO Preferred Share Fund

(unaudited)

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at March 31, 2014 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
Bell Aliant Preferred Equity Inc., Series E, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2018, \$25.00	44,900	1,071	1,017	Element Financial Corporation, Series C, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2019, \$25.00	250,000	6,250	6,225
Brookfield Asset Management Inc., Series 18, Class A, Cumulative, Preferred, Redeemable, Jun 30, 2014, \$25.50	164,682	3,381	3,389	Enbridge Inc., Series 3, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 1, 2018, \$25.00	121,000	2,894	2,857
Brookfield Asset Management Inc., Series 22, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2014, \$25.00	418,700	10,827	10,719	Enbridge Inc., Series 9, Cumulative, Fixed/Floater Rate Preferred, Redeemable, Dec 1, 2019, \$25.00	400,000	10,000	10,040
Brookfield Asset Management Inc., Series 24, Class A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2016, \$25.00	209,970	5,283	5,308	Enbridge Inc., Series B, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 1, 2017, \$25.00	368,780	8,975	9,087
Brookfield Asset Management Inc., Series 26, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 31, 2017, \$25.00	305,045	7,408	7,367	Enbridge Inc., Series D, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 1, 2018, \$25.00	813,390	19,646	19,725
Brookfield Asset Management Inc., Series 28-A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2017, \$25.00	30,225	703	645	Enbridge Inc., Series F, Cumulative, 5-Year Rate Reset, Preferred, Convertible, Redeemable, Jun 1, 2018, \$25.00	132,307	3,206	3,235
Brookfield Asset Management Inc., Series 30, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Dec 31, 2017, \$25.00	96,350	2,478	2,496	Enbridge Inc., Series N, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Dec 1, 2018, \$25.00	56,650	1,402	1,408
Brookfield Asset Management, Series 38, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2020, \$25.00	200,000	5,000	4,896	Enbridge Inc., Series P, Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Mar 1, 2019, \$25.00	127,050	3,072	3,075
Brookfield Office Properties Inc, Series T, 5-Year Rate Reset, Convertible, Redeemable, Preferred, Dec 31, 2018, \$25.00	70,960	1,687	1,717	Enbridge Inc., Series R, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 1, 2019, \$25.00	71,400	1,719	1,729
Brookfield Office Properties Inc., Series L, Class AAA, Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Sep 30, 2014, \$25.00	594,275	15,195	15,101	HSBC Bank Canada, Series E, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2014, \$25.00	466,825	11,939	11,801
Brookfield Office Properties Inc., Series P, Class AAA, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2017, \$25.00	324,331	7,817	8,053	Industrial Alliance Insurance and Financial Services Inc., Series G, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jun 30, 2017, \$25.00	170,710	4,357	4,425
Brookfield Office Properties Inc., Series R, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Sep 30, 2016, \$25.00	341,175	8,465	8,621	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	2,966
Brookfield Renewable Power Preferred Equity Inc., Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jul 31, 2019, \$25.00	67,050	1,584	1,559	Intact Financial Corporation, Series 3, Non-Cumu lative, Preferred, Redeemable, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Sep 30, 2016, \$25.00	318,290	8,129	8,164
Brookfield Renewable Power Preferred Equity Inc., Series 1, Class A, Cumulative, Preferred, Exchangeable, Perpetual, Redeemable, Apr 30, 2015, \$25.00	126,000	3,045	3,011	Manulife Financial Corp., Series 5, Non- Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Dec 19, 2016, \$25.00	351,855	8,986	9,099
Canadian Imperial Bank of Commerce, Series 33, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jul 31, 2014, \$25.00	416,685	10,690	10,521	Manulife Financial Corporation, Class 1, Series 1, Non-Cumulative, 5-Year Rate Reset, Preferred, Exchangeable, Redeemable, Sep 19, 2014, \$25.00	743,419	18,983	18,905
Canadian Imperial Bank of Commerce, Series 35, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Apr 30, 2019, \$25.00	501,791	12,802	12,530	Manulife Financial Corporation, Class 7, Series 1, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Mar 19, 2017, \$25.00	165,700	4,333	4,335
Canadian Imperial Bank of Commerce, Series 37, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jul 28, 2014, \$25.00	473,435	12,235	11,964	Manulife Financial Corporation, Class A, Series 4, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jun 19, 2014, \$25.00	802,464	20,581	20,334
Canadian Western Bank & Trust, Series 3, Non- Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Apr 30, 2019, \$25.00	242,250	6,191	6,160	Manulife Financial Corporation, Series 11, Non- Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Mar 19, 2018, \$25.00	320,320	7,976	8,123
Canadian Western Bank, Series 5, Non-Cumulative, Fixed/Floater Rate Preferred, Apr 30, 2019, \$25.00	250,000	6,250	6,288	National Bank of Canada, Series 28, Non- Cumulative, 5-Year Rate Reset Preferred, Redeemable, Nov 15, 2017, \$25.00	58,550	1,478	1,512

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BMO Preferred Share Fund

(unaudited)

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at March 31, 2014 (in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
National Bank of Canada, Series 30, Non-Cumulative, Fixed/Floater Rate Preferred, Redeemable, Mar 15, 2019, \$25.00	400,000	10,000	10,144	BCE Inc., Series AJ, Cumulative, Floating Rate, Exchangeable, Perpetual, Preferred, Redeemable, May 8, 2014, \$25.50	25,000	561	538
Pembina Pipeline Corporation, Series 5, Cumulative, Fixed/Floater Rate Preferred, Redeemable, Jun 1, 2019, \$25.00	622,200	15,586	16,003	Brookfield Asset Management Inc., Class A, Series 34, Cumulative, Floating Perpetual Preferred, Mar 31, 2019, Redeemable, \$25.00	73,150	1,734	1,796
Power Financial Corporation, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2019, \$25.00	200,000	5,035	5,184	Brookfield Asset Management Inc., Series 13, Class A, Cumulative, Floating Rate, Preferred, Redeemable, Apr 23, 2014, \$25.00	38,800	700	660
Royal Bank of Canada, Series AJ, Non-Cumulative, Fixed to Floating Rate Preferred, Redeemable, Feb 24, 2019, \$25.00	391,010	9,873	9,932	Brookfield Asset Management Inc., Series 2, Floating Rate, Perpetual, Preferred, Redeemable, Apr 23, 2014, \$25.00	13,800	248	234
Royal Bank of Canada, Series AT, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 24, 2014, \$25.00	204,460	5,268	5,240	Toronto Dominion Bank, The, Series T, Non-Cumulative, Floating Rate, Preferred, Perpetual, Redeemable, Jul 31, 2018, \$25.00	465,133	11,687	11,568
Royal Bank of Canada, Series AV, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Aug 24, 2014, \$25.00	287,040	7,444	7,357	Toronto Dominion Bank, The, Series Z, Non-Cumulative, Floating Perpetual Preferred, Oct 31, 2018, Redeemable, \$25.00	263,150	6,592	6,563
Royal Bank of Canada, Series AX, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Nov 24, 2014, \$25.00	215,410	5,650	5,562			68,084	66,993
Royal Bank of Canada, Series AZ, Non-Cumulative, Fixed/Floater Rate, Preferred, Redeemable, Mar 24, 2019, \$25.00	325,000	8,237	8,294	Total Preferred Shares — 89.8%	774,546	774,605	
Sun Life Financial Inc., Class A, Series 6R Non-Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Jun 30, 2014, \$25.00	422,550	10,763	10,686	Total Investment Portfolio — 98.9%	853,092	852,805	
Sun Life Financial Inc., Series 12R, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Dec 31, 2016, \$25.00	198,430	5,080	5,131	Other Assets Less Liabilities — 1.1%			9,288
Toronto Dominion Bank, The, Series AE, Non-Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Apr 30, 2014, \$25.00	270,750	6,876	6,866	NET ASSETS — 100.0%			862,093
Toronto Dominion Bank, The, Series AG, Non-Cumulative, 5 Year Rate Reset, Preferred, Redeemable, Apr 30, 2014, \$25.00	403,756	10,268	10,239				
Toronto Dominion Bank, The, Series AI, Non-Cumulative, 5 Year Rate Reset, Preferred, Perpetual, Redeemable, Apr 30, 2014, \$25.00	505,800	12,991	12,954				
Toronto Dominion Bank, The, Series AK, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2014, \$25.00	195,750	5,045	5,021				
		479,299	478,422				
Preferred Shares - Floating Perpetual — 7.8%							
Bank of Montreal, Class B, Series 17, Non-Cumulative, Floating Perpetual Preferred, Redeemable, Aug 25, 2018, \$25.00	646,950	16,250	16,077				
Bank of Montreal, Class B, Series 13, Non-Cumulative, Preferred, Perpetual, Redeemable, Jun 5, 2014, \$25.50	330,971	8,425	8,516				
Bank of Nova Scotia, Series 19, Non-Cumulative, Floating Rate, Perpetual, Preferred, Redeemable, Apr 28, 2018, \$25.00	362,149	9,379	9,144				
Bank of Nova Scotia, Series 23, Non-Cumulative, Floating Rate, Preferred, Perpetual, Convertible, Redeemable, Jan 26, 2019, \$25	191,800	4,853	4,807				
BCE Inc., Series AD, Cumulative, Floating Rate, Perpetual, Preferred, Convertible, Redeemable, May 8, 2014, \$25.50	331,475	7,655	7,090				

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

	Number of Shares or Units	Cost* (\$)	Fair Value (\$)
BCE Inc., Series AJ, Cumulative, Floating Rate, Exchangeable, Perpetual, Preferred, Redeemable, May 8, 2014, \$25.50	25,000	561	538
Brookfield Asset Management Inc., Class A, Series 34, Cumulative, Floating Perpetual Preferred, Mar 31, 2019, Redeemable, \$25.00	73,150	1,734	1,796
Brookfield Asset Management Inc., Series 13, Class A, Cumulative, Floating Rate, Preferred, Redeemable, Apr 23, 2014, \$25.00	38,800	700	660
Brookfield Asset Management Inc., Series 2, Floating Rate, Perpetual, Preferred, Redeemable, Apr 23, 2014, \$25.00	13,800	248	234
Toronto Dominion Bank, The, Series T, Non-Cumulative, Floating Rate, Preferred, Perpetual, Redeemable, Jul 31, 2018, \$25.00	465,133	11,687	11,568
Toronto Dominion Bank, The, Series Z, Non-Cumulative, Floating Perpetual Preferred, Oct 31, 2018, Redeemable, \$25.00	263,150	6,592	6,563
		68,084	66,993
Total Preferred Shares — 89.8%	774,546	774,605	
Total Investment Portfolio — 98.9%	853,092	852,805	
Other Assets Less Liabilities — 1.1%			9,288
NET ASSETS — 100.0%			862,093

+ 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 FUND'S INVESTMENT PORTFOLIO IS CONCENTRATED IN THE FOLLOWING SEGMENTS AS AT:

	March 31 2014	September 30 2013
Money Market Investment		
Federal	—%	2.0%
Bonds & Debentures		
Federal	2.4%	—%
Exchange Traded Funds		
Canadian Equity Fund	6.4%	—%
Exchange Traded Fund	0.3%	1.2%
Preferred Shares	89.8%	97.4%
Other Assets Less Liabilities	1.1%	(0.6)%
	100.0%	100.0%

BMO Preferred Share Fund

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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 unaudited financial statements is for the period(s) ended March 31, 2014 and 2013 except for the comparative information in the Statement of Net Assets and the related notes which are as at September 30, 2013. 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 interim 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 NAV per unit for each series and the net assets 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.

Securities 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

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bid price provided by independent security pricing services. Short-term investments are included in the Statement of Investment Portfolio at their fair value. Unlisted warrants are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant. Mutual fund units and exchange traded funds held as investments are valued at their respective NAVs on each Valuation Date, as these values are the most readily and regularly available.

When the price of a security held in the Fund is unavailable, unreliable or not considered to reflect the current value, the Manager 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.

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

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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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.

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

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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 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 March 31, 2014 and September 30, 2013, 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.

Other assets and liabilities

Income receivable, subscriptions receivable, receivable for margins on futures and due from broker are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to broker, payables for margins on futures, 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, 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

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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 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.

Under IFRS, statement of cash flows is one of the primary financial statements required to be presented. The Fund will therefore be presenting statement

of cash flows 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 assets 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

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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 intention 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 2013 are included in Note 7(c), if applicable.

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 fees

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 fees). 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.

(c) Administration services

The Manager and its affiliates provide the Fund with certain facilities and services. Expenses are incurred by the Manager and by other members of Bank of Montreal Group of Companies for administration services required by the Fund, such as fund accounting, record keeping, processing orders, issuing statements, for acting as trustee for registered plans and for general administrative support. These fees are included in "Administration fees" in the Statement of Operations.

The Manager may, in some years and in certain cases, absorb a portion of management fees, fixed administration fees, administration services 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.

(d) 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 March 31, 2014 and 2013, where applicable.

(e) 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 March 31, 2014 and September 30, 2013, where applicable.

(f) Other related party transactions

From time to time, the Manager may on behalf of the Fund enter into transactions or arrangements with or

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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, Pyrford International Ltd., 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.

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

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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, 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.

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7. Fund specific information

(a) Fund and series information and change in units

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, Advisor Series, Series F, Series I and BMO Private Preferred Share Fund Series O ("Series O").

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

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

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

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.

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 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)	Mar. 31 2014
Series A	
Units issued and outstanding, beginning of period	1,242
Issued	1,190
Issued on reinvestment of distributions	16
Redeemed during the period	(350)
Units issued and outstanding, end of period	2,098
Advisor Series	
Units issued and outstanding, beginning of period	20
Issued	52
Issued on reinvestment of distributions	1
Redeemed during the period	(1)
Units issued and outstanding, end of period	72
Series F	
Units issued and outstanding, beginning of period	2
Issued	35
Issued on reinvestment of distributions	—
Redeemed during the period	(1)
Units issued and outstanding, end of period	36
Series I	
Units issued and outstanding, beginning of period	1,620
Issued	10,981
Issued on reinvestment of distributions	80
Redeemed during the period	(2)
Units issued and outstanding, end of period	12,679
Series O	
Units issued and outstanding, beginning of period	41,507
Issued	36,630
Issued on reinvestment of distributions	1,019
Redeemed during the period	(8,611)
Units issued and outstanding, end of period	70,545

BMO Preferred Share Fund

(unaudited)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

March 31, 2014

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

Series	Mar. 31, 2014		Sep. 30, 2013	
	NAV per Unit	Net Assets per Unit	NAV per Unit	Net Assets per Unit
Series A	10.11	10.09	10.05	10.03
Advisor Series	10.12	10.11	10.05	10.02
Series F	10.16	10.14	10.06	10.04
Series I	10.19	10.17	10.08	10.05
Series O	10.09	10.08	10.02	9.99

Series	Mar. 31, 2014		Sep. 30, 2013	
	Number of Units	Value of Units (\$)	Number of Units	Value of Units (\$)
Series A	97,846	989	97,000	975
Advisor Series	—	—	1,000	10
Series F	1,010	10	1,000	10
Series I	1,013	10	1,000	10
Series O	—	—	1	—

(c) Income taxes

As at the tax year-ended December 2013, the Fund had the following available capital and non-capital losses for income tax purposes:

Total Capital Losses (\$)	Total Non-Capital Losses (\$)	Non-Capital Losses That Expire in		
		2014 (\$)	2015 (\$)	2026 and thereafter (\$)
164	—	—	—	—

(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 Fees (%)	Fixed Administration Fees (%)
Series A	1.550	0.200
Advisor Series	1.550	0.200
Series F	0.650	0.200
Series I	*	*
Series O	0.030	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:

(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 periods are as follows:

	Mar. 31, 2014 (\$)
Total brokerage amounts paid	569
Total brokerage amounts paid to related parties	223

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

(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 March 31, 2014 and September 30, 2013 the Fund did not have significant exposure to currency risk.

Interest rate risk

As at March 31, 2014 and September 30, 2013 the Fund did not have significant exposure to interest rate risk.

Other market risk

As at March 31, 2014, 96.5% (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

BMO Preferred Share Fund

(unaudited)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

March 31, 2014

by 10% as at the periods ended, with all other factors remaining constant, net assets could possibly have increased or decreased, respectively, by approximately \$83,213 (September 30, 2013-\$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	
	Mar. 31, 2014	Sep. 30, 2013
R-1 High	-	2.0
AAA	2.4	-
AA	0.9	-
A	2.9	40.0
BBB	68.0	38.7
Below BBB	17.3	18.7
Unrated	0.7	-
Total	92.2	99.4

(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 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 tables below show the relevant disclosure.

As at March 31, 2014

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	57,529	-	-	57,529
Preferred Securities	774,605	-	-	774,605
Debt Securities	-	20,671	-	20,671
Total	832,134	20,671	-	852,805

As at September 30, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	5,062	-	-	5,062
Preferred Securities	432,299	-	-	432,299
Debt Securities	-	8,781	-	8,781
Total	437,361	8,781	-	446,142

(h) Securities lending

The Fund had assets involved in securities lending transactions outstanding as at March 31, 2014 and September 30, 2013 as follows:

	Mar. 31, 2014 (\$)	Sep. 30, 2013 (\$)
Aggregate value of securities on loan	20,746	1,171
Aggregate value of collateral received for the loan	21,789	1,238

8. Subsequent event

New series

Effective April 8, 2014, the Manager began offering Series D units which are available to investors who have an account with a discount brokerage. A reduced trailer commission is paid to discount brokerages in respect to Series D units which means a lower management fee can be charged.

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BMO Investments Inc.

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Treasurer & Financial Officer

Michelle Magnaye
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Fund Manager
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Fund Manager
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Member of the Investment Funds Institute of Canada

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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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