

Financial Statements of

**ALGONQUIN FIXED
INCOME 2.0 FUND**

And Independent Auditors' Report thereon

Year ended December 31, 2020 and period from
December 9, 2019 (commencement of operations)
to December 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Algonquin Fixed Income 2.0 Fund

Opinion

We have audited the financial statements of Algonquin Fixed Income 2.0 Fund (the Fund), which comprise:

- the statements of financial position as at December 31, 2020 and 2019
- the statements of comprehensive income for the year ended December 31, 2020 and the period from December 9, 2019 (commencement of operations) to December 31, 2019
- the statements of changes in net assets attributable to holders of redeemable units for the year ended December 31, 2020 and the period from December 9, 2019 (commencement of operations) to December 31, 2019
- the statements of cash flows for the year ended December 31, 2020 and the period from December 9, 2019 (commencement of operations) to December 31, 2019
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2020 and 2019, and its financial performance and its cash flows for the year ended December 31, 2020 and the period from December 9, 2019 (commencement of operations) to December 31, 2019 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.



Other Information

Management is responsible for the other information. Other information comprises:

- the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information or appears to be materially misstated.

We obtained the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 31, 2021

ALGONQUIN FIXED INCOME 2.0 FUND

Statements of Financial Position December 31, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Investments owned (note 8) (Cost: \$168,443,897; 2019: nil)	\$ 170,946,455	\$ —
Unrealized gain on foreign exchange forward contracts	323,877	—
Subscriptions receivable (note 10)	7,267	—
Due from broker (note 3)	—	150,000
Receivable for investments sold	2,116,000	—
Interest and dividends receivable	1,298,746	—
Prepaid expenses	20,800	—
Expense reimbursements receivable (note 5)	113,075	34,489
	<u>174,826,220</u>	<u>184,489</u>
LIABILITIES		
Current liabilities		
Investments sold short (note 8) (Proceeds: \$93,717,425; 2019: nil)	93,598,394	—
Due to broker (note 3)	20,162,581	—
Accounts payable and accrued liabilities	100,570	34,465
Due to Manager (note 5)	22,199	—
Interest payable on investments sold short	244,871	—
Management fees payable (note 5)	28,555	24
Redemptions payable (note 11)	392,319	—
Distributions payable	346,390	—
	<u>114,895,879</u>	<u>34,489</u>
Net Assets Attributable to Holders of Redeemable Units	<u>\$ 59,930,341</u>	<u>\$ 150,000</u>
Net Assets Attributable to Holders of Redeemable Units per Series		
Series A	\$ 850,369	\$ —
Series F	4,598,231	150,000
Series FF	49,982,934	—
Series I	4,498,807	—
	<u>\$ 59,930,341</u>	<u>\$ 150,000</u>
Number of Redeemable Units Outstanding (note 6)		
Series A	8,156	—
Series F	43,136	1,500
Series FF	480,437	—
Series I	43,198	—
Net Assets Attributable to Holders of Redeemable Units per Unit (note 9)		
Series A	\$ 104.26	\$ —
Series F	106.60	100.00
Series FF	104.04	—
Series I	104.14	—

Approved on behalf of the Fund by the Trustee and Manager,
Algonquin Capital Corporation:

ALGONQUIN FIXED INCOME 2.0 FUND

Statements of Comprehensive Income

Year ended December 31, 2020 and period from

December 9, 2019 (commencement of operations) to December 31, 2019

	2020	2019
Income		
Interest income for distribution purposes	\$ 3,983,943	\$ —
Dividend income	402,015	—
Net realized gain on sale of investments, including foreign exchange adjustments (note 2)	545,595	—
Net realized gain on foreign exchange forward contracts	60,896	—
Net change in unrealized gain on foreign exchange forward contracts	323,877	—
Net change in unrealized appreciation in value of investments (note 2)	2,630,584	—
	<u>7,946,911</u>	<u>—</u>
Expenses		
Interest and borrowing fees (note 2)	1,540,543	—
Management fees (note 5)	232,179	24
Operating costs	104,930	3,955
Independent review committee fees	50,497	—
Audit fees	42,714	30,510
Commissions and other portfolio transaction costs	21,843	—
Legal fees	17,871	—
	<u>2,010,577</u>	<u>34,489</u>
Expenses reimbursed by the Manager (note 5)	<u>(113,075)</u>	<u>(34,489)</u>
	1,897,502	—
Increase in Net Assets Attributable to Holders of Redeemable Units	<u>\$ 6,049,409</u>	<u>\$ —</u>
Increase in Net Assets Attributable to Holders of Redeemable Units per Series		
Series A	\$ 69,273	\$ —
Series F	201,561	—
Series FF	5,492,571	—
Series I	286,004	—
	<u>\$ 6,049,409</u>	<u>\$ —</u>
Increase in Net Assets Attributable to Holders of Redeemable Units per Unit (note 9)		
Series A	\$ 13.19	\$ —
Series F	15.24	—
Series FF	14.01	—
Series I	9.42	—

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

ALGONQUIN FIXED INCOME 2.0 FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

	Net assets attributable to holders of redeemable units, beginning of year	Proceeds from redeemable units issued	Redemption of redeemable units	Distributions to holders of redeemable units	Reinvestments of distributions	Increase in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of year
December 31, 2020							
Series A	\$ —	\$ 1,353,597	\$ (555,858)	\$ (33,698)	\$ 17,055	\$ 69,273	\$ 850,369
Series F	150,000	4,849,664	(557,023)	(127,894)	81,923	201,561	4,598,231
Series FF	—	49,718,587	(4,857,120)	(2,647,897)	2,276,793	5,492,571	49,982,934
Series I	—	5,400,943	(1,188,140)	(254,069)	254,069	286,004	4,498,807
	<u>\$ 150,000</u>	<u>\$ 61,322,791</u>	<u>\$ (7,158,141)</u>	<u>\$ (3,063,558)</u>	<u>\$ 2,629,840</u>	<u>\$ 6,049,409</u>	<u>\$ 59,930,341</u>
	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued	Redemption of redeemable units	Distributions to holders of redeemable units	Reinvestments of distributions	Increase in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
December 31, 2019	\$ —	\$ 150,000	\$ —	\$ —	\$ —	\$ —	\$ 150,000

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

ALGONQUIN FIXED INCOME 2.0 FUND

Statements of Cash Flows

Year ended December 31, 2020 and period from
December 9, 2019 (commencement of operations) to December 31, 2019

	2020	2019
Cash provided by (used in):		
Operating Activities		
Increase in Net Assets Attributable to Holders of Redeemable Units	\$ 6,049,409	\$ —
Adjustments		
Net realized gain on sale of investments, including foreign exchange adjustments	(545,595)	—
Net realized gain on foreign exchange forward contracts	(60,896)	—
Net change in unrealized gain on foreign exchange forward contracts	(323,877)	—
Net change in unrealized appreciation in value of investments	(2,630,584)	—
Increase in receivable for investments sold	(2,116,000)	—
Increase in interest and dividends receivable	(1,298,746)	—
Increase in prepaid expenses	(20,800)	—
Increase in expense reimbursements receivable	(78,586)	(34,489)
Increase in accounts payable and accrued liabilities	66,105	34,465
Increase in due to Manager	22,199	—
Increase in interest and borrowing fees payable	244,871	—
Increase in management fees payable	28,531	24
Proceeds from sale of investments	543,223,876	—
Purchase of investments	(617,351,251)	—
Cash used in operating activities	<u>(74,791,345)</u>	<u>—</u>
Financing Activities		
Proceeds from redeemable units issued	61,315,524	150,000
Amount paid on redemption of redeemable units	(6,765,822)	—
Distributions paid to holders of redeemable units, net of reinvestments	(87,328)	—
Cash provided by financing activities	<u>54,462,374</u>	<u>150,000</u>
(Decrease) increase in cash and cash equivalents during the year	(20,328,971)	150,000
Foreign exchange gain on cash and cash equivalents	16,390	—
Cash and cash equivalents, beginning of year	150,000	—
Cash and cash equivalents, end of year	<u>\$ (20,162,581)</u>	<u>\$ 150,000</u>
Cash and cash equivalents represented by:		
Due to broker	\$ (20,162,581)	\$ —
Due from broker	—	150,000
	<u>\$ (20,162,581)</u>	<u>\$ 150,000</u>
Supplemental information*		
Interest paid	\$ 998,397	\$ —
Interest received	2,809,549	—
Dividends received, net of withholding taxes	277,663	—

*Included as a part of cash flows from operating activities

ALGONQUIN FIXED INCOME 2.0 FUND

Schedule of Investment Portfolio

As at December 31, 2020

Number of shares/units /par value	Investments owned	Average cost	Fair value	% of net asset value
Canadian fixed income				
500,000	Allied Properties Real Estate Investment Trust 3.113% 08APR27	\$ 506,325	\$ 534,134	0.89
500,000	Allied Properties Real Estate Investment Trust 3.117% 21FEB30	500,000	525,364	0.88
1,000,000	Allied Properties Real Estate Investment Trust 3.636% 21APR25	1,055,258	1,085,519	1.81
2,025,000	Allied Properties Real Estate Investment Trust 3.934% 14NOV22	2,088,119	2,138,217	3.57
1,000,000	AltaGas Canada Inc. 3.13% 07APR27	1,000,000	1,103,330	1.84
500,000	AltaGas Canada Inc. 3.15% 06APR26	514,530	547,255	0.91
500,000	AltaGas Canada Inc. 4.26% 05DEC28	565,110	594,955	0.99
500,000	AltaGas Ltd. 2.157% 10JUN25	500,000	520,005	0.87
300,000	AltaGas Ltd. 2.477% 30NOV30	300,000	304,485	0.51
1,000,000	AltaGas Ltd. 2.609% 16DEC22	1,012,710	1,036,060	1.73
25,000	AltaGas Ltd. 3.57% 12JUN23	25,789	26,477	0.04
1,541,000	AltaGas Ltd. 3.72% 28SEP21	1,581,869	1,576,212	2.63
500,000	Bank of Montreal 2.077% 17JUN30	500,000	517,230	0.86
500,000	Bank of Montreal 4.30% 26NOV80	506,000	519,800	0.87
1,500,000	BCI QuadReal Realty 1.747% 24JUL30	1,511,488	1,520,745	2.54
2,000,000	Bell Canada 3% 03OCT22	2,069,660	2,079,140	3.47
500,000	Bell Canada 3.50% 30SEP50	527,310	526,985	0.88
500,000	Brookfield Asset Management Inc. 4.82% 28JAN26	556,055	579,200	0.97
625,000	Canadian Government Bond 1% 01SEP22	633,427	633,694	1.06
160,000	Canadian Government Bond 1.75% 01MAR23	165,141	165,208	0.28
1,425,000	Canadian Government Bond 2.25% 01JUN25	1,541,754	1,544,444	2.58
1,105,000	Canadian Government Bond 2.25% 01MAR24	1,174,239	1,174,029	1.96
1,500,000	Canadian Imperial Bank of Commerce 2% 17APR25	1,498,860	1,566,465	2.61
500,000	Canadian Imperial Bank of Commerce 2.01% 21JUL30	499,810	514,570	0.86
500,000	Canadian Imperial Bank of Commerce 4.375% 28OCT80	500,000	515,940	0.86
1,000,000	Canadian Western Bank 1.57% 14SEP23	1,000,000	1,018,320	1.70
2,000,000	Canadian Western Bank 1.818% 16DEC27	2,000,983	2,015,680	3.36
535,000	Canadian Western Bank 2.833% 14MAR22	547,952	549,354	0.92
400,000	Canadian Western Bank 6% 30APR81	400,000	416,752	0.70
1,000,000	Chartwell Retirement Residences 3.786% 11DEC23	1,029,360	1,044,860	1.74
2,000,000	Chip Mortgage Trust 1.738% 15DEC25	2,000,000	2,017,520	3.37
250,000	Choice Properties LP 3.60% 20SEP22	255,215	260,528	0.43
1,500,000	Choice Properties Real Estate Investment Trust 3.01% 21MAR22	1,543,590	1,541,130	2.57
500,000	Choice Properties Real Estate Investment Trust 3.827% 04MAR50	500,000	521,680	0.87
1,498,000	Choice Properties Real Estate Investment Trust 4.903% 05JUL23	1,616,525	1,632,281	2.72
686,000	CI Financial Corp. 2.775% 25NOV21	692,511	697,525	1.16
500,000	CI Financial Corp. 3.215% 22JUL24	507,175	524,940	0.88
749,000	CI Financial Corp. 3.52% 20JUL23	772,803	787,162	1.31
360,000	CI Financial Corp. 3.759% 26MAY25	360,000	386,068	0.64

ALGONQUIN FIXED INCOME 2.0 FUND

Schedule of Investment Portfolio (continued)

As at December 31, 2020

Number of shares/units /par value	Investments owned (continued)	Average cost	Fair value	% of net asset value
Canadian fixed income (continued)				
2,225,000	Coast Capital Savings Federal Credit Union 1.03125% 21JUL21	\$ 2,195,897	\$ 2,214,676	3.70
3,000,000	Cogeco Cable Inc. 4.175% 26MAY23	3,213,770	3,202,200	5.34
3,525,000	Cogeco Communications Inc. 4.925% 14FEB22	3,706,735	3,683,484	6.15
1,000,000	Crombie Real Estate Investment Trust 2.686% 31MAR28	1,002,764	1,036,160	1.73
1,000,000	Crombie Real Estate Investment Trust 3.211% 09OCT30	1,001,885	1,051,430	1.75
295,000	Crombie Real Estate Investment Trust 3.677% 26AUG26	318,393	323,942	0.54
500,000	Crombie Real Estate Investment Trust 3.917% 21JUN27	509,600	557,275	0.93
264,000	Crombie Real Estate Investment Trust 3.962% 01JUN21	269,914	267,559	0.45
1,550,000	Crombie Real Estate Investment Trust 4.066% 21NOV22	1,632,000	1,635,235	2.73
258,000	Crombie Real Estate Investment Trust 4.80% 31JAN25	285,271	290,619	0.48
750,000	Dream Industrial Real Estate Investment Trust 1.662% 22DEC25	750,000	753,818	1.26
500,000	Eagle Credit Card Trust 1.273% 17JUL25	500,000	505,200	0.84
1,500,000	Emera Inc. 2.90% 16JUN23	1,545,040	1,574,025	2.63
300,000	Enbridge Inc. 2.44% 02JUN25	299,925	316,218	0.53
500,000	Fairfax Financial Holdings Ltd. 4.50% 22MAR23	530,545	532,115	0.89
1,000,000	Federation des Caisses Desjardins du Quebec 2.417% 04OCT24	1,012,510	1,057,010	1.76
600,000	Federation des Caisses Desjardins du Quebec 2.856% 26MAY30	600,000	639,306	1.07
1,000,000	Ford Credit Canada Co. 2.71% 23FEB22	1,000,000	1,001,340	1.67
1,500,000	Ford Credit Canada Co. 3.50% 30NOV23	1,500,000	1,507,860	2.52
1,760,000	Ford Credit Canada Ltd. 2.58% 10MAY21	1,756,015	1,764,242	2.94
2,000,000	George Weston Ltd. 4.115% 17JUN24	2,168,180	2,189,440	3.65
525,000	Gibson Energy Inc. 2.45% 14JUL25	523,971	546,137	0.91
350,000	Gibson Energy Inc. 2.85% 14JUL27	349,913	370,955	0.62
500,000	Gibson Energy Inc. 3.60% 17SEP29	517,508	548,190	0.91
400,000	Gibson Energy Inc. 5.25% 22DEC80	400,000	408,752	0.68
500,000	Glacier Credit Card Trust 1.388% 22SEP25	500,000	506,630	0.85
700,000	Granite REIT Holdings LP 2.378% 18DEC30	700,000	711,543	1.19
425,000	Granite REIT Holdings LP 3.062% 04JUN27	425,000	462,128	0.77
250,000	H&R Real Estate Investment Trust 2.906% 02JUN26	250,000	254,153	0.42
2,000,000	HSBC Bank Canada 3.245% 15SEP23	2,076,540	2,135,240	3.56
500,000	Husky Energy Inc. 3.50% 07FEB28	497,060	524,335	0.87
500,000	Industrial Alliance Insurance & Financial Services Inc. 3.30% 15SEP28	518,945	530,875	0.89
300,000	Intact Financial Corp. 2.954% 16DEC50	300,000	307,716	0.51
2,200,000	Inter Pipeline Ltd. 2.608% 13SEP23	2,253,580	2,280,608	3.81
225,000	Inter Pipeline Ltd. 3.173% 24MAR25	232,369	238,273	0.40
554,000	Inter Pipeline Ltd. 6.625% 19NOV79	575,086	572,005	0.95
300,000	John Deere Financial Inc. 1.34% 08SEP27	299,940	303,015	0.51
500,000	Loblaw Cos Ltd. 4.488% 11DEC28	607,014	604,620	1.01
500,000	Manitoba Telecom Services Inc. 4% 27MAY24	509,830	548,110	0.91
825,000	Manulife Financial Corp. 2.237% 12MAY30	825,000	860,896	1.44
300,000	Mattamy Group Corp. 4.625% 01MAR28	300,000	310,500	0.52
1,500,000	Morgan Stanley 0.79% 03FEB23	1,451,550	1,503,120	2.51

ALGONQUIN FIXED INCOME 2.0 FUND

Schedule of Investment Portfolio (continued)

As at December 31, 2020

Number of shares/units /par value	Investments owned (continued)	Average cost	Fair value	% of net asset value
Canadian fixed income (continued)				
200,000	Morguard Corp. 4.402% 28SEP23	\$ 200,000	\$ 203,318	0.34
1,000,000	National Bank of Canada 1.573% 18AUG26	999,990	1,022,140	1.71
500,000	National Bank of Canada 2.983% 04MAR24	514,740	534,895	0.89
1,471,000	Nissan Canada Financial Services Inc. 2.606% 05MAR21	1,477,105	1,475,795	2.46
400,000	NorthWest Healthcare Properties Real Estate Investment Trust 5.50% 31DEC23	424,450	433,960	0.72
2,000,000	OMERS Finance Trust 1.55% 21APR27	1,998,020	2,061,340	3.44
500,000	Ontario Teachers' Finance Trust 1.10% 19OCT27	498,625	500,470	0.84
500,000	Parkland Corp. 6% 23JUN28	500,000	537,190	0.90
700,000	Pembina Pipeline Corp. 4.02% 27MAR28	783,458	794,675	1.33
1,500,000	Pembina Pipeline Corp. 4.89% 29MAR21	1,531,845	1,515,195	2.53
500,000	Quebecor Media Inc. 6.625% 15JAN23	549,375	546,005	0.91
2,000,000	Reliance LP 2.68% 01DEC27	2,050,970	2,102,420	3.51
275,000	Reliance LP 3.836% 15MAR25	285,617	301,015	0.50
1,962,000	Reliance LP 4.075% 02AUG21	2,005,857	1,997,846	3.33
400,000	RioCan Real Estate Investment Trust 2.83% 03OCT22	406,812	412,636	0.69
1,000,000	RioCan Real Estate Investment Trust 3.725% 18APR23	1,047,380	1,057,480	1.76
500,000	Rogers Communications Inc. 3.25% 01MAY29	523,770	557,060	0.93
500,000	Rogers Communications Inc. 3.65% 31MAR27	497,555	564,175	0.94
700,000	Royal Bank of Canada 2.088% 30JUN30	700,000	725,662	1.21
1,000,000	Royal Bank of Canada 2.352% 02JUL24	1,040,570	1,053,640	1.76
1,500,000	Royal Bank of Canada 2.609% 01NOV24	1,530,855	1,598,775	2.67
750,000	Royal Bank of Canada 4% 24FEB81	750,000	763,928	1.27
850,000	Saputo Inc. 1.415% 19JUN26	850,000	855,355	1.43
500,000	Saputo Inc. 3.603% 14AUG25	530,010	554,155	0.92
1,500,000	Shaw Communications Inc. 2.90% 09DEC30	1,544,178	1,599,360	2.67
500,000	Shaw Communications Inc. 3.30% 10DEC29	507,755	553,980	0.92
500,000	Sienna Senior Living Inc. 3.109% 04NOV24	506,603	513,795	0.86
1,500,000	Sienna Senior Living Inc. 3.45% 27FEB26	1,514,855	1,551,630	2.59
1,600,000	SmartCentres Real Estate Investment Trust 1.74% 16DEC25	1,600,000	1,605,184	2.68
1,300,000	SmartCentres Real Estate Investment Trust 2.307% 18DEC28	1,300,000	1,306,370	2.18
1,900,000	SmartCentres Real Estate Investment Trust 2.757% 23JUN21	1,924,416	1,919,171	3.20
300,000	SNC-Lavalin Group Inc. 3.80% 19AUG24	300,000	308,973	0.52
5,000,000	Sobeys Inc. 4.70% 08AUG23	5,423,625	5,449,600	9.09
500,000	Summit Industrial Income REIT 1.82% 01APR26	499,755	503,020	0.84
1,500,000	Summit Industrial Income REIT 2.15% 17SEP25	1,504,585	1,538,145	2.57
3,000,000	Suncor Energy Inc. 3.10% 26NOV21	3,063,620	3,060,270	5.11
500,000	Superior Plus LP 5.125% 27AUG25	513,750	522,815	0.87
1,000,000	Superior Plus LP 5.25% 27FEB24	1,037,500	1,033,750	1.72
4,500,000	TD Capital Trust IV 6.631% 30JUN08	4,698,990	4,632,030	7.73
243,000	TELUS Communications Inc. 8.80% 22SEP25	321,572	325,292	0.54
537,000	TELUS Communications Inc. 9.65% 08APR22	619,032	597,472	1.00
500,000	TELUS Corp. 3.15% 19FEB30	501,405	554,860	0.93
500,000	TELUS Corp. 3.95% 16FEB50	547,630	557,195	0.93

ALGONQUIN FIXED INCOME 2.0 FUND

Schedule of Investment Portfolio (continued)

As at December 31, 2020

Number of shares/units /par value	Investments owned (continued)	Average cost	Fair value	% of net asset value
Canadian fixed income (continued)				
1,000,000	The Bank of Nova Scotia 1.40% 01NOV27	\$ 995,930	\$ 1,006,200	1.68
2,823,000	The Empire Life Insurance Co. 3.383% 16DEC26	2,880,538	2,895,071	4.83
1,168,000	The Empire Life Insurance Co. 3.664% 15MAR28	1,215,037	1,234,202	2.06
400,000	The Independent Order Of Foresters 2.885% 15OCT35	400,000	417,468	0.70
300,000	The Toronto-Dominion Bank 1.128% 09DEC25	300,000	301,635	0.50
1,000,000	The Toronto-Dominion Bank 1.943% 13MAR25	1,000,000	1,043,060	1.74
500,000	TransAlta Corp. 7.30% 22OCT29	570,000	601,575	1.00
2,000,000	TransCanada PipeLines Ltd. 3.65% 15NOV21	2,064,800	2,055,040	3.43
1,000,000	TransCanada PipeLines Ltd. 3.69% 19JUL23	1,038,360	1,067,390	1.78
1,306,000	TransCanada PipeLines Ltd. 3.80% 05APR27	1,451,840	1,470,425	2.45
500,000	TransCanada PipeLines Ltd. 4.34% 15OCT49	547,560	575,325	0.96
1,000,000	TransCanada Trust 4.65% 18MAY77	1,000,130	1,029,940	1.72
1,000,000	Videotron Ltd. 5.625% 15JUN25	1,120,000	1,120,230	1.87
400,000	VW Credit Canada Inc. 1.20% 25SEP23	399,892	403,580	0.67
1,659,000	Wells Fargo & Co. 2.509% 27OCT23	1,672,182	1,734,584	2.89
2,870,000	Westcoast Energy Inc. 3.12% 05DEC22	2,985,886	3,008,334	5.02
350,000	Westcoast Energy Inc. 3.43% 12SEP24	357,920	380,013	0.63
		<u>144,097,668</u>	<u>146,540,332</u>	<u>244.51</u>
Canadian preferred shares				
58,700	Bank of Montreal Preferred Shares 1.805%	1,439,923	1,473,370	2.46
4,400	Bank of Montreal Preferred Shares 2.105%	107,806	109,560	0.18
50,000	Bank of Montreal Preferred Shares 4.50%	1,217,197	1,239,500	2.07
39,100	Canadian Imperial Bank of Commerce Preferred Shares 4.40%	902,965	953,649	1.59
10,600	Element Fleet Management Corp. Preferred Shares 6.21%	215,484	259,700	0.43
10,000	Enbridge Inc. Preferred Shares 0%	156,200	136,900	0.23
1,100	Manulife Financial Corp. Preferred Shares 4.40%	24,195	24,749	0.04
28,600	Royal Bank of Canada Preferred Shares 5.50%	723,580	728,156	1.22
112,400	The Bank of Nova Scotia Preferred Shares 1.85%	2,788,629	2,816,182	4.70
27,000	The Bank of Nova Scotia Preferred Shares 3.70%	664,790	678,510	1.13
13,400	The Bank of Nova Scotia Preferred Shares 5.50%	338,216	341,566	0.57
20,000	The Toronto-Dominion Bank Preferred Shares 4.85%	488,566	513,400	0.86
7,500	Westcoast Energy Inc. Preferred Shares 5.20%	193,800	190,875	0.32
241,600	Westcoast Energy Inc. Preferred Shares 5.25%	6,111,272	6,039,999	10.08
		<u>15,372,623</u>	<u>15,506,116</u>	<u>25.88</u>

ALGONQUIN FIXED INCOME 2.0 FUND

Schedule of Investment Portfolio (continued)

As at December 31, 2020

Number of shares/units /par value	Investments owned (continued)	Average cost	Fair value	% of net asset value
U.S. fixed income				
500,000	American Tower Corp. 5% 15FEB24	739,538	722,377	1.21
1,500,000	Citrix Systems Inc. 4.50% 01DEC27	2,307,899	2,249,775	3.75
350,000	Enbridge Inc. 3.125% 15NOV29	475,252	492,693	0.82
1,690,000	Expedia Group Inc. 7% 01MAY25	2,381,945	2,373,419	3.96
1,000,000	HP Inc. 3.40% 17JUN30	\$ 1,402,231	\$ 1,420,740	2.37
500,000	MSCI Inc. 4% 15NOV29	685,248	684,251	1.14
200,000	Videotron Ltd. 5% 15JUL22	281,386	268,892	0.45
500,000	Winnebago Industries Inc. 6.25% 15JUL28	700,107	687,860	1.15
		<u>8,973,606</u>	<u>8,900,007</u>	<u>14.85</u>
	Total investments owned	168,443,897	170,946,455	285.24

Number of shares/units /par value	Investments sold short	Proceeds on short sale	Fair value	% of net asset value
Canadian fixed income				
(1,000,000)	Bell Canada 2.50% 14MAY30	\$ (1,044,450)	\$ (1,050,979)	(1.75)
(1,335,000)	Canadian Government Bond 0.50% 01MAR22	(1,338,849)	(1,340,380)	(2.24)
(10,410,000)	Canadian Government Bond 0.50% 01SEP25	(10,443,100)	(10,462,675)	(17.46)
(12,982,000)	Canadian Government Bond 0.75% 01MAR21	(12,999,049)	(12,996,150)	(21.69)
(4,535,000)	Canadian Government Bond 1% 01JUN27	(4,678,490)	(4,690,505)	(7.83)
(1,981,000)	Canadian Government Bond 1.25% 01JUN30	(2,075,743)	(2,084,864)	(3.48)
(3,130,000)	Canadian Government Bond 1.25% 01MAR25	(3,251,511)	(3,248,564)	(5.42)
(17,350,000)	Canadian Government Bond 1.50% 01JUN23	(17,824,432)	(17,887,330)	(29.85)
(816,000)	Canadian Government Bond 1.50% 01JUN26	(862,083)	(863,573)	(1.44)
(3,371,000)	Canadian Government Bond 1.50% 01SEP24	(3,512,464)	(3,518,515)	(5.87)
(550,000)	Canadian Government Bond 2% 01DEC51	(653,983)	(661,821)	(1.10)
(2,165,000)	Canadian Government Bond 2% 01JUN28	(2,396,035)	(2,398,517)	(4.00)
(2,870,000)	Canadian Government Bond 2% 01SEP23	(2,972,831)	(3,002,709)	(5.01)
(2,471,000)	Canadian Government Bond 2.50% 01JUN24	(2,656,238)	(2,657,585)	(4.43)
(10,139,000)	Canadian Government Bond 2.75% 01JUN22	(10,601,365)	(10,510,189)	(17.54)
(13,912,000)	Canadian Government Bond 3.25% 01JUN21	(14,282,942)	(14,089,378)	(23.51)
(2,000,000)	Province of Ontario Canada 2.05% 02JUN30	(2,123,860)	(2,134,660)	(3.56)
		<u>(93,717,425)</u>	<u>(93,598,394)</u>	<u>(156.18)</u>

ALGONQUIN FIXED INCOME 2.0 FUND

Schedule of Investment Portfolio (continued)

As at December 31, 2020

	Proceeds on short sale/ average cost	Fair value	% of net asset value
Investments owned (continued)			
Total investments sold short	\$ (93,717,425)	\$ (93,598,394)	(156.18)
Commissions and other portfolio transaction costs	(8,996)	—	—
Net investments owned	\$ 74,717,476	77,348,061	129.06
Unrealized gain, foreign exchange forward contracts (Schedule 1)		323,877	0.54
Other liabilities, net		(17,741,597)	(29.60)
Net Assets Attributable to Holders of Redeemable Units		\$ 59,930,341	100.00

Schedule 1 - Foreign Exchange Forward Contracts

Settlement Date	Currency Sold	Currency Bought	Forward Rates	Contract Price	Fair Value	Unrealized Gain (Loss)
January 29, 2021	USD	CAD	1.275225	\$ (6,754,164)	\$ (6,462,840)	291,324
January 29, 2021	USD	CAD	1.275225	(1,096,484)	(1,064,322)	32,162
January 29, 2021	USD	CAD	1.275225	(2,210,000)	(2,201,481)	8,520
January 29, 2021	CAD	USD	1.275225	1,085,043	1,076,915	(8,128)
Total unrealized gain on foreign exchange forward contracts						323,877

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

Algonquin Fixed Income 2.0 Fund (the "Fund") is an alternative mutual fund trust formed and organized under the laws of the Province of Ontario pursuant to a master declaration of trust dated August 20, 2019, as may be amended from time to time (the "Declaration of Trust"). The Fund commenced active operations on December 9, 2019. The Fund's registered office is located at 40 King Street West, Suite 3402, Toronto, Ontario, M5H 3Y2.

Algonquin Capital Corporation acts as the trustee (the "Trustee") of the Fund. The Trustee is a corporation formed and organized under the laws of the Province of Ontario. The Trustee also acts as the manager and the portfolio manager (the "Manager") of the Fund. The Manager is responsible for the management of the Fund. The prime broker and custodian for the Fund is TD Securities Inc. ("TDSI").

The investment objective of the Fund is to generate positive total returns over the long term and to preserve capital. The Manager will seek to achieve the Fund's investment objective by investing primarily in debt and income producing instruments of governments, corporations and financial institutions in the developed world as well as derivative contracts for investment or hedging purposes. The Fund may also invest in convertible debt securities, fixed-income securities of government agencies or of supernational agencies, floating rate securities, trusts, corporate bonds and loans, exchange-traded funds ("ETFs"), limited partnerships, and preferred shares. The Fund manages its long and short positions to reduce the impact of market volatility on the Fund's investment portfolio. The Fund may engage in securities lending, repurchase and reverse repurchase transactions to earn additional income for the Fund. The Fund may also seek exposure that is similar to direct investment in fixed income securities by using credit and interest rate derivatives.

The Fund is subject to certain restrictions and practices contained in securities legislation, including National Instrument 81-102 ("NI 81-102"), which are designed, in part, to ensure that the investments of mutual funds are diversified and relatively liquid and to ensure the proper administration of mutual funds. The Manager intends to manage the Fund in accordance with these restrictions and practices or to obtain relief from the securities regulatory authorities before implementing any variations. The following provides a description of the exemptions that the Fund has obtained from the provisions of NI 81-102, and/or a description of the general investment activity.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

Alternative Fund Investment Relief:

In order to permit the Fund to engage in the short selling of "government securities" (as that term is defined in NI 81-102) up to a maximum of 300% of the Fund's Net Asset Value ("NAV"), the Fund has obtained exemptive relief from securities regulators from the following provisions of NI 81-102:

- (a) Subparagraph 2.6.1 (1)(c)(v), which restricts the Fund from selling a security short if, at that time, the aggregate market value of the securities sold short by the Fund exceeds 50% of the Fund's NAV; and
- (b) Section 2.6.2, which states that the Fund may not borrow cash or sell securities short if, immediately after entering into a cash borrowing or short selling transaction, the aggregate market value of cash borrowing combined with the aggregate market value of the securities sold short by the Fund would exceed 50% of its NAV.

1. **Basis of presentation:**

(a) Statement of compliance:

These annual financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"). The Fund reports under this basis of accounting, as required by Canadian securities legislation and the Canadian Accounting Standards Board.

(b) Basis of measurement:

These annual financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss ("FVTPL") presented at fair value. The policies applied in these financial statements are based on IFRS issued and outstanding as of March 31, 2021 which is the date on which the annual financial statements were authorized for issue by the Trustee and Manager.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

2. Significant accounting policies:

The following summarizes the accounting policies of the Fund:

(a) Functional currency and foreign currency translation:

The functional and presentation currency of the Fund is the Canadian dollar. Investment transactions and income and expenses in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the time of the transactions. Purchases and sales of foreign securities denominated in foreign currencies and the related income, as well as any other monetary assets and liabilities are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

The fair value of investments quoted in foreign currencies has been translated into Canadian dollars at the rates of exchange prevailing at the end of the year. Foreign exchange gains and losses on the sale of investments are included in net realized gain on sale of investments, including foreign exchange adjustments in the statement of comprehensive income. Unrealized foreign exchange gains (losses) on assets held by the Fund and the Fund's liabilities are included in the net change in unrealized appreciation in value of investments in the statement of comprehensive income.

(b) Financial instruments:

(i) Classification:

The Fund classifies its investments as financial assets and financial liabilities at FVTPL, in accordance with IFRS 9, Financial Instruments ("IFRS 9").

The Fund's investments are managed, and performance evaluated on a fair value basis and the portfolio of investments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

All other financial assets and financial liabilities, excluding redeemable units, are measured at amortized cost, and are classified as measured at amortized cost and other financial liabilities, respectively. Redeemable units are measured at the redemption amount and are considered a residual.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

2. Significant accounting policies (continued):

(ii) Recognition and initial measurement:

Financial assets or liabilities at FVTPL are initially recognized on the trade date, which is the date the Fund becomes a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statement of comprehensive income.

Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial assets and financial liabilities at FVTPL are initially measured at fair value, with transaction costs recognized in the statement of comprehensive income. Financial assets and financial liabilities not at FVTPL are initially measured at fair value plus transaction costs that are directly attributable to their acquisition or issue.

The Fund's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its NAV for transactions with unitholders.

Financial assets are derecognized only when the contractual rights to the cash flows from the asset expire; or the Fund transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Fund derecognizes financial liabilities only when the Fund's obligations are discharged, cancelled or they expired.

(iii) Valuation of investments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

2. Significant accounting policies (continued):

The fair value of financial assets and financial liabilities traded in active markets (such as trading securities) is based on quoted market prices. The Fund uses either the last traded market price or evaluated prices from independent valuation services for both financial assets and financial liabilities where these prices fall within that day's bid-ask spread. In circumstances where the last traded or evaluated 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 of that financial asset or financial liability.

The fair value of the foreign currency forward contracts is determined using quoted forward exchange rates at the reporting date as obtained from an independent source.

(c) Cost of investments:

The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding commissions and other portfolio transaction costs.

(d) Transaction costs:

Commissions and other transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of an investment, which include fees and commissions paid to agents, advisors, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Commissions and other portfolio transaction costs are expensed as incurred and included as expenses in the statement of comprehensive income.

(e) Cash and cash equivalents (overdraft):

Cash and cash equivalents (overdraft) is comprised of cash on deposit and is classified to be held for trading and carried at fair value.

(f) Other financial assets and liabilities:

Subscriptions receivable, due from broker, receivable for investments sold, interest and dividends receivable and expense reimbursements receivable are classified as and measured at amortized cost and is recorded at cost or amortized cost. Due to broker, accounts payable and accrued liabilities, due to Manager, interest payable on investments sold short, management fees payable, redemptions payable and distributions payable are classified as financial liabilities and reported at amortized cost. Financial liabilities are generally settled within 12 months of issuance. Other assets and liabilities are short-term in nature and are carried at amortized cost which approximates fair value.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

2. Significant accounting policies (continued):

(g) Net assets attributable to holders of redeemable units per series per unit:

The net assets attributable to holders of redeemable units of a particular series of units is computed by calculating the value of that series' proportionate share of the assets and liabilities of the Fund common to all series less the liabilities of the Fund attributable only to that series. Expenses directly attributable to a series are charged directly to that series. Income, realized and unrealized gains and losses from investments and other expenses are allocated proportionately to each series based upon the relative net assets attributable to holders of redeemable units of each series.

For each Fund unit sold, the Fund receives an amount equal to the NAV per unit at the date of sale, which amount is included in net assets attributable to holders of redeemable units. Units are redeemable at the option of unitholders at their NAV on the redemption date. For each unit redeemed, NAVs attributable to holders of redeemable units is reduced by the NAV of the unit at the date of redemption.

The redeemable units are measured at the current value of the Fund's net assets and are considered a residual amount of the net assets attributable to holders of redeemable units.

The redeemable units are classified as financial liabilities as a result of the current series of units that have been issued and each series not having identical features.

The net assets attributable to holders of redeemable units per series per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular series of units by the total number of units of that particular series outstanding at the end of the year.

(h) Increase in net assets attributable to holders of redeemable units per series per unit:

Increase in net assets attributable to holders of redeemable units per series per unit is based on the increase in net assets attributable to holders of redeemable units attributed to each series of units, divided by the weighted average number of units outstanding of that series during the year.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

2. Significant accounting policies (continued):

(i) Investment transactions and revenue recognition:

The interest income for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero-coupon bonds which are amortized on a straight-line basis.

Realized gain on sale of investments, including foreign exchange adjustments and unrealized appreciation in value of investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities except for zero-coupon bonds.

(j) Income taxes:

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act") and, accordingly, is not subject to tax on its net taxable income for the tax year which ends in December which is paid or payable to its unitholders as at the end of the tax year. However, such part of the Fund's net income that is not so paid or payable, is subject to income tax. Income tax on net income not paid or payable is generally recoverable by virtue of refunding provisions contained in tax legislation, as redemptions occur. It is the intention of the Fund to distribute all of its income so that the Fund will not be subject to income tax.

The Fund is subject to withholding taxes on foreign income. In general, the Fund treats withholding tax as a charge against income for tax purposes.

As at December 31, 2020 and 2019, the Fund has no capital loss carry-forwards and non-capital loss carry-forwards balances.

(k) Offsetting financial instruments:

Financial assets and financial liabilities may be offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Fund may enter into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or termination of the contracts.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

2. Significant accounting policies (continued):

(l) Interest and borrowing fees:

The Fund takes both long and short positions and incurs both interest expense and borrow fees which are calculated on an accrual basis. While the use of borrowed funds can substantially improve the return of invested capital, its use may also increase the adverse impact to which the investment portfolio of the Fund may be subjected by increasing the Fund's exposure to capital risk and higher current expenses.

3. Due to/from broker:

The Fund has a prime brokerage agreement with its broker to carry its account as a customer. The broker has custody of the Fund's securities and, from time to time, cash balances which may be due from/due to broker. Financial instruments and/or cash positions serve as collateral for any amounts due to a broker or as collateral for any securities sold, not yet purchased or securities purchased on margin. The securities and/or cash positions also serve as collateral for potential defaults of the Fund.

The Fund is subject to credit risk if a broker is unable to repay balances due or deliver securities in their custody. The Fund mitigates this risk by using only approved brokers, which are creditworthy financial institutions.

4. Critical accounting estimates and judgments:

(a) Use of estimates and assumptions:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

4. Critical accounting estimates and judgments (continued):

(b) Valuation of investments:

The Fund may hold financial instruments that are not quoted in active markets, including derivatives. In preparing the financial statements, the Fund has the most significant accounting judgments and estimates in the determination of the fair value of these instruments.

(c) Classification and measurement of investments and application of the fair value option:

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to manage its portfolio of investments and evaluate performance on a fair value basis and that the portfolio of investments is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The most significant judgments made include assessing and determining the appropriate business model that enables the decision that the Fund's investments are classified as FVTPL under IFRS 9.

5. Related party transactions:

(a) Management fees:

The Manager receives management fees from the Fund, which accrue daily based on the percentage of the NAV of the series of units of the Fund and are payable on the last business day of each month. The monthly management fee for each series of units is equal to: (i) 1/12th of 1.45% of the aggregate NAV of Series A for Series A units; (ii) 1/12th of 0.50% of the aggregate NAV of Series F Founders for Series Founders units; and (iii) 1/12th of 0.95% of the aggregate NAV of Series F for Series F units. The management fee for Series I and Series I (USD) units are negotiable with the unitholder and do not exceed 0.95% per annum and are payable by the unitholders directly to the Manager.

The Manager may agree to waive a portion of the management fee that it would otherwise be entitled to receive; an amount equal to the amount so waived is calculated and credited to the relevant unitholder on each business day and distributed on a monthly basis, first out of net income and net realized capital gains of the Fund and thereafter out of capital. All such distributions are automatically invested in additional units of the relevant series of the Fund.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

5. Related party transactions (continued):

(b) Expenses:

The Fund is responsible for all costs incurred in connection with the organization and ongoing activities of the Fund, including but not limited to brokerage commissions and fees, fees associated with securities lending transactions and related transaction fees, taxes, audit and legal fees, fees in connection with the operation of the independent review committee, safekeeping and custodial fees, interest expenses, operating, administrative and system costs, investor servicing costs and costs of financial and other reports to investors, as well as prospectuses, annual information forms and fund facts. Advertising costs and costs of dealer compensation programs are paid by the Manager. The Manager, in its sole discretion, may waive and/or reimburse a portion or all of the Fund's operating expenses.

During the year ended December 31, 2020, expenses reimbursed by the Manager amounted to \$113,075 and for the period from December 9, 2019 to December 31, 2019 an amount of \$34,489 was reimbursed. As at December 31, 2020, expense reimbursement receivable from the Manager amounted to \$113,075 (2019 – \$34,489).

(c) Related party unit holdings:

As at December 31, 2020, directors and key management personnel of the Manager, directly or indirectly held 532 Series I units in the Fund (2019 – 1,500 Series F units).

(d) Due to Manager:

As at December 31, 2020, \$22,199 is due to the Manager in respect of payment of expenses on behalf of the Fund (2019 – \$nil).

6. Redeemable units of the Fund:

(a) Issuance of units:

The Fund is authorized to issue an unlimited number of series of units and may issue an unlimited number of units of each series. Each unit of a series represents an undivided ownership interest in the NAV of the Fund attributable to that series of units. Each unit of a series has equal rights to each other units of the same series with respect to all matters, including voting, receipt of distributions from the Fund, liquidation and other events in connection with the Fund, subject to the terms and conditions of the Declaration of Trust.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

6. Redeemable units of the Fund (continued):

(a) Issuance of units (continued):

The following series of units are currently being offered by the Fund:

Series A units: Available to all investors.

Series F Founders: Available for purchase only until such time as the series reaches a net asset value of \$50 million. Series F units will be available during this period to investors who are enrolled in a dealer-sponsored fee for service or wrap program and who are subject to an annual asset-based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investors for whom the Manager does not incur distribution costs.

Series F units: Available to investors who are enrolled in a dealer-sponsored fee for service or wrap program and who are subject to an annual asset-based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager incur distribution costs.

Series I units: Available to institutional investors or to other investors on a case-by-case basis, all at the discretion of the Manager. Series I units will generally only be available for certain individual investors who make large investments in the Fund. The management fees for Series I units are paid directly by Series I unitholders, not by the Fund. Series I units are also available to certain of the Manager's employees and employees of affiliated entities and, at the Manager's discretion, to former employees and to relatives of current and former employees.

Series I (USD) units: Available on a case-by-case basis to institutional investors or to other investors who wish to have U.S. dollar currency exposure, all at the discretion of the Manager. Series I (USD) units will generally only be available for certain individual investors who make large investments in the Fund. Series I (USD) units are also available to certain number of the Manager's employees and employees of affiliated entities and, at the Manager's discretion, to former employees and to relatives of current and former employees. The unit price for the Series I (USD) units is calculated and reported in U.S. dollars based on the exchange rate at the time that the NAV is calculated. In addition, the costs and gains/losses relating to derivatives used to hedge the currency exposure for Series I (USD) units will accrue solely to the Series I (USD) units and will be reflected in the unit price of the Series I (USD) units.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

6. Redeemable units of the Fund (continued):

(a) Issuance of units (continued):

Units of any series of the Fund may be purchased on a weekly basis on or before 4:00 p.m. (Eastern Time) on Wednesday of each week or any other day as the Manager may designate. The appropriate documentation and payment for subscription must be provided to the Manager within two business days of receiving the purchase order. The unitholder may redesignate all or part of his investment from one series of units to another series of units of the Fund, as long as the unitholder is eligible to hold that series of units. The redesignation order must be received before 4:00 p.m. (Eastern Time) to be processed on the same date.

The unit activity for the year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019 is as follows:

	Redeemable Units, beginning of year	Redeemable Units Issued	Redemptions of Redeemable Units	Reinvestments of Units	Redeemable Units, end of year
December 31, 2020					
Series A	–	13,551	(5,559)	164	8,156
Series F	1,500	46,101	(5,233)	768	43,136
Series FF	–	508,960	(50,446)	21,923	480,437
Series I	–	52,920	(12,155)	2,433	43,198
December 31, 2019					
Series F	–	1,500	–	–	1,500

(b) Redemption of units:

The redeemable units of the Fund can be redeemed on a weekly basis on or before 4:00 p.m. (Eastern Time) on Wednesday of each week or any other business day as the Manager may designate (each, a "Redemption Date"). Any redemption order received after 4:00 p.m. on a Redemption Date is processed on the next Redemption Date. The latest the redemption proceeds will be paid to the unitholder will be two business days after the Redemption Date. Redemption proceeds are paid in the applicable currency that the series of units is denominated.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

6. Redeemable units of the Fund (continued):

(b) Redemption of units (continued):

Under exceptional circumstances the Manager may be unable to process redemption orders. This would most likely occur if market trading has been suspended on stock exchanges, options exchanges or futures exchanges on which more than 50% by value of the Fund's assets are listed and if the fund's portfolio securities cannot be traded on any other exchange that represents a reasonably practical alternative. During these years, units will also not be issued or redesignated.

In order to protect the interest of the majority of unitholders of the Fund and to discourage inappropriate short-term trading in the Fund, investors may be subject to a short-term trading fee. If an investor redeems Series A, Series F Founders or Series F units of the Fund within 30 days of purchasing such units, the Fund may deduct and retain, for the benefit of the remaining unitholders of the Fund, 2% of the NAV of the units of the particular series of the Fund being redeemed.

(c) Distributions:

The Fund has a policy to make distributions quarterly at a rate determined from time to time by the Manager. These distributions are not guaranteed and may change at any time at the Manager's discretion. The Fund will also distribute, in respect of each taxation year, any net income in excess of the quarterly distributions at the end of each taxation year (normally December 31), or at such other times as may be determined by the Manager. The record date for a dividend or distribution is the valuation date prior to the payment date. A valuation day is any day the Toronto Stock Exchange ("TSX") is open for business (each, a "Valuation Date").

The Fund may make distributions in cash, units of the same series of the Fund or property in kind payable in proportions to be determined from time to time by the Manager. The unitholder may elect to receive cash payment by electronic transfer to their bank account; however, the Manager may, in respect of certain distributions, cause any such cash payments to be automatically reinvested in additional units of the same series of the Fund.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

6. Redeemable units of the Fund (continued):

(d) Capital disclosure:

The capital of the Fund is represented by issued and redeemable units. The redeemable 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. The relevant movements 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 7, 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.

7. Financial instruments:

(a) Risk management:

The primary objective of the Fund is to generate positive total returns over the long term and to preserve capital. The Manager seeks to achieve this objective by investing primarily in debt and income producing instruments of governments, corporations and financial institutions in the developed world as well as derivative contracts for investment or hedging purposes.

With the objective of capital preservation in mind, the Manager employs a variety of risk management techniques and methodologies. Concentration limits have been established with maximum threshold on non-investment grade debt, international securities and alternative debt instruments, as well as on portfolio leverage, short selling and exposure to a single issuer.

(b) Management of financial instrument risks:

In the normal course of business, the Fund may be exposed to a variety of financial risks: credit risk, liquidity risk, leverage risk and market risk (including interest rate risk, other price risk and currency risk). The value of investments within the Fund's portfolio can fluctuate daily as a result of changes in interest rates, economic conditions, the market and company news related to specific securities held by the Fund. Significant risks that are relevant to the Fund are discussed below:

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

7. Financial instruments (continued):

(i) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The carrying amount of the Fund's assets represents the maximum credit risk exposure.

Where the Fund invests in debt instruments and derivatives, this represents the main concentration of credit risk. The fair value of debt instruments and derivatives includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Fund.

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The following table is a summary of the Fund's debt instruments by credit rating, excluding due to/from broker, as at December 31, 2020.

Debt instruments* by credit rating	% of NAV December 31, 2020
AAA rated	(136)
AA rated	15
A rated	60
BBB rated	171
BB rated	20

*Excludes due to/from broker.

As at December 31, 2019, the Fund did not hold any investment in debt instruments and derivatives.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

7. Financial instruments (continued):

The Fund's cash is held with its prime broker that was rated as follows as at December 31, 2020 and 2019:

S&P Global rating	TDSI
Short term	A-1+
Long term	AA-

The Fund has provided the prime broker with a general lien over the financial assets held in custody as security for the custodian's exposures relation to the provision of custody services to the Fund. The terms under which the general lien is provided are usual and customary for custody agreements.

(ii) Liquidity risk:

Liquidity risk is defined as the risk that the Fund may not be able to settle or meet its obligation on time or at a reasonable price.

The Fund's exposure to liquidity risk is concentrated in the periodic cash redemptions of units. To mitigate this risk, the Fund holds sufficient liquid funds to meet redemption requirements. The Fund will not permit redemptions (either in whole or in part) at any time the Manager is of the opinion in its sole discretion that there are insufficient liquid assets in the Fund to fund such redemptions or that the liquidation of assets would be to the detriment of the Fund generally.

All financial liabilities of the Fund are due within 12 months.

(iii) Market risk:

(a) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is minimal sensitivity to interest rate fluctuations on any cash invested at short-term market interest rates.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

7. Financial instruments (continued):

As the Fund actively manages and hedges interest rate exposure, net assets tend to be affected more by changes in credit spreads rather than changes in interest rates. As at December 31, 2020, the Fund's exposure to debt instruments by maturity and the impact on net assets had the yield curve shifted higher in parallel by 25 basis points, with all other variables held constant ("sensitivity"), are as follows:

Debt instruments* by maturity date	December 31, 2020
0 to 1 year	\$ (24,688)
1 to 3 years	(99,413)
3 to 5 years	(218,389)
Greater than 5 years	(303,025)
Total exposure	\$ (645,514)

*Excludes due to/from broker.

In practice, actual trading results may differ from the above sensitivity analysis and the difference could be material.

As at December 31, 2019, the Fund did not have any investments in debt instruments, and therefore, was not exposed to any significant interest rate risk.

(b) Other price risk:

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

All investments represent a risk of loss of capital. The Manager aims to moderate this risk through careful selection and diversification of securities and other financial instruments in accordance with the Fund's investment objective and strategy. The Fund's overall market positions are monitored on a regular basis by the Manager. Financial instruments held by the Fund are susceptible to market price risk arising from uncertainties about future prices of the instruments.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

7. Financial instruments (continued):

As at December 31, 2020, the estimated impact of a 1 basis point increase in the credit spreads of instruments held by the Fund, with all other factors remaining constant, was a loss of \$48,889. Additionally, as at December 31, 2020, had the prices on the Canadian stock exchanges for preferred shares held by the Fund increased or decreased by 10%, with all other variables held constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately \$1,550,612. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

As at December 31, 2019, the Fund did not hold any investments, and therefore was not exposed to other price risk.

(c) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Fund. The Fund may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

The following table illustrates the effect on net assets attributable to holders of redeemable units as at December 31, 2020, if the respective currency had strengthened by 5% in relation to all other currencies, with all other variables held constant:

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
December 31, 2020						
U.S. Dollar	\$ (8,651,727)	\$ 8,900,007	\$ 248,280	\$ (432,586)	\$ 445,000	\$ 12,414
	\$ (8,651,727)	\$ 8,900,007	\$ 248,280	\$ (432,586)	\$ 445,000	\$ 12,414
% of Net Assets						
Attributable to Holders						
of Redeemable Units	(14.44)	14.85	0.41	(0.72)	0.74	0.02

As at December 31, 2019, the Fund did not have any exposure to currency risk.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

7. Financial instruments (continued):

The amounts in the above table is based on the fair value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets and financial liabilities do not expose the Fund to significant currency risk.

As at December 31, 2020, if the U.S. dollar had strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately \$12,414 (2019 - \$nil). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(d) Concentration risk:

Concentration risk arises because of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following table is a summary of the Fund's concentration risk as a percent of total exposure, excluding government securities and cash and cash equivalents, as at December 31, 2020. The Fund did not hold any investments and therefore concentration risk was not presented as at December 31, 2019:

Market segment	December 31, 2020
Financial	49%
Energy	18%
Communications	11%
Consumer, non-cyclical	10%
Consumer, cyclical	5%
Utilities	3%
Technology	3%
Industrial	1%
	100%

(e) Leverage risk:

When the Fund makes investments in derivatives, borrows cash for investment purposes, or uses physical short sales on preferred shares, fixed income securities or other portfolio assets, leverage may be introduced into the Fund. Leverage occurs when the Fund's aggregate gross exposure to underlying assets is greater than the amount invested. Leverage may increase volatility, may impair the Fund's liquidity and may cause the Fund to liquidate positions at unfavorable times.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

7. Financial instruments (continued):

As prescribed by National Instrument 81-102, Investment Funds, the aggregate gross exposure of the Fund, to be calculated as the sum of the following, must not exceed three times the Fund's NAV: (i) the amount of cash borrowed for investment purposes; (ii) the aggregate market value of physical short sales on equities, fixed income securities or other portfolio assets; and (iii) the aggregate notional value of the Fund's specified derivatives positions excluding any specified derivatives used for hedging purposes.

During the year ended December 31, 2020, the Fund's lowest and highest aggregate gross exposure was 17% and 230% of the Fund's NAV respectively. The primary source of leverage was short positions in fixed income securities. The low and high end of the range are as a result of our investing activities, and timing of subscriptions and/or redemptions. The Fund's strategy is outlined in the simplified prospectus The Manager monitors, on a daily basis, that the Fund's aggregate gross exposure is less than 300% of the Fund's NAV.

(f) COVID-19 risk:

In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. Subsequent to December 31, 2020, the situation continues to be dynamic with various cities and countries around the world responding in different ways to address the outbreak. The Trustee will continue to monitor the impact COVID-19 has on the Fund's investments and reflect the consequences as appropriate in the Fund's accounting and reporting.

8. Classification of financial instruments - fair value measurements:

Investments measured at fair value are classified into one of three fair value hierarchy levels, based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The three fair value hierarchy levels are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

8. Classification of financial instruments - fair value measurements (continued):

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Fund's investments fall as of December 31, 2020. As at December 31, 2019, the Fund did not hold any investments, and therefore, not included.

	Level 1	Level 2	Level 3	Total
Assets				
Fixed income securities	\$ –	\$ 155,440,339	\$ –	\$ 155,440,339
Preferred shares	15,506,116	–	–	15,506,116
Foreign exchange forward contracts	–	323,877	–	323,877
	\$ 15,506,116	\$ 155,764,216	\$ –	\$ 171,270,332
Liabilities				
Fixed income securities sold short	\$ –	\$ 93,598,394	\$ –	\$ 93,598,394
	\$ –	\$ 93,598,394	\$ –	\$ 93,598,394

There were no transfers between levels during the year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019.

9. Increase in net assets attributable to holders of redeemable units per class per unit:

The increase in net assets attributable to holders of redeemable units per class per unit for the year ended December 31, 2020 is calculated as follows:

	Increase in Net Assets Attributable to Holders of Redeemable Units per Series	Weighted Average of Redeemable Units Outstanding During the Year	Increase in Net Assets Attributable to Holders of Redeemable Units per Unit
December 31, 2020			
Series A	\$ 69,273	5,253	\$ 13.19
Series F	201,561	13,225	15.24
Series FF	5,492,571	392,068	14.01
Series I	286,004	30,352	9.42

*During the comparative period from December 9, 2019 (commencement of operations) to December 31, 2019, the increase in net assets attributable to holders of redeemable units was nil.

ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020 and period from December 9, 2019 (commencement of operations) to December 31, 2019

10. Subscriptions receivable:

Subscriptions receivable represent amounts receivable in respect of the Fund's units for which subscription requests were received and units were issued prior to the year end, but for which the consideration was not received by the Fund at the year end.

11. Redemptions payable:

Redemptions payable represent amounts owing on the Fund's units for which redemption notices were received prior to year end, but which were not paid at the year end.

12. Indemnification of the Manager:

The Fund will indemnify the Manager and its respective directors, officers, employees and agents against all claims, liabilities, damages and expenses, including legal fees, which they incur or to which they may be or become subject to by reason of their activities on behalf of the Fund. However, this indemnity will not apply to any losses arising out of the negligence, willful misconduct, fraud or bad faith on the part of the Manager and its respective directors, officers, employees and agents.

13. Subsequent events:

During the period January 1, 2021 to the date of issuance of these annual financial statements. The Fund received subscriptions of \$18,959,310 and paid redemptions of \$1,525,240.