

Interim Financial Statements of

**ALGONQUIN FIXED  
INCOME 2.0 FUND**

June 30, 2021 (Unaudited)

## Notice to Reader

Please be advised that Algonquin Fixed Income 2.0 Fund is re-filing the attached unaudited interim financial statements for the period ended June 30, 2021 (the “**Financial Statements**”) as there are rounding differences in the Schedule of Investment Portfolio and corrections to the table in Note 7(iii)(a) where comparative figures for December 31, 2020 were updated to match prior year financial statements.

All other information contained in the attached Financial Statements remains the same as the version of the Financial Statements filed on August 26, 2021. This version of the Financial Statements replaces and supersedes the version of the Financial Statements filed on August 26, 2021.

August 31, 2021

## **MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited interim financial statements of Algonquin Fixed Income 2.0 Fund (the "Fund") have been prepared by Algonquin Capital Corporation (the "Trustee" and "Manager") in its capacity as the Trustee of the Fund. The Trustee is responsible for the information and representations contained in these unaudited interim financial statements.

The Trustee maintains appropriate processes to ensure that relevant and reliable financial information is produced. The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements made by the Trustee. The significant accounting policies which the Trustee believes are appropriate for the Fund are described in Note 2 to the unaudited interim financial statements.

*"Brian D'Costa"*

**On behalf of the Trustee and Manager**

Date August 10, 2021

## **NOTICE TO UNITHOLDERS**

**The Auditors of the Fund have not reviewed these interim financial statements.**

Algonquin Capital Corporation., the Trustee of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

# ALGONQUIN FIXED INCOME 2.0 FUND

## Statements of Financial Position

As at June 30, 2021 (Unaudited) and December 31, 2020

	June 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Investments owned (Cost: \$290,939,932; December 31, 2020: \$168,443,897) (note 8)	\$ 290,215,431	\$ 170,946,455
Unrealized gain on foreign exchange forward contracts	—	323,877
Unrealized gain on futures contracts	92,502	—
Subscriptions receivable (note 10)	6,356,895	7,267
Due from broker (note 3)	714,852	—
Due from related fund (note 5)	2,535	—
Receivable for investments sold	6,725,474	2,116,000
Interest and dividends receivable	2,168,047	1,298,746
Expense reimbursements receivable (note 5)	45,594	113,075
Prepaid expenses	17,687	20,800
	<u>306,339,017</u>	<u>174,826,220</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Investments sold short (Proceeds: \$175,562,272; December 31, 2020: \$93,717,425) (note 8)	174,410,134	93,598,394
Unrealized loss on foreign exchange forward contracts	114,309	—
Due to broker (note 3)	18,094,037	20,162,581
Payable for investments purchased	6,839,654	—
Accounts payable and accrued liabilities	107,506	100,570
Due to Manager (note 5)	9,780	22,199
Interest and borrowing fees payable on investments sold short	415,292	244,871
Management fees payable (note 5)	57,354	28,555
Redemptions payable (note 11)	105,839	392,319
Distributions payable	86,179	346,390
	<u>200,240,084</u>	<u>114,895,879</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<u>\$ 106,098,933</u>	<u>\$ 59,930,341</u>
<b>Net Assets Attributable to Holders of Redeemable Units per Series</b>		
Series A	\$ 1,970,389	\$ 850,369
Series F	42,783,211	4,598,231
Series FF	45,905,587	49,982,934
Series I	15,439,746	4,498,807
	<u>\$ 106,098,933</u>	<u>\$ 59,930,341</u>
<b>Number of Redeemable Units Outstanding (note 6)</b>		
Series A	18,778	8,156
Series F	398,544	43,136
Series FF	437,882	480,437
Series I	147,068	43,198

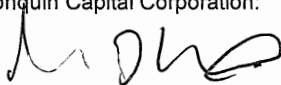
## ALGONQUIN FIXED INCOME 2.0 FUND

### Statements of Financial Position (continued)

As at June 30, 2021 (Unaudited) and December 31, 2020

	June 30, 2021	December 31, 2020
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Series A	\$ 104.93	\$ 104.26
Series F	107.35	106.60
Series FF	104.84	104.04
Series I	104.98	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

For the six-months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Income</b>		
Interest income for distribution purposes	\$ 4,119,684	\$ 1,253,463
Dividend income	449,051	38,573
Net realized gain (loss) on sale of investments, including foreign exchange adjustments (note 2)	81,171	(129,196)
Net realized gain (loss) on foreign exchange forward contracts	1,013,635	(189,628)
Net realized loss on futures contracts	(32,872)	—
Net change in unrealized (loss) gain on foreign exchange forward contracts	(438,186)	91,612
Net change in unrealized (depreciation) appreciation in value of investments (note 2)	(2,182,394)	633,551
Net change in unrealized gain on futures contracts	92,502	—
	<u>3,102,591</u>	<u>1,698,375</u>
<b>Expenses</b>		
Interest and borrowing fees (note 2)	1,256,183	473,865
Management fees (note 5)	256,076	76,633
Operating costs	77,359	48,565
Independent review committee fees	28,745	21,289
Commissions and other portfolio transaction costs	26,170	4,997
Audit fees	25,292	19,557
Legal fees	9,489	3,351
	<u>1,679,314</u>	<u>648,257</u>
Expenses reimbursed by the Manager (note 5)	<u>(45,594)</u>	<u>(57,007)</u>
	<u>1,633,720</u>	<u>591,250</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units</b>	<u>\$ 1,468,871</u>	<u>\$ 1,107,125</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series</b>		
Series A	\$ 22,307	\$ 12,799
Series F	407,578	2,044
Series FF	860,926	1,105,642
Series I	178,060	(13,360)
	<u>\$ 1,468,871</u>	<u>\$ 1,107,125</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit (note 9)</b>		
Series A	\$ 1.73	\$ 3.48
Series F	2.01	1.36
Series FF	1.86	3.65
Series I	2.41	(0.46)

## ALGONQUIN FIXED INCOME 2.0 FUND

### Statements of Changes in Net Assets Attributable to Holders of Redeemable Units For the six-months ended June 30, 2021 and 2020 (Unaudited)

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued	Redemption of redeemable units	Transfers	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
<b>June 30, 2021</b>								
Series A	\$ 850,369	\$ 1,160,575	\$ (58,336)	\$ —	\$ (11,734)	\$ 7,208	\$ 22,307	\$ 1,970,389
Series F	4,598,231	39,260,794	(1,432,615)	—	(282,185)	231,408	407,578	42,783,211
Series FF	49,982,934	4,500	(4,870,985)	—	(499,821)	428,033	860,926	45,905,587
Series I	4,498,807	10,874,598	(111,719)	—	(114,481)	114,481	178,060	15,439,746
	<u>\$ 59,930,341</u>	<u>\$ 51,300,467</u>	<u>\$ (6,473,655)</u>	<u>\$ —</u>	<u>\$ (908,221)</u>	<u>\$ 781,130</u>	<u>\$ 1,468,871</u>	<u>\$ 106,098,933</u>

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued	Redemption of redeemable units	Transfers	Distributions to holders of redeemable units	Reinvestments of distributions	Increase (decrease) in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
<b>June 30, 2020</b>								
Series A	\$ —	\$ 1,057,353	\$ (42,191)	\$ (501,666)	\$ (2,783)	\$ 1,249	\$ 12,799	\$ 524,761
Series F	150,000	1,000	—	—	(951)	951	2,044	153,044
Series FF	—	48,680,667	(2,872,317)	501,666	(318,835)	280,313	1,105,642	47,377,136
Series I	—	3,550,944	(954,749)	—	(20,734)	20,734	(13,360)	2,582,835
	<u>\$ 150,000</u>	<u>\$ 53,289,964</u>	<u>\$ (3,869,257)</u>	<u>\$ —</u>	<u>\$ (343,303)</u>	<u>\$ 303,247</u>	<u>\$ 1,107,125</u>	<u>\$ 50,637,776</u>

# ALGONQUIN FIXED INCOME 2.0 FUND

## Statements of Cash Flows

For the six-months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Increase in Net Assets Attributable to Holders of Redeemable Units	\$ 1,468,871	\$ 1,107,125
Adjustments for non-cash items		
Net realized (gain) loss on sale of investments, including foreign exchange adjustments	(81,171)	129,196
Net realized (gain) loss on foreign exchange forward contracts	(1,013,635)	189,628
Net realized loss on futures contracts	32,872	—
Net change in unrealized loss (gain) on foreign exchange forward contracts	438,186	(91,612)
Net change in unrealized depreciation (appreciation) in value of investments	2,182,394	(633,551)
Net change in unrealized gain on futures contracts	(92,502)	—
Change in non-cash balances		
Increase in due from related fund	(2,535)	(8,953)
Increase in receivable for investments sold	(4,609,474)	(1,357,743)
Increase in interest and dividends receivable	(869,301)	(968,756)
Decrease (increase) in expense reimbursements receivable	67,481	(22,518)
Decrease (increase) in prepaid expenses	3,113	(13,046)
Increase in payable for investments purchased	6,839,654	1,393,414
Increase in accounts payable and accrued liabilities	6,936	8,729
Decrease in due to Manager	(12,419)	—
Increase in interest and borrowing fees payable on investments sold short	170,421	256,902
Increase in management fees payable	28,799	20,086
Proceeds from sale of investments	361,439,480	223,742,939
Purchase of investments	(401,105,768)	(274,129,468)
Cash used in operating activities	<u>(35,108,598)</u>	<u>(50,377,628)</u>
<b>Financing Activities</b>		
Proceeds from redeemable units issued	44,950,839	50,970,144
Amount paid on redemption of redeemable units	(6,760,135)	(3,854,046)
Distributions paid to holders of redeemable units, net of reinvestments	(387,302)	—
Cash provided by financing activities	<u>37,803,402</u>	<u>47,116,098</u>
Increase (decrease) in cash and cash equivalents during the period	2,694,804	(3,261,530)
Foreign exchange gain on cash and cash equivalents	88,592	19,506
Cash and cash equivalents, beginning of period	<u>(20,162,581)</u>	<u>150,000</u>
<b>Cash and cash equivalents, end of period</b>	<b>\$ <u>(17,379,185)</u></b>	<b>\$ <u>(3,092,024)</u></b>
<b>Cash and cash equivalents represented by:</b>		
Due from broker	\$ 714,852	\$ —
Due to broker	<u>(18,094,037)</u>	<u>(3,092,024)</u>
	<u>(17,379,185)</u>	<u>(3,092,024)</u>
<b>Supplemental information*</b>		
Interest paid	\$ 854,134	\$ 145,364
Interest received	3,247,004	302,762
Dividends received, net of withholding taxes	452,430	20,518

\*Included as a part of cash flows from operating activities



# ALGONQUIN FIXED INCOME 2.0 FUND

## Schedule of Investment Portfolio

As at June 30, 2021 (Unaudited)

Number of shares/units /par value	Investments owned	Average cost	Fair value	% of net asset value
<b>Canadian equity</b>				
60,000	BMO Laddered Preferred Share Index ETF	\$ 619,725	\$ 680,400	0.64
<b>Canadian fixed income</b>				
500,000	Algonquin Power Co. 2.85% 15JUL31	499,960	508,262	0.48
1,500,000	Allied Properties Real Estate Investment Trust 1.726% 12FEB26	1,500,000	1,479,405	1.39
3,000,000	Allied Properties Real Estate Investment Trust 3.113% 08APR27	3,103,350	3,126,570	2.95
500,000	Allied Properties Real Estate Investment Trust 3.117% 21FEB30	500,000	506,390	0.48
500,000	Allied Properties Real Estate Investment Trust 3.394% 15AUG29	534,015	520,890	0.49
3,500,000	Allied Properties Real Estate Investment Trust 3.636% 21APR25	3,740,863	3,730,860	3.52
1,000,000	AltaGas Canada Inc. 3.13% 07APR27	1,000,000	1,061,820	1.00
500,000	AltaGas Canada Inc. 3.15% 06APR26	514,530	530,580	0.50
500,000	AltaGas Canada Inc. 4.26% 05DEC28	565,110	567,845	0.54
1,800,000	AltaGas Ltd. 1.227% 18MAR24	1,800,465	1,793,574	1.69
1,000,000	AltaGas Ltd. 2.609% 16DEC22	1,012,710	1,023,770	0.96
25,000	AltaGas Ltd. 3.57% 12JUN23	25,789	26,038	0.02
500,000	ARC Resources Ltd. 2.354% 10MAR26	500,000	504,350	0.48
2,000,000	AutoCanada Inc. 8.75% 11FEB25	2,132,500	2,156,260	2.03
300,000	Bank of America Corp. 1.978% 15SEP27	299,988	299,919	0.28
2,000,000	Bank of America Corp. 3.515% 24MAR26	2,192,580	2,140,800	2.02
500,000	Bank of Montreal 4.30% 26NOV80	506,000	528,340	0.50
400,000	Barclays PLC 2.166% 23JUN27	400,000	399,920	0.38
1,500,000	BCI QuadReal Realty 1.747% 24JUL30	1,511,488	1,442,970	1.36
500,000	Brookfield Asset Management Inc. 4.82% 28JAN26	556,055	563,355	0.53
3,500,000	Canadian Imperial Bank of Commerce 0.665% 10JUN24	3,500,000	3,503,850	3.30
500,000	Canadian Imperial Bank of Commerce 2.01% 21JUL30	499,810	505,185	0.48
2,000,000	Canadian Western Bank 0.75431% 28APR23	2,000,000	2,002,660	1.89
1,500,000	Canadian Western Bank 1.57% 14SEP23	1,510,000	1,514,190	1.43
1,000,000	Canadian Western Bank 1.818% 16DEC27	1,000,492	977,640	0.92
1,000,000	Canadian Western Bank 1.926% 16APR26	1,000,000	1,002,600	0.94
400,000	Canadian Western Bank 6% 30APR81	400,000	432,500	0.41
500,000	Cenovus Energy Inc. 3.50% 07FEB28	497,060	524,265	0.49
1,545,000	Cenovus Energy Inc. 3.60% 10MAR27	1,635,559	1,634,301	1.54
1,500,000	Chartwell Retirement Residences 3.786% 11DEC23	1,552,595	1,566,915	1.48
3,000,000	Chartwell Retirement Residences 4.211% 28APR25	3,204,226	3,192,330	3.01
250,000	Choice Properties LP 3.60% 20SEP22	255,215	256,675	0.24
1,000,000	Choice Properties Real Estate Investment Trust 3.556% 09SEP24	1,067,620	1,061,530	1.00
500,000	Choice Properties Real Estate Investment Trust 3.827% 04MAR50	500,000	479,990	0.45
1,498,000	Choice Properties Real Estate Investment Trust 4.903% 05JUL23	1,616,525	1,596,928	1.51
500,000	CI Financial Corp. 3.215% 22JUL24	507,175	522,545	0.49
1,398,000	CI Financial Corp. 3.759% 26MAY25	1,493,539	1,491,820	1.41
500,000	Cineplex Inc. 7.50% 26FEB26	500,000	523,750	0.49
1,600,000	Coast Capital Savings Federal Credit Union 0.855% 09DEC22	1,600,000	1,602,912	1.51
3,000,000	Cogeco Cable Inc. 4.175% 26MAY23	3,213,770	3,147,630	2.97
3,955,000	Cogeco Communications Inc. 4.925% 14FEB22	4,153,062	4,054,271	3.82
2,000,000	Corus Entertainment Inc. 5% 11MAY28	2,008,750	2,021,260	1.91

# ALGONQUIN FIXED INCOME 2.0 FUND

## Schedule of Investment Portfolio (continued)

As at June 30, 2021 (Unaudited)

Number of shares/units /par value	Investments owned (continued)		Average cost	Fair value	% of net asset value
<b>Canadian fixed income (continued)</b>					
1,000,000	Crombie Real Estate Investment Trust 3.211% 09OCT30	\$	1,001,885	\$ 1,011,270	0.95
295,000	Crombie Real Estate Investment Trust 3.677% 26AUG26		318,393	315,101	0.30
500,000	Crombie Real Estate Investment Trust 3.917% 21JUN27		509,600	540,770	0.51
7,050,000	Crombie Real Estate Investment Trust 4.066% 21NOV22		7,403,225	7,322,412	6.90
258,000	Crombie Real Estate Investment Trust 4.80% 31JAN25		285,271	283,697	0.27
2,500,000	Dream Industrial Real Estate Investment Trust 0.785% 17JUN24		2,500,000	2,502,025	2.36
750,000	Dream Industrial Real Estate Investment Trust 1.662% 22DEC25		750,000	745,448	0.70
500,000	Dream Industrial Real Estate Investment Trust 2.057% 17JUN27		500,000	498,550	0.47
1,500,000	Emera Inc. 2.90% 16JUN23		1,545,040	1,552,470	1.46
300,000	Enbridge Inc. 2.44% 02JUN25		299,925	309,480	0.29
3,000,000	Equitable Bank 1.774% 21SEP23		3,026,630	3,027,690	2.85
5,000,000	Equitable Bank 1.876% 26NOV25		4,909,400	4,944,000	4.66
1,500,000	Equitable Bank 1.939% 10MAR25		1,500,000	1,502,400	1.42
900,000	Fairfax Financial Holdings Ltd. 3.95% 03MAR31		903,320	935,532	0.88
2,000,000	Fairfax Financial Holdings Ltd. 4.23% 14JUN29		2,196,540	2,164,600	2.04
500,000	Fairfax Financial Holdings Ltd. 4.70% 16DEC26		559,205	555,670	0.52
1,200,000	Federation des Caisses Desjardins du Quebec 1.992% 28MAY31		1,200,000	1,198,008	1.13
1,000,000	Federation des Caisses Desjardins du Quebec 2.417% 04OCT24		1,012,510	1,035,460	0.98
3,000,000	Ford Credit Canada Co. 2.71% 23FEB22		3,013,000	3,017,730	2.84
2,000,000	Ford Credit Canada Co. 3.50% 30NOV23		2,012,500	2,055,340	1.94
500,000	Ford Credit Canada Ltd. 3.279% 02JUL21		503,500	500,000	0.47
750,000	General Motors Financial of Canada Ltd. 1.75% 15APR26		749,528	742,778	0.70
3,000,000	General Motors Financial of Canada Ltd. 5.95% 14MAY24		3,456,840	3,376,350	3.18
2,000,000	George Weston Ltd. 4.115% 17JUN24		2,168,180	2,146,460	2.02
5,525,000	Gibson Energy Inc. 2.45% 14JUL25		5,647,671	5,659,147	5.33
350,000	Gibson Energy Inc. 2.85% 14JUL27		349,913	360,115	0.34
500,000	Gibson Energy Inc. 3.60% 17SEP29		517,508	532,245	0.50
400,000	Gibson Energy Inc. 5.25% 22DEC80		400,000	407,752	0.38
500,000	Glacier Credit Card Trust 1.388% 22SEP25		500,000	497,330	0.47
425,000	Granite REIT Holdings LP 3.062% 04JUN27		425,000	447,432	0.42
400,000	H&R Real Estate Investment Trust 2.633% 19FEB27		400,000	397,148	0.37
250,000	H&R Real Estate Investment Trust 2.906% 02JUN26		250,000	253,400	0.24
1,280,000	H&R Real Estate Investment Trust 3.416% 23JAN23		1,325,767	1,318,054	1.24
300,000	Heathrow Funding Ltd. 3.726% 13APR33		300,000	313,947	0.30
1,500,000	HSBC Bank Canada 1.782% 20MAY26		1,500,000	1,503,570	1.42
3,728,000	Hydro One Ltd. 1.41% 15OCT27		3,631,929	3,625,256	3.42
500,000	Hyundai Capital Canada Inc. 2.008% 12MAY26		500,000	501,575	0.47
500,000	Industrial Alliance Insurance & Financial Services Inc. 3.30% 15SEP28		518,945	522,685	0.49
500,000	Intact Financial Corp. 1.207% 21MAY24		500,000	499,630	0.47
300,000	Intact Financial Corp. 2.179% 18MAY28		300,000	302,535	0.29
300,000	Intact Financial Corp. 2.954% 16DEC50		300,000	278,559	0.26
2,200,000	Inter Pipeline Ltd. 2.608% 13SEP23		2,253,580	2,261,908	2.13
300,000	Inter Pipeline Ltd. 3.484% 16DEC26		325,179	318,501	0.30
554,000	Inter Pipeline Ltd. 6.625% 19NOV79		575,086	608,015	0.57

# ALGONQUIN FIXED INCOME 2.0 FUND

## Schedule of Investment Portfolio (continued) As at June 30, 2021 (Unaudited)

Number of shares/units /par value	Investments owned (continued)		Average cost	Fair value	% of net asset value
<b>Canadian fixed income (continued)</b>					
2,000,000	Keyera Corp. 3.934% 21JUN28	\$	2,232,540	\$ 2,167,280	2.04
250,000	Keyera Corp. 5.95% 10MAR81		250,000	257,813	0.24
1,500,000	Laurentian Bank of Canada 1.15% 03JUN24		1,499,655	1,490,850	1.41
2,000,000	Laurentian Bank of Canada 3.45% 27JUN23		2,108,437	2,092,580	1.97
500,000	Manitoba Telecom Services Inc. 4% 27MAY24		509,830	534,940	0.50
500,000	Manulife Financial Corp. 3.375% 19JUN81		500,000	497,900	0.47
300,000	Mattamy Group Corp. 4.625% 01MAR28		300,000	307,689	0.29
200,000	Morguard Corp. 4.402% 28SEP23		200,000	203,044	0.19
500,000	National Bank of Canada 2.983% 04MAR24		514,740	524,265	0.49
350,000	National Bank of Canada 4.05% 15AUG81		350,000	350,875	0.33
3,200,000	Nissan Canada Inc. 1.626% 18MAR24		3,199,050	3,189,824	3.01
900,000	North West Redwater Partnership / NWR Financing Co., Ltd. 1.20% 01DEC23		899,721	901,035	0.85
1,200,000	North West Redwater Partnership / NWR Financing Co., Ltd. 2% 01DEC26		1,200,306	1,201,512	1.13
6,000,000	North West Redwater Partnership / NWR Financing Co., Ltd. 3.20% 22JUL24		6,344,780	6,312,720	5.95
400,000	NorthWest Healthcare Properties Real Estate Investment Trust 5.50% 31DEC23		424,450	426,440	0.40
246,000	NOVA Gas Transmission Ltd. 6.30% 27MAY30		316,110	298,152	0.28
2,000,000	OMERS Finance Trust 1.55% 21APR27		1,998,020	1,996,760	1.88
500,000	Parkland Corp. 3.875% 16JUN26		500,000	505,315	0.48
300,000	Parkland Corp. 4.375% 26MAR29		300,000	305,439	0.29
500,000	Parkland Corp. 6% 23JUN28		500,000	538,750	0.51
690,000	Pembina Pipeline Corp. 3.62% 03APR29		766,424	738,121	0.70
700,000	Pembina Pipeline Corp. 4.02% 27MAR28		783,458	767,151	0.72
500,000	Pembina Pipeline Corp. 4.67% 28MAY50		568,495	533,345	0.50
300,000	Pembina Pipeline Corp. 4.80% 25JAN81		300,000	295,125	0.28
500,000	Quebecor Media Inc. 6.625% 15JAN23		549,375	539,730	0.51
800,000	Reliance LP 2.67% 01AUG28		799,384	809,048	0.76
2,000,000	Reliance LP 2.68% 01DEC27		2,050,970	2,031,020	1.91
4,590,000	Reliance LP 3.836% 15MAR25		4,916,388	4,926,355	4.64
400,000	RioCan Real Estate Investment Trust 2.83% 03OCT22		406,812	409,156	0.39
1,000,000	RioCan Real Estate Investment Trust 3.725% 18APR23		1,047,380	1,044,350	0.98
500,000	Rogers Communications Inc. 3.25% 01MAY29		523,770	523,450	0.49
1,000,000	Rogers Communications Inc. 6.11% 25AUG40		1,255,350	1,279,110	1.21
1,500,000	Royal Bank of Canada 2.609% 01NOV24		1,530,855	1,563,615	1.47
550,000	Royal Bank of Canada 4% 24FEB81		550,000	572,721	0.54
1,250,000	Saputo Inc. 2.297% 22JUN28		1,250,000	1,251,025	1.18
500,000	Saputo Inc. 3.603% 14AUG25		530,010	537,605	0.51
1,100,000	Shaw Communications Inc. 2.90% 09DEC30		1,102,556	1,101,353	1.04
2,500,000	Shaw Communications Inc. 3.30% 10DEC29		2,593,635	2,613,325	2.46
2,000,000	Shaw Communications Inc. 3.80% 01MAR27		2,158,920	2,160,380	2.04
1,000,000	Sienna Senior Living Inc. 2.82% 31MAR27		1,003,290	1,010,230	0.95
840,000	Sienna Senior Living Inc. 3.109% 04NOV24		858,999	869,240	0.82

# ALGONQUIN FIXED INCOME 2.0 FUND

## Schedule of Investment Portfolio (continued)

As at June 30, 2021 (Unaudited)

Number of shares/units /par value	Investments owned (continued)		Average cost	Fair value	% of net asset value
<b>Canadian fixed income (continued)</b>					
1,624,000	Sienna Senior Living Inc. 3.45% 27FEB26	\$	1,644,584	\$ 1,698,850	1.60
4,000,000	Smart Real Estate Investment Trust 3.556% 06FEB25		4,263,120	4,245,400	4.00
1,400,000	SmartCentres Real Estate Investment Trust 1.74% 16DEC25		1,400,000	1,382,668	1.30
1,300,000	SmartCentres Real Estate Investment Trust 2.307% 18DEC28		1,300,000	1,264,601	1.19
715,000	SmartCentres Real Estate Investment Trust 3.985% 30MAY23		757,793	752,495	0.71
300,000	SNC-Lavalin Group Inc. 3.80% 19AUG24		300,000	311,721	0.29
11,000,000	Sobeys Inc. 4.70% 08AUG23		11,849,455	11,722,150	11.05
500,000	Summit Industrial Income REIT 1.82% 01APR26		499,755	496,205	0.47
1,500,000	Summit Industrial Income REIT 2.15% 17SEP25		1,504,585	1,519,530	1.43
1,500,000	Summit Industrial Income REIT 2.25% 12JAN27		1,502,311	1,508,370	1.42
1,500,000	Sun Life Financial Inc. 2.75% 23NOV27		1,539,330	1,538,310	1.45
2,600,000	Suncor Energy Inc. 3% 14SEP26		2,746,268	2,741,310	2.58
400,000	Superior Plus LP 4.25% 18MAY28		400,000	409,500	0.39
7,000,000	TD Capital Trust IV 6.631% 30JUN08		7,244,540	7,000,000	6.60
243,000	TELUS Communications Inc. 8.80% 22SEP25		321,572	310,160	0.29
537,000	TELUS Communications Inc. 9.65% 08APR22		619,032	573,253	0.54
500,000	TELUS Corp. 3.15% 19FEB30		501,405	522,935	0.49
300,000	TELUS Corp. 4.10% 05APR51		298,410	307,791	0.29
500,000	The Bank of Nova Scotia 3.70% 27JUL81		500,000	501,045	0.47
2,823,000	The Empire Life Insurance Co. 3.383% 16DEC26		2,880,538	2,858,203	2.69
1,000,000	The Empire Life Insurance Co. 3.625% 17APR81		1,005,385	1,006,880	0.95
1,168,000	The Empire Life Insurance Co. 3.664% 15MAR28		1,215,037	1,218,236	1.15
3,500,000	The Goldman Sachs Group Inc. 0.805% 29APR25		3,500,000	3,508,085	3.31
400,000	The Independent Order Of Foresters 2.885% 15OCT35		400,000	405,184	0.38
300,000	The Toronto-Dominion Bank 1.128% 09DEC25		300,000	294,702	0.28
1,000,000	The Toronto-Dominion Bank 1.943% 13MAR25		1,000,000	1,020,840	0.96
2,200,000	Tourmaline Oil Corp. 2.077% 25JAN28		2,147,240	2,150,456	2.03
500,000	TransAlta Corp. 7.30% 22OCT29		570,000	601,445	0.57
2,000,000	TransCanada PipeLines Ltd. 0.725% 09JUN24		2,000,295	2,003,200	1.89
1,000,000	TransCanada PipeLines Ltd. 3.69% 19JUL23		1,038,360	1,046,760	0.99
5,000,000	TransCanada PipeLines Ltd. 3.80% 05APR27		5,430,450	5,436,450	5.12
500,000	TransCanada PipeLines Ltd. 4.34% 15OCT49		547,560	527,105	0.50
88,000	TransCanada PipeLines Ltd. 4.35% 06JUN46		99,002	92,621	0.09
1,000,000	Transcanada Trust 4.20% 04MAR81		1,000,000	984,980	0.93
1,000,000	Transcanada Trust 4.65% 18MAY77		1,018,065	1,038,020	0.98
3,777,000	Ventas Canada Finance Ltd. 1.03% 12NOV21		3,785,989	3,783,421	3.57
4,619,000	Ventas Canada Finance Ltd. 2.55% 15MAR23		4,742,824	4,726,715	4.46
1,000,000	Videotron Ltd. 3.125% 15JAN31		1,005,625	946,880	0.89
1,000,000	Videotron Ltd. 5.625% 15JUN25		1,120,000	1,110,360	1.05
400,000	VW Credit Canada Inc. 1.20% 25SEP23		399,892	400,860	0.38
500,000	VW Credit Canada Inc. 2.85% 26SEP24		532,745	522,920	0.49
1,659,000	Wells Fargo & Co. 2.509% 27OCT23		1,672,182	1,712,105	1.61
350,000	Westcoast Energy Inc. 3.43% 12SEP24		357,920	371,672	0.35
			<u>246,110,850</u>	<u>245,672,742</u>	<u>231.55</u>

# ALGONQUIN FIXED INCOME 2.0 FUND

## Schedule of Investment Portfolio (continued) As at June 30, 2021 (Unaudited)

Number of shares/units /par value	Investments owned (continued)	Average cost	Fair value	% of net asset value
<b>Canadian money market</b>				
10,000,000	Enbridge Inc. CP 5JUL21	\$ 9,996,200	\$ 9,998,944	9.42
<b>Canadian preferred shares</b>				
187,700	Bank of Montreal Preferred Shares 1.805%	4,666,220	4,701,885	4.43
4,400	Bank of Montreal Preferred Shares 2.105%	107,806	109,912	0.10
50,000	Bank of Montreal Preferred Shares 4.50%	1,217,197	1,272,500	1.20
50,000	Canadian Imperial Bank of Commerce Preferred Shares 4.40%	1,182,441	1,267,500	1.19
23,300	Canadian Imperial Bank of Commerce Preferred Shares 4.50%	557,824	574,345	0.54
10,600	Element Fleet Management Corp. Preferred Shares 6.21%	215,484	272,950	0.26
10,000	Enbridge Inc. Preferred Shares 0%	156,200	174,300	0.16
51,100	Manulife Financial Corp. Preferred Shares 4.40%	1,241,195	1,272,390	1.20
37,250	National Bank of Canada Preferred Shares 5.40%	939,073	942,053	0.89
25,000	The Bank of Nova Scotia Preferred Shares 4.85%	638,250	642,250	0.61
58,000	The Toronto-Dominion Bank Preferred Shares 4.85%	1,454,174	1,473,200	1.39
45,000	Westcoast Energy Inc. Preferred Shares 5.20%	1,150,425	1,140,300	1.07
		13,526,289	13,843,585	13.05
<b>U.S. fixed income</b>				
500,000	American Tower Corp. 5% 15FEB24	739,538	688,028	0.65
1,500,000	Citrix Systems Inc. 4.50% 01DEC27	2,307,899	2,113,541	1.99
2,000,000	Element Fleet Management Corp. 1.60% 06APR24	2,511,358	2,523,423	2.38
350,000	Enbridge Inc. 3.125% 15NOV29	475,252	465,482	0.44
700,000	Expedia Group Inc. 2.95% 15MAR31	880,518	883,658	0.83
1,000,000	HP Inc. 3.40% 17JUN30	1,402,231	1,330,891	1.25
500,000	MSCI Inc. 4% 15NOV29	685,248	655,088	0.62
7,000,000	TransAlta Corp. 4.50% 15NOV22	9,292,220	9,011,199	8.49
1,150,000	United States Treasury Note/Bond 0.75% 31MAY26	1,411,111	1,418,657	1.34
200,000	Videotron Ltd. 5% 15JUL22	281,386	258,046	0.24
500,000	Winnebago Industries Inc. 6.25% 15JUL28	700,107	671,747	0.63
		20,686,868	20,019,760	18.87
<b>Total investments owned</b>		290,939,932	290,215,431	273.53

# ALGONQUIN FIXED INCOME 2.0 FUND

## Schedule of Investment Portfolio (continued)

As at June 30, 2021 (Unaudited)

Number of shares/units /par value	Investments sold short	Proceeds on short sale	Fair value	% of net asset value
<b>Canadian fixed income</b>				
(520,000)	Canadian Government Bond 0.25% 01APR24	\$ (515,788)	\$ (514,426)	(0.48)
(7,110,000)	Canadian Government Bond 0.25% 01MAR26	(6,902,533)	(6,874,943)	(6.48)
(1,705,000)	Canadian Government Bond 0.50% 01DEC30	(1,550,204)	(1,572,027)	(1.48)
(810,000)	Canadian Government Bond 0.50% 01MAR22	(812,335)	(811,628)	(0.76)
(15,790,000)	Canadian Government Bond 0.50% 01SEP25	(15,678,478)	(15,544,939)	(14.65)
(7,620,000)	Canadian Government Bond 0.75% 01SEP21	(7,639,736)	(7,627,391)	(7.19)
(17,120,000)	Canadian Government Bond 1% 01JUN27	(17,052,860)	(17,037,653)	(16.06)
(5,113,000)	Canadian Government Bond 1% 01SEP22	(5,166,043)	(5,154,263)	(4.86)
(1,505,000)	Canadian Government Bond 1% 01SEP26	(1,501,299)	(1,500,711)	(1.41)
(4,215,000)	Canadian Government Bond 1.25% 01JUN30	(4,183,212)	(4,184,736)	(3.94)
(4,250,000)	Canadian Government Bond 1.25% 01MAR25	(4,385,055)	(4,322,803)	(4.07)
(30,369,000)	Canadian Government Bond 1.50% 01JUN23	(31,157,291)	(30,979,113)	(29.20)
(7,141,000)	Canadian Government Bond 1.50% 01JUN26	(7,336,414)	(7,318,668)	(6.90)
(4,216,000)	Canadian Government Bond 1.50% 01SEP24	(4,387,127)	(4,323,339)	(4.07)
(2,094,000)	Canadian Government Bond 2% 01DEC51	(2,128,513)	(2,171,666)	(2.05)
(5,605,000)	Canadian Government Bond 2% 01JUN28	(5,978,910)	(5,919,384)	(5.58)
(5,295,000)	Canadian Government Bond 2% 01SEP23	(5,477,878)	(5,464,811)	(5.15)
(5,196,000)	Canadian Government Bond 2.25% 01JUN25	(5,510,576)	(5,487,807)	(5.17)
(4,160,000)	Canadian Government Bond 2.25% 01JUN29	(4,570,777)	(4,478,906)	(4.22)
(7,085,000)	Canadian Government Bond 2.25% 01MAR24	(7,474,161)	(7,394,402)	(6.97)
(19,570,000)	Canadian Government Bond 2.50% 01JUN24	(20,756,714)	(20,618,169)	(19.43)
(10,139,000)	Canadian Government Bond 2.75% 01JUN22	(10,601,365)	(10,370,068)	(9.77)
		<u>(170,767,269)</u>	<u>(169,671,853)</u>	<u>(159.92)</u>
<b>U.S. fixed income</b>				
(1,850,000)	United States Treasury Note/Bond 0.125% 31MAR23	(2,312,458)	(2,291,597)	(2.16)
(1,980,000)	United States Treasury Note/Bond 0.25% 15MAR24	(2,482,545)	(2,446,684)	(2.31)
		<u>(4,795,003)</u>	<u>(4,738,281)</u>	<u>(4.47)</u>
	<b>Total investments sold short</b>	(175,562,272)	(174,410,134)	(164.38)

# ALGONQUIN FIXED INCOME 2.0 FUND

## Schedule of Investment Portfolio (continued)

As at June 30, 2021 (Unaudited)

Number of shares/units /par value	Investments sold short (continued)	Proceeds on short sale	Fair value	% of net asset value
	Commissions and other portfolio transaction costs	\$ (20,554)	\$ —	—
	<b>Net investments owned</b>	<b>\$ 115,357,106</b>	115,805,297	109.15
	Unrealized loss, foreign exchange forward contracts (Schedule 1)		(114,309)	(0.11)
	Unrealized gain, futures contracts (Schedule 2)		92,502	0.09
	<b>Other liabilities, net</b>		<b>(9,684,557)</b>	<b>(9.13)</b>
	<b>Net Assets Attributable to Holders of Redeemable Units</b>		<b>\$ 106,098,933</b>	<b>100.00</b>

### Schedule 1 - Foreign Exchange Forward Contracts

Settlement Date	Currency Sold	Currency Bought	Forward Rates	Contract Price	Fair Value	Unrealized Gain (Loss)
July 30, 2021	USD	CAD	1.240463	\$ (20,017,839)	\$ (20,188,531)	(170,692)
July 30, 2021	CAD	USD	1.240463	2,204,289	2,260,672	56,383
<b>Total unrealized loss on foreign exchange forward contracts</b>					\$	(114,309)

### Schedule 2 - Futures contracts

Futures contracts	Settlement Date	Position	Number of Contracts	Contract Price	Notional Amount	Unrealized Gain
CAN 5YR Bond Futures	September 2021	Short	(120)	\$ 124.83	\$ (14,979,600)	\$ 36,000
US 2YR Note (CBT)	September 2021	Short	(110)	110.37	(24,280,784)	56,502
<b>Total unrealized gain on futures contracts</b>						\$ 92,502

## **ALGONQUIN FIXED INCOME 2.0 FUND**

Notes to Interim Financial Statements

For the six-months ended June 30, 2021 (Unaudited)

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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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 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 interim financial statements have been prepared in compliance with International Financial Reporting Standards and International Accounting Standard 34, Interim Financial Reporting (together "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 interim 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") which are presented at fair value. The policies applied in these financial statements are based on IFRS issued and outstanding as of August 10, 2021 which is the date on which the interim financial statements were authorized for issue by the Trustee and Manager.

## ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 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 period. Foreign exchange gains and losses on the sale of investments are included in net realized gain (loss) on sale of investments, including foreign exchange adjustments in the statements 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 (depreciation) appreciation in value of investments in the statements 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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 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 statements 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 statements 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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 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 included as expenses in the statements 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, due from related fund, 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, payable for investments purchased, accounts payable and accrued liabilities, due to Manager, interest and borrowing fees 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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 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 period.

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

Increase (decrease) in net assets attributable to holders of redeemable units per series per unit is based on the increase (decrease) 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 period.

## ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 2. Significant accounting policies (continued):

#### (i) Investment transactions and revenue recognition:

The interest income for distribution purposes shown on the statements 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 (loss) on sale of investments, including foreign exchange adjustments and unrealized (depreciation) 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 statements 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 statements 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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### **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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### **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 six-months ended June 30, 2021, expenses reimbursed by the Manager amounted to \$45,594 (2020 - \$57,007) . As at June 30, 2021, expense reimbursement receivable from the Manager amounted to \$45,594 (December 31, 2020 - \$113,075).

#### **(c) Related party unit holdings:**

As at June 30, 2021, directors and key management personnel of the Manager, directly or indirectly held 4,219 Series I units in the Fund (December 31, 2020 – 532 Series I units).

#### **(d) Due to Manager and due from related fund:**

As at June 30, 2021, \$9,780 is due to the Manager in respect of payment of expenses on behalf of the Fund (December 31, 2020 – \$22,199) and \$2,535 is due from a related fund (December 31, 2020 – 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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 6. Redeemable units of the Fund (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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

### 6. Redeemable units of the Fund (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 six-months ended June 30, 2021 and 2020 is as follows:

	Redeemable Units, beginning of period	Redeemable Units Issued	Redemptions of Redeemable Units	Reinvestments of Units	Redeemable Units, end of period
<b>June 30, 2021</b>					
Series A	8,156	11,114	(561)	69	18,778
Series F	43,136	366,617	(13,375)	2,166	398,544
Series FF	480,437	43	(46,712)	4,114	437,882
Series I	43,198	103,843	(1,070)	1,097	147,068
<b>June 30, 2020</b>					
Series A	—	10,706	(5,444)	13	5,275
Series F	1,500	10	—	9	1,519
Series FF	—	503,628	(31,472)	2,810	474,966
Series I	—	35,582	(9,985)	207	25,804

#### (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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 6. Redeemable units of the Fund (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 periods, 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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### **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 statements 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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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### 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 June 30, 2021 and December 31, 2020:

Debt instruments by credit rating*	% of NAV	
	June 30, 2021	December 31, 2020
AAA rated	(207)	(136)
AA rated	13	15
A rated	47	60
BBB rated	218	171
BB rated	15	20
B rated	2	-

\*Excludes due to/from broker.

## ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

### 7. Financial instruments (continued):

The Fund's cash is held with its prime broker that was rated as follows as at June 30, 2021 and December 31, 2020:

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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

### 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 June 30, 2021 and 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		June 30, 2021		December 31, 2020
0 to 1 year	\$	(14,027)	\$	(24,688)
1 to 3 years		85,190		(99,413)
3 to 5 years		(124,077)		(218,389)
Greater than 5 years		(276,639)		(303,025)
Total exposure	\$	(329,553)	\$	(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.

#### (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 Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

### 7. Financial instruments (continued):

As at June 30, 2021, 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 \$93,746 (December 31, 2020 - \$48,889). Additionally, as at June 30, 2021, had the prices on the Canadian stock exchanges for equities and 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 \$1,452,399 (December 31, 2020 - \$1,550,612). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

#### (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 June 30, 2021 and 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
<b>June 30, 2021</b>						
U.S. Dollar	\$ (15,269,474)	\$ 15,281,479	\$ 12,005	\$ (763,474)	\$ 764,074	\$ 600
	\$ (15,269,474)	\$ 15,281,479	\$ 12,005	\$ (763,474)	\$ 764,074	\$ 600
% of Net Assets						
Attributable to Holders						
of Redeemable Units	(14.39)	14.40	0.01	(0.72)	0.72	0.00

## ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

### 7. Financial instruments (continued):

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
<b>December 31, 2020</b>						
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

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 June 30, 2021 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 \$600 (December 31, 2020 - \$12,414). 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 June 30, 2021 and December 31, 2020:

## ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

### 7. Financial instruments (continued):

Market Segment	June 30, 2021	December 31, 2020
Financial	45%	49%
Energy	20%	18%
Consumer, non-cyclical	15%	10%
Communications	7%	11%
Consumer, cyclical	6%	5%
Utilities	6%	3%
Technology	1%	3%
Industrial	-	1%
	100%	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.

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 period ended June 30, 2021, the Fund's lowest and highest aggregate gross exposure was 157% (December 31, 2020 – 17%) and 210% (December 31, 2020 – 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% (December 31, 2020 - 300%) of the Fund's NAV.

## ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

### 7. Financial instruments (continued):

#### (f) COVID-19 risk:

In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. Subsequent to June 30, 2021, 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).

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Fund's investments fall as at July 30, 2021 and December 31, 2020.

#### June 30, 2021

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equity	\$ 680,400	\$ –	\$ –	680,400
Fixed income securities	–	265,692,502	–	265,692,502
Money market	–	9,998,944	–	9,998,944
Preferred shares	13,843,585	–	–	13,843,585
Futures contracts	92,502	–	–	92,502
	\$ 14,616,487	\$ 275,691,446	\$ –	\$ 290,307,933
<b>Liabilities</b>				
Fixed income securities sold short	\$ –	\$ 174,410,134	\$ –	\$ 174,410,134
Foreign exchange forward contracts	–	114,309	–	114,309
	\$ –	\$ 174,524,443	\$ –	\$ 174,524,443

## ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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

#### December 31, 2020

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
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
<b>Liabilities</b>				
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 six-months ended June 30, 2021 and year ended December 31, 2020

### 9. Increase (decrease) in net assets attributable to holders of redeemable units per series per unit:

The increase (decrease) in net assets attributable to holders of redeemable units per series per unit for the six-months ended June 30, 2021 and 2020 is calculated as follows:

	Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series	Weighted Average of Redeemable Units Outstanding During the Period	Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit
<b>June 30, 2021</b>			
Series A	\$ 22,307	12,907	\$ 1.73
Series F	407,578	203,066	2.01
Series FF	860,926	462,445	1.86
Series I	178,060	73,981	2.41
<b>June 30, 2020</b>			
Series A	\$ 12,799	3,682	\$ 3.48
Series F	2,044	1,508	1.36
Series FF	1,105,642	303,292	3.65
Series I	(13,360)	29,260	(0.46)

## ALGONQUIN FIXED INCOME 2.0 FUND

Notes to Interim Financial Statements (continued)

For the six-months ended June 30, 2021 (Unaudited)

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**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 period end, but for which the consideration was not received by the Fund at the end of the period.

**11. Redemptions payable:**

Redemptions payable represent amounts owing on the Fund's units for which redemption notices were received prior to end of the period, but which were not paid at the period 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 July 1, 2021 to the date of issuance of these interim financial statements. The Fund received subscriptions of \$7,575,708 and paid redemptions of \$3,050,994.