

STATEMENT OF FINANCIAL POSITION

As at March 5, 2021

PCJ Absolute Return II Fund

TABLE OF CONTENTS

Independent Auditors' Report	3
Statement of Financial Position	6
Notes to the Financial Statement	7



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Unitholder of the PCJ Absolute Return II Fund (the "Fund")

Opinion

We have audited the statement of financial position of the Fund as at March 5, 2021, and notes to the statement of financial position, including a summary of significant accounting policies (hereinafter referred to as the "financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Fund as at March 5, 2021, in accordance with International Financial Reporting Standards (IFRS) relevant to preparing such a financial statement.

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 Statement***" 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 statement in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Manager and Those Charged with Governance for the Financial Statement

The Fund's Manager is responsible for the preparation and fair presentation of the financial statement in accordance with IFRS, and for such internal control as the Manager determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, the Manager 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 the Manager 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 Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is 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 statement.

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 statement, 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 the Manager.
- Conclude on the appropriateness of the Manager'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 statement 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 statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.



- 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

Vancouver, Canada

March 5, 2021

PCJ Absolute Return II Fund
Statement of Financial Position as at

March 5, 2021

Assets

Current assets

Cash \$ 4,500,000

Net Assets attributable to holders of redeemable units **\$ 4,500,000**

Net Assets attributable to holders of redeemable units for each series

Series A \$ 50,000

Series F \$ 50,000

Series I **\$ 4,400,000**

Redeemable units outstanding (note 4)

Series A 5,000

Series F 5,000

Series I **440,000**

Net Assets attributable to holders of redeemable units per unit

Series A \$ 10

Series F \$ 10

Series I **\$ 10**

Approved by the Manager

"Michael Freund"

"Tim Elliott"

Director

Director

PCJ Absolute Return II Fund

Notes to the Financial Statement
As at March 5, 2021

1 General information

The investment activities of the PCJ Absolute Return II Fund (the “Fund”) are managed by Connor, Clark & Lunn Funds Inc. (“CFI” or the “Manager”).

The Fund was established as an open-end unit trust under the laws of Ontario pursuant to separate supplemental trust agreements between CFI and RBC Investor Services Trust (“RBC IS” or the “Trustee”) dated January 2, 2021.. The supplemental trust agreement incorporates by reference the master trust agreement between CFI and RBC IS dated May 1, 2012 (as amended January 2, 2019), containing the standard terms and conditions of the Fund.

The Manager has retained the services of PCJ Investment Counsel Ltd. (“PCJ”), as portfolio manager, to provide investment management services to the Fund. PCJ is part of Connor, Clark & Lunn Financial Group Ltd., (“CC&LFG”), of which the Manager is an affiliate.

The Fund seeks to earn positive absolute and attractive risk adjusted returns while demonstrating low correlation with, and lower volatility than, traditional long-only investment portfolios. The Fund will engage in short selling, cash borrowing and use derivatives in order to meet its investment objective.

The address of the Fund’s principal place of business is 1400 – 130 King St. West, P.O. Box 240, Toronto, Ontario, Canada, M5X 1C8.

These financial statements were authorized for issue by the Manager on March 5, 2021.

2 Basis of presentation

(a) Statement of compliance:

The financial statement of the Fund has been prepared in compliance with International Financial Reporting Standards (“IFRS”) relevant to preparing such a financial statement. This financial statement has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivatives) at fair value through profit and loss.

(b) Functional and presentational currency:

The Fund’s subscriptions, redemptions and certain operating activities are denominated in Canadian dollars, which is also its functional and presentation currency.

3 Significant accounting policies

(a) Cash:

Cash is comprised of current deposits with financial institutions.

(b) Redeemable units of the Fund:

Under International Accounting Standard (“IAS”) 32, “Financial Instruments: Presentation”, the Fund classified its redeemable units as liabilities. The Fund’s redeemable units do not meet the criteria in IAS 32 for classification as equity as the Fund has more than one contractual obligation to its unitholders. The Fund’s redeemable units are presented at the redemption amount. Investors have the right to require redemption, subject to available liquidity, for cash at a unit price based on the Fund’s valuation policies at each redemption date. Unitholders are entitled to distributions when declared. In addition, holders of redeemable units have the right to receive

PCJ Absolute Return II Fund

Notes to the Financial Statement

As at March 5, 2021

distributions in cash. Therefore, the ongoing redemption feature is not the only contractual obligation related to units.

(c) Income and expense allocation:

Realized gains/losses, changes in unrealized appreciation (depreciation) on investments, income and expenses are allocated daily to each series based on the proportionate share of the net asset value (“NAV”) of the series. The proportionate share of each series is determined by adding the current day's net unitholder subscriptions of the series to the prior day's NAV of the series. Any income or expense amounts that are unique to a particular series (for example, management fees) are accounted for separately in that particular series so as not to affect the NAV of the other series.

(d) Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Regular way purchases and sales of financial assets are recognized at their trade date.

(e) Fair value

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. The carrying values of cash and the obligation for net assets attributable to holders of redeemable units approximate their fair values.

4 Redeemable units of the Fund

The Fund has authorized an unlimited number of series of units and may issue an unlimited number of units of each series. Currently, the Fund offers Series A, Series F and Series I units pursuant to a simplified prospectus.

Series A units are available to all investors who purchase through dealers and who invest the minimum amount. Series F units are available to investors who participate in fee based programs through their dealer, whose dealer has signed a Series F agreement with the Manager and who invest the minimum amount. Series I units are designed for those investors wishing to pay fees directly to the Manager and are generally available to institutional investors, as well as the Manager's and its affiliates' employees, former employees (and their respective affiliates) and to other comparable investors as the Manager may determine from time to time who invest such amount as the Manager may agree.

All issued units are fully paid and have been recorded in the official listing of unitholders maintained by the Trustee. The Fund's units are sold, and are redeemable at the holder's option, in accordance with the provisions of the master trust agreement at the prevailing net asset value per unit. The Fund has no restrictions or specific capital requirements on the subscription and redemption of units.

PCJ Absolute Return II Fund

Notes to the Financial Statement

As at March 5, 2021

CC&LFG has subscribed for units of the Fund as indicated below. None of the units will be redeemed until additional subscriptions for at least \$500,000 have been received by the Fund, for all series in aggregate, from other investors for the purchase of units.

Series	Units	Net Asset Value per unit (\$)	Total Cash Consideration (\$)
Series A	5,000	10	50,000
Series F	5,000	10	50,000
Series I	440,000	10	4,400,000

5 Related party transactions and other expenses

Management fees

The Fund pays a management fee, which is accrued daily and paid monthly. The Manager receives its management fees for providing or arranging for portfolio management, selecting service providers to the Fund, arranging for all necessary regulatory documents, including those required to offer the Fund's units, marketing the Fund, supervising the operations of the Fund, and making use of controls and monitoring for compliance.

The annual management fee rates, exclusive of taxes, are 2.00% for Series A and 1.00% for Series F.

No management fees are paid by the Fund with respect to Series I, but are negotiable and paid directly by the unitholder to the Manager and will not exceed the management fee payable on Series A units of the Fund.

Performance fees

The Fund may be required to pay a quarterly performance fee to the Manger. The performance fee will be calculated and accrued daily. The Manager may pay all or a portion of such performance fee to the portfolio manager.

The performance fee will be based on the performance of a Series of the Fund relative to the performance of the Fund's Hurdle over each calendar quarter. The rate of the performance fee, exclusive of taxes, for Series A and F is 20%. The Hurdle for the Fund is 2% per annum.

Unitholders of Series I may negotiate a performance fee to be paid by the investor directly to the Manager.

Independent Review Committee fees

In accordance with National Instrument 81-107, the Fund has in place an Independent Review Committee (IRC). The IRC acts for all of the applicable CC&LFG Funds. The Fund pays a share of expenses of the IRC, as the IRC provides oversight for conflict of interest matters for the Fund. The cost of the IRC is shared amongst the funds for which the IRC provides governance.

PCJ Absolute Return II Fund

Notes to the Financial Statement

As at March 5, 2021

Other expenses

The Fund is responsible for audit fees, custodial fees, securityholder reporting fees and other expenses incurred directly for the operations of the Fund.

6 Financial risk management

The Fund may be exposed to a variety of financial risks which are described below.

Credit risk

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. At March 5, 2021, credit risk is considered negligible as the cash balance of the Fund is held on deposit with an AA/Aa rated counterparty.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of redeemable units, which are due on demand. The Fund retains sufficient cash on hand to fund anticipated redemptions. Liquidity risk is considered negligible.

Capital risk management

Units issued and outstanding are considered to be capital of the Fund. The Fund does not have any specific capital requirements on the subscription and redemption of units, other than certain minimum subscription requirements. Each unit is redeemable at the option of the unitholder in accordance with the Declaration of Trust and entitles the unitholder to a pro rata share of the Fund's NAV. Unitholders are entitled to distributions when declared. Distributions on units of the Fund are reinvested in additional units of the Fund or, at the option of the unitholder, paid in cash.