

# Semi-Annual Financial Statements 2016

BMO Asset Management Inc.

## BMO Canadian Alpha Plus Fund

**June 30, 2016**

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

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

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

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

## SEMI-ANNUAL FINANCIAL STATEMENTS

## Statement of Financial Position

<b>As at</b> (All amounts in thousands of Canadian dollars, except per unit data)	<b>June 30 2016</b>	<b>December 31 2015</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	1,844	971
Investments		
Non-derivative financial assets	32,683	24,635
Receivable for investments sold	2,676	—
Subscriptions receivable	8	22
Dividends receivable	65	53
Distribution receivable from investment trusts	1	1
<b>Total assets</b>	<b>37,277</b>	<b>25,682</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Payable for investments purchased	2,629	—
Redemptions payable	2	1
Non-derivative financial liabilities	3,608	2,639
Accrued expenses	48	31
Dividends payable on investments sold short	7	14
<b>Total liabilities</b>	<b>6,294</b>	<b>2,685</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>30,983</b>	<b>22,997</b>
<b>Net assets attributable to holders of redeemable units</b>		
Advisor Series Units	1,319	1,313
Series F Units	1	1
Series O Units	29,663	21,683
<b>Net assets attributable to holders of redeemable units per unit</b>		
Advisor Series Units	\$10.28	\$10.23
Series F Units	\$10.61	\$10.41
Series O Units	\$11.19	\$11.02

## SEMI-ANNUAL FINANCIAL STATEMENTS

## Statement of Comprehensive Income

<b>For the periods ended</b> (All amounts in thousands of Canadian dollars, except per unit data)	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>INVESTMENT INCOME</b>		
Interest income	2	2
Dividend income	326	156
Distributions from investment trusts	27	9
Other changes in fair value of investments and derivatives		
Net realized loss	(346)	(478)
Change in unrealized appreciation	712	1,010
Net gain on investments and derivatives	721	699
Foreign exchange (loss) gain	(16)	4
Total other income (loss)	(16)	4
<b>Total income</b>	<b>705</b>	<b>703</b>
<b>EXPENSES</b>		
Management fees (note 6)	36	27
Audit fees	5	5
Withholding taxes	1	—
Unitholder reporting costs	24	11
Security borrowing fees	8	9
Dividends paid on investments sold short	38	21
Commissions and other portfolio transaction costs (note 6)	12	7
<b>Total expenses</b>	<b>124</b>	<b>80</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>581</b>	<b>623</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		
Advisor Series Units	6	47
Series F Units	0	0
Series O Units	575	576
<b>Increase in net assets attributable to holders of redeemable units per unit (note 8)</b>		
Advisor Series Units	\$0.05	\$0.37
Series F Units	\$0.20	\$0.43
Series O Units	\$0.24	\$0.50

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

<b>For the periods ended</b> (All amounts in thousands of Canadian dollars)	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Advisor Series Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>1,313</b>	<b>1,391</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>6</b>	<b>47</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>6</b>	<b>47</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>1,319</b>	<b>1,438</b>
<b>Series F Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>1</b>	<b>1</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>0</b>	<b>0</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>0</b>	<b>0</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>1</b>	<b>1</b>
<b>Series O Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>21,683</b>	<b>11,655</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>575</b>	<b>576</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	8,853	4,250
Redemption of redeemable units	(1,448)	(958)
<b>Net increase from redeemable unit transactions</b>	<b>7,405</b>	<b>3,292</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>7,980</b>	<b>3,868</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>29,663</b>	<b>15,523</b>

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

<b>For the periods ended</b> (All amounts in thousands of Canadian dollars)	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Total Fund</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>22,997</b>	<b>13,047</b>
Increase in net assets attributable to holders of redeemable units	581	623
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	8,853	4,250
Redemption of redeemable units	(1,448)	(958)
<b>Net increase from redeemable unit transactions</b>	<b>7,405</b>	<b>3,292</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>7,986</b>	<b>3,915</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>30,983</b>	<b>16,962</b>

## Statement of Cash Flows

For the periods ended (All amounts in thousands of Canadian dollars)	June 30, 2016	June 30, 2015
<b>Cash flows from operating activities</b>		
Increase in net assets attributable to holders of redeemable units	581	623
Adjustments for:		
Foreign exchange loss (gain) on cash	19	(3)
Net realized loss on sale of investments and derivatives	346	478
Change in unrealized appreciation of investments and derivatives	(712)	(1,010)
Increase in dividends receivable	(12)	(3)
Increase in accrued expenses	17	3
Decrease in dividends payable on investments sold short	(7)	(2)
Return of capital distributions received	9	2
Purchases of investments	(6,149)	(4,864)
Proceeds from sale and maturity of investments	(1,146)	1,804
Cash inflows on derivatives	526	509
<b>Net cash from operating activities</b>	<b>(6,528)</b>	<b>(2,463)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuances of redeemable units	8,867	4,240
Amounts paid on redemption of redeemable units	(1,447)	(962)
<b>Net cash from financing activities</b>	<b>7,420</b>	<b>3,278</b>
Foreign exchange (loss) gain on cash	(19)	3
Net increase in cash	892	815
Cash at beginning of period	971	406
<b>Cash at end of period</b>	<b>1,844</b>	<b>1,224</b>
<b>Supplementary Information</b>		
Interest received, net of withholding taxes*	2	2
Dividends received, net of withholding taxes*	313	153
Distribution received from investment trusts*	36	11
Dividends paid on investments sold short, net of withholding taxes*	45	23

\*These items are from operating activities

## Schedule of Investment Portfolio

(All amounts in thousands of Canadian dollars, unless otherwise noted)

As at June 30, 2016

	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Long Positions</b>			
<b>EQUITIES</b>			
Consumer Discretionary — 8.6%			
CanadianTire Corporation, Limited, Class A	3,500	426	493
Dollarama Inc.	7,200	539	649
Gildan Activewear Inc.	13,400	457	507
Linamar Corporation	8,900	564	410
Magna International Inc.	13,700	760	621
		2,746	2,680
Consumer Staples — 8.2%			
Alimentation Couche-Tard Inc., Class B	37,700	1,313	2,092
Loblaw Companies Limited	6,500	430	449
		1,743	2,541
Energy — 16.6%			
ARC Resources Ltd.	22,200	471	491
Canadian Natural Resources Limited	8,280	325	330
Crescent Point Energy Corp.	15,300	297	312
Enbridge Inc.	11,200	550	613
Enerplus Corporation	58,200	477	495
Keyera Corp.	26,936	967	1,065
Parkland Fuel Corporation	17,800	407	400
Prairiesky Royalty Ltd.	13,165	380	323
Raging River Exploration Inc.	39,050	359	401
Storm Resources Ltd.	83,400	375	338
Whitecap Resources Inc.	37,500	398	371
		5,006	5,139
Financials — 31.9%			
Bank of Montreal	6,900	545	565
Bank of Nova Scotia, The,	12,100	732	766
Brookfield Asset Management Inc., Class A	21,800	827	932
Brookfield Property Partners L.P.	20,500	534	595
Canadian Imperial Bank of Commerce	4,200	401	408
Canadian Western Bank	16,700	509	412
Fiera Capital Corporation	49,300	554	631
First National Financial Inc.	19,500	576	584
Genworth MI Canada Inc.	9,800	337	325
Gluskin Sheff + Associates Inc.	19,250	483	321
Home Capital Group Inc.	11,200	414	359
Industrial Alliance Insurance and Financial Services Inc.	9,150	401	372
Laurentian Bank of Canada	7,300	357	352
Manulife Financial Corporation	23,950	493	423
National Bank of Canada	20,250	873	895
Power Corporation of Canada	17,600	515	484
Royal Bank of Canada	7,800	577	596
Sun Life Financial Inc.	19,400	761	823
		9,889	9,843
Industrials — 15.0%			
Air Canada	49,500	503	440
Badger Daylighting Ltd.	16,100	392	362

# BMO Canadian Alpha Plus Fund (unaudited)

## SEMI-ANNUAL FINANCIAL STATEMENTS

### Schedule of Investment Portfolio CONTINUED

(All amounts in thousands of Canadian dollars, unless otherwise noted)

As at June 30, 2016

	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Bird Construction Inc.	34,300	423	459
Boyd Group Income Fund	28,600	1,399	2,124
Brookfield Business Partners L.P.	436	13	11
Canadian Pacific Railway Limited	3,850	755	640
New Flyer Industries Inc.	9,900	279	398
Stantec Inc.	7,000	234	219
		3,998	4,653
Information Technology — 9.0%			
CGI Group Inc., Class A	7,050	319	389
Constellation Software Inc.	3,350	1,336	1,675
Kinaxis Inc.	6,700	302	348
Open Text Corporation	4,800	298	367
		2,255	2,779
Materials — 9.6%			
CCL Industries Inc., Class B	2,300	451	517
Centerra Gold Inc.	56,900	415	438
Domtar Corporation, Toronto Exchange	5,700	276	258
First Quantum Minerals Ltd.	42,400	327	385
Goldcorp Inc.	18,900	454	467
Tahoe Resources Inc.	23,800	408	461
Yamana Gold Inc.	67,600	462	454
		2,793	2,980
Telecommunication Services — 1.9%			
Rogers Communications Inc., Class B	11,500	515	601
Utilities — 4.7%			
Canadian Utilities Limited, Class A	9,300	324	348
Fortis Inc.	17,900	688	781
Innergex Renewable Energy Inc.	23,300	274	338
		1,286	1,467
Total Long Positions — 105.5%		30,231	32,683

	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Short Positions</b>			
<b>EQUITIES</b>			
Consumer Staples — (1.0%)			
Cott Corporation	(16,600)	(245)	(300)
Energy — (4.2%)			
AltaGas Ltd.	(9,700)	(301)	(305)
Freehold Royalties Ltd.	(26,400)	(269)	(314)
Imperial Oil Limited	(3,800)	(152)	(155)
Mullen Group Ltd.	(10,700)	(152)	(151)
Pason Systems Inc.	(17,100)	(318)	(305)
ShawCor Ltd.	(2,300)	(75)	(74)
		(1,267)	(1,304)



SEMI-ANNUAL FINANCIAL STATEMENTS

**Schedule of Investment Portfolio** CONTINUED

(All amounts in thousands of Canadian dollars, unless otherwise noted)

As at June 30, 2016

	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Financials — (1.5)%			
Dundee Corporation, Class A	(20,750)	(226)	(158)
Onex Corporation	(3,800)	(273)	(300)
		(499)	(458)
Industrials — (1.0)%			
Bombardier Inc., Class B	(159,700)	(216)	(310)
Information Technology — (1.0)%			
Redknee Solutions Inc.	(84,750)	(250)	(158)
Shopify Inc., Class A	(3,900)	(153)	(155)
		(403)	(313)
Materials — (2.0)%			
Canexus Corporation	(60,150)	(164)	(76)
Dominion Diamond Corporation	(26,900)	(316)	(308)
Methanex Corporation	(4,000)	(155)	(150)
Sherritt International Corporation	(97,500)	(171)	(78)
		(806)	(612)
Utilities — (1.0)%			
TransAlta Corporation	(46,300)	(289)	(311)
Total Short Positions — (11.7)%		(3,725)	(3,608)
Total Investment Portfolio — 93.8%		26,506	29,075
Other Assets Less Liabilities — 6.2%			1,908
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS — 100.0%</b>			<b>30,983</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2016 (All amounts in thousands of Canadian dollars, except per unit data)

**1. The Fund**

BMO Canadian Alpha Plus Fund ("the Fund") is a pooled trust fund established by a Trust Indenture under the laws of the Province of Ontario. The Fund is relying on the exemption in Section 2.11 of National Instrument 81-106 that exempts the Fund from filing these financial statements with a securities regulatory authority. The address of the Fund's registered office is 100 King Street West, Toronto, Ontario, M5X 1A1.

The information provided in these unaudited interim financial statements is for the periods ended June 30, 2016 and June 30, 2015, except for the comparative information in the Statement of Financial Position and the related notes which are as at December 31, 2015.

These financial statements were authorized for issue by BMO Asset Management Inc. (the "Manager") on August 10, 2016.

These financial statements should be read in conjunction with the annual financial statements for the period ended December 31, 2015 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

**2. Basis of preparation and presentation**

These unaudited interim financial statements have been prepared in accordance with IFRS and in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

**3. Summary of significant accounting policies**

**Financial instruments**

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

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

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

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

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

The Fund has determined that it meets the definition of "investment entity" and as a result, it measures subsidiaries, if any at FVTPL.

**Cost of investments**

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

**Fair value measurement**

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

June 30, 2016 (All amounts in thousands of Canadian dollars, except per unit data)

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

Procedures are in place to fair value securities traded in countries outside of North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

For bonds, debentures, asset-backed securities and other debt securities, fair value is represented by bid prices provided by independent security pricing services. Short-term investments, if any, are fair valued; and in certain circumstances may be held at amortized cost, which approximates 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 Net Asset Value ("NAV") on each Valuation Date (the "Valuation Date" is each day on which the Toronto Stock Exchange is open for trading) as these values are the most readily and regularly available.

For securities where market quotes are not available, unreliable or not considered to reflect the current value, the Fund may determine another value which it considers to be fair and reasonable, or use a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies and other applicable rates or prices. These estimation techniques include discounted cash flows, internal models that utilize observable data or comparisons with other securities that are substantially similar. In limited circumstances, the Fund uses internal models where the inputs are not based on observable market data.

#### **Derivative instruments**

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

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

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

#### **Income recognition**

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

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

#### **Foreign currency translation**

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

June 30, 2016 (All amounts in thousands of Canadian dollars, except per unit data)

### Cash

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

### Other assets and other liabilities

Receivables for investments sold, dividends receivable, distribution from investment trusts, and subscriptions receivable are initially recorded at fair value and subsequently measured at amortized cost. Similarly, payable for investment purchased, redemptions payable, distributions payable and accrued expenses are measured at amortized cost. Other assets and liabilities are short-term in nature, and are carried at cost or amortized cost.

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

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

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the periods ended June 30, 2016 and June 30, 2015 is calculated as follows:

<b>For the periods ended</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Advisor Series Units</b>		
Increase in net assets attributable to holders of redeemable units	6	47
Weighted average units outstanding during the period	128	128
Increase in net assets attributable to holders of redeemable units per unit	0.05	0.37
<b>Series F Units</b>		
Increase in net assets attributable to holders of redeemable units	0	0
Weighted average units outstanding during the period	0	0
Increase in net assets attributable to holders of redeemable units per unit	0.20	0.43
<b>Series O Units</b>		
Increase in net assets attributable to holders of redeemable units	575	576
Weighted average units outstanding during the period	2,351	1,153
Increase in net assets attributable to holders of redeemable units per unit	0.24	0.50

### Taxation

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

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

As of the tax year-ended December 31, 2015, the fund's capital losses carried forward were \$1,429.

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

June 30, 2016 (All amounts in thousands of Canadian dollars, except per unit data)

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

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

### **Unconsolidated structured entities**

During the periods, the Fund had no sponsored unconsolidated structured entities. The Fund has determined that its investments in underlying funds, securitizations, asset-backed securities and mortgage-backed securities, if any, are unconsolidated structured entities. The determination is based on the fact that decision making about the underlying funds, securitizations, asset-backed securities and mortgage-backed securities is not governed by the voting right or other similar right held by the Fund.

The Fund invests in underlying funds whose investment objectives range from achieving short-term to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives and as permitted by Canadian securities regulatory authorities. Underlying funds finance their operations by issuing redeemable units which are puttable at the holders' option and entitles the holder to a proportionate value in the respective fund's Net Assets. The change in fair value of each of the underlying funds during the periods is including in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income.

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

The Fund does not provide and has not committed to providing any additional significant financial or other support to the unconsolidated structured entities other than its investments in the unconsolidated structured entities. Additional information on the fund's interest in unconsolidated structured entities, where applicable, is provided in Note 9.

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

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

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

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

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

The new standard requires assets to be carried at amortized cost, FVTPL or fair value through other comprehensive income based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The classification and measurement of liabilities

June 30, 2016 (All amounts in thousands of Canadian dollars, except per unit data)

remains generally unchanged with the exception of liabilities recorded at FVTPL. For these liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income.

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

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

#### **4. Critical accounting judgments and estimates**

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

##### **Accounting judgements:**

###### **Functional and presentation currency**

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

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

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

##### **Accounting estimates:**

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

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

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

#### **5. Units and unit transactions**

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

The units have no par value and are entitled to distributions, if any. Upon redemption, a unit is entitled to a proportionate share of the Fund's NAV. The Fund is required to pay distributions in an amount not less than the amount necessary to ensure the Fund will not be liable for income taxes on realized capital gains, dividend and interest. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements in redeemable units are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 6, the Fund endeavours to invest the subscriptions received in appropriate investments, while maintaining sufficient liquidity to meet redemptions, with such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

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Redeemable units of the Fund are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit to 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 (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 the units of the series of the fund outstanding at such time on each Valuation Date, in accordance with Part 14 of National Instrument ("NI") 81-106 Investment Fund Continuous Disclosure for the purpose of unitholder transactions.

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.

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

For the periods ended	June 30, 2016	June 30, 2015
(in thousands of units)		
<b>Advisor Series Units</b>		
Units issued and outstanding, beginning of period	128	128
Units issued and outstanding, end of period	128	128
<b>Series F Units</b>		
Units issued and outstanding, beginning of period	0	0
Units issued and outstanding, end of period	0	0
<b>Series O Units</b>		
Units issued and outstanding, beginning of period	1,968	1,012
Issued for cash	817	358
Redeemed during the period	(133)	(80)
Units issued and outstanding, end of period	2,652	1,290

Advisor Series Units are available to Accredited Investors who meet the minimum purchase amount or those investing a minimum of \$150 in units of the Fund.

Series F Units are only available to Accredited Investors who are enrolled in dealer-sponsored wrap programs or flat fee accounts and who meet the minimum purchase amount or those investing a minimum of \$150 in units of the Fund and in each case whose dealer has entered into an agreement with the Manager.

Investors may only purchase Series O Units of the Fund if they have entered into an investment management agreement relating to the wealth management service offered through BMO Financial Group pursuant to which BMO Harris Investment Management Inc. has been appointed as the investment manager of the account.

#### Reconciliation of NAV to Net Assets

As at June 30, 2016 and December 31, 2015, there were no differences between the Fund's NAV per unit and its Net Assets per unit calculated in accordance with IFRS.

## 6. 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 provides key management personnel to the Fund, monitors and evaluates the performance of the Fund, pays for the investment management services of the investment managers and provides all related administrative services required by the Fund. As compensation for its services, the Manager is paid an annual management fee of 2.00% for Series A, 1.00% for Series F and up to 0.15% for Series O per annum of the NAV of the respective series, accrued and calculated daily and paid monthly in arrears, together with applicable taxes.

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**(b) Brokerage commissions**

The Fund may execute trades with and through BMO Nesbitt Burns Inc., an affiliate of the Manager based on established standard brokerage agreements at market prices. These fees are included in “Commissions and other portfolio transaction costs” in the Statement of Comprehensive Income.

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

For the periods ended	June 30, 2016	June 30, 2015
Total brokerage amounts paid	12	7
Total brokerage amounts paid to related parties	9	6

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

**(c) Initial investments**

The Manager held the following units of the Fund:

Series	June 30, 2016		December 31, 2015	
	Number of Units	Value of Units (\$)	Number of Units	Value of Units (\$)
Series F	94	1	94	1
Advisor Series	128,365	1,319	128,365	1,313
Series O	131,655	1,473	131,655	1,450

**(d) Other related party fees**

From time to time, the Manager may, on behalf of the Fund, enter into transactions or arrangements with or involving subsidiaries or affiliates of the Bank of Montreal, or certain other persons or companies that are related or connected to the Manager of the Fund. These transactions or arrangements may include transactions or arrangements with or involving subsidiaries or affiliates of the Bank of Montreal, including BMO AM Corp., BMO Asset Management Inc., BMO InvestorLine, BMO Nesbitt Burns Inc., BMO Private Investment Counsel Inc., Money Inc., Pyford International Limited, or other investment funds offered by Bank of Montreal and may involve the purchase or sale of portfolio securities through or from a subsidiary or affiliates of the Bank of Montreal, the purchase or sale of securities issued or guaranteed by a subsidiary or affiliates of the Bank of Montreal, entering into forward contracts with a subsidiary or affiliates of the Bank of Montreal acting as counterparty, the purchase or redemption of units of other Bank of Montreal investment funds or the provision of services to the Manager.

**7. Financial instruments risks**

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

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

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

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



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**(a) Currency risk**

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

As at June 30, 2016 and December 31, 2015, the Fund did not have any significant exposure to currency risk as it invested fully in Canadian securities.

**(b) Interest rate risk**

Interest rate risk is the risk that the fair value of the Fund's interest bearing investments will fluctuate due to changes in market interest rates. The Fund's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, money market investments, short-term investments and debentures) and interest rate derivative instruments, if any. Other assets and liabilities are short-term in nature and/or non-interest bearing.

As at June 30, 2016 and December 31, 2015, the Fund did not have any significant exposure to interest rate risk.

**(c) Other market risk**

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature, as such they are not subject to other market risk.

The Fund has a significant exposure to other market risk arising from its investment in equity securities. Using historical correlation between the Fund's return and the return of its benchmark, if the benchmark, S&P/TMX Composite TR Index, had increased or decreased by 10%, with all other variables held constant, the Net Assets of the Fund would have increased or decreased, respectively, by \$2,633 (December 31, 2015 — \$1,939). Historical correlation may not be representative of future correlation, and accordingly, actual results may differ and the difference could be material.

**(d) Credit risk**

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the 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.

As at June 30, 2016 and December 31, 2015, the Fund did not have any significant exposure to credit risk.

**(e) Liquidity risk**

The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Fund primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Fund retains sufficient cash and cash equivalent positions to maintain liquidity. The Fund may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. Securities for which a market quotation could not be obtained and may be illiquid are identified on the Schedule 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. There were no such illiquid securities held by the Fund as at June 30, 2016 and December 31, 2015.

**(f) Short selling risk**

Short selling risk is the risk of loss related to short selling transactions. The Fund will profit from a short sale transaction if the value of the borrowed security declines in value from the time the Fund sells the stock to the time the Fund closes out its short position. There is no certainty that the security price will

June 30, 2016 (All amounts in thousands of Canadian dollars, except per unit data)

decline, and unlike long positions, where the risk of loss is limited to the amount of the initial investment, short positions may be closed out at a price that would result in a significant loss for the Fund. The Fund's discretion may be limited in an open short sale transaction. For example, the lender may recall the security unexpectedly, or go bankrupt thereby jeopardizing the recoverability of collateral. As well, the Fund may encounter difficulty repurchasing the security should that security's liquidity become compromised in the marketplace. The Fund mitigates such risk by shorting only liquid securities, and by depositing the appropriate collateral against the short positions. As at June 30, 2016, 12.1% (December 31, 2014 – 10.8%) of the Fund's Net Assets were short sale positions.

**(g) Concentration risk**

The Fund's concentration risk is summarized in the following table:

As at	June 30, 2016	December 31, 2015
<b>Equities</b>		
Consumer Discretionary	8.6%	9.5%
Consumer Staples	7.2%	9.2%
Energy	12.4%	11.6%
Financials	30.4%	34.1%
Industrials	14.0%	14.2%
Information Technology	8.0%	10.0%
Materials	7.6%	1.2%
Telecommunication Services	1.9%	2.0%
Utilities	3.7%	3.8%
Other Assets Less Liabilities	6.2%	4.4%
	<b>100.0%</b>	<b>100.0%</b>

**8. Financial assets and financial liabilities**

**Categories of financial assets and financial liabilities**

The categories of financial assets and financial liabilities are summarized in the following table:

As at	June 30, 2016	December 31, 2015
Financial assets designated at FVTPL	32,683	24,635
Loans and receivables	2,750	76
Financial liabilities held for trading	3,608	2,639
Financial liabilities measured at amortized cost	2,686	46

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

For the periods ended	June 30, 2016	June 30, 2015
<b>Net realized gains (losses) on financial assets</b>		
Designated at FVTPL	127	(207)
Held for trading	(118)	(104)
	<b>9</b>	<b>(311)</b>
<b>Total net realized gains (losses) on financial assets and financial liabilities</b>		
	<b>9</b>	<b>(311)</b>
<b>Change in unrealized gains (losses) on financial assets</b>		
Designated at FVTPL	1,022	1,038
Held for trading	(310)	(28)
	<b>712</b>	<b>1,010</b>
<b>Total change in unrealized gains (losses) on financial assets and financial liabilities</b>		
	<b>712</b>	<b>1,010</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

June 30, 2016 (All amounts in thousands of Canadian dollars, except per unit data)

### 9. Fair value hierarchy levels

The Fund classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets or based on observable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The tables below show the relevant disclosure.

#### As at June 30, 2016

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities-Long Positions	32,682	—	—	32,682
<b>Financial liabilities</b>				
Equity Securities-Short Positions	(3,607)	—	—	(3,607)

#### As at December 31, 2015

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities-Long Positions	24,635	—	—	24,635
<b>Financial liabilities</b>				
Equity Securities-Short Positions	(2,639)	—	—	(2,639)

#### Transfers between levels

There were no transfers between the levels during the periods.



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