



## ECIGIF TRUST

Unaudited Financial Statements

June 30, 2014

Experience. Intelligent Investing.

## **NOTICE TO UNITHOLDERS**

**The auditor of the Fund has not reviewed these interim financial statements.**

The Manager 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.

# ECIGIF TRUST

## Statements of Financial Position (Unaudited)

	Note	June 30, 2014	December 31, 2013	January 1, 2013
<b>Assets</b>				
<b>Current assets</b>				
Financial assets designated at fair value through profit and loss		\$ 204,588,722	\$ 227,654,742	\$ 275,967,603
Financial assets held for trading				
Unrealized gain on options		318,646	112,200	84,095
Unrealized gain on swap contracts		870,014	-	16,115
Cash		4,358,185	529,842	2,869,353
Margin deposit on futures contracts	4	1,281,380	251,136	662,143
Cash collateral on swap contracts		430,016	280,380	850,239
Accrued interest and dividends receivable		2,122,554	2,412,646	2,092,519
Receivable for securities sold		13,083,492	1,123,718	-
		227,053,009	232,364,664	282,542,067
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities held for trading				
Investments sold short		87,324,571	112,765,281	148,776,258
Unrealized loss on futures contracts		262,595	42,465	11,059
Unrealized loss on options		32,808	4,463	118,979
Unrealized loss on swap contracts		952,422	476,190	85,620
Cash overdraft	4	9,524,179	3,476,008	2,423,130
Payable for securities purchased		14,618,322	1,031,808	-
Accrued interest and dividends payable		261,402	329,610	572,774
Other liabilities	6	583,416	155,456	167,283
		113,559,715	118,281,281	152,155,103
<b>Net assets attributable to holders of redeemable units</b>				
		\$ 113,493,294	\$ 114,083,383	\$ 130,386,964
Net assets attributable to holders of redeemable units				
- Units		\$ 113,493,284	\$ 114,083,383	\$ 130,386,964
- Class A Units		\$ 10	\$ -	\$ -
Number of units outstanding				
- Units	5	9,560,033	9,560,033	10,750,000
- Class A Units		1	-	-
Net assets attributable to holders of redeemable units per unit				
- Units		\$ 11.87	\$ 11.93	\$ 12.13
- Class A Units		\$ 10.00	\$ -	\$ -

Approved on behalf of the Board of Directors of Arrow Capital Management Inc.,  
the Manager of the Fund:

"James L. McGovern"

James L. McGovern, Director

"Robert W. Maxwell"

Robert W. Maxwell, Director

# ECIGIF TRUST

## Statements of Comprehensive Income (Unaudited) For the periods ended June 30

	Note	2014 \$	2013 \$
<b>Income</b>			
Net gains on investments and derivatives			
Interest for distribution purposes		4,994,123	5,702,851
Interest expense on short sales		(1,190,133)	(1,512,989)
Net realized gain (loss) on investments and derivatives	4	(1,128,154)	1,777,743
Net change in unrealized appreciation (depreciation) in value of investments and derivatives	4	1,893,125	(2,792,745)
Net gains on investments and derivatives		4,568,961	3,174,860
Other Income Items:			
Foreign exchange gain (loss) on cash		28,447	(137,382)
Net change in unrealized gain (loss) on cash		138,440	510,712
Total income (net)		4,735,848	3,548,190
<b>Expenses</b>			
Security holder reporting fees		31,267	40,927
Custodial fees		13,086	14,535
Management fees	6	565,343	638,148
Performance fees	6	378,794	-
Audit fees		14,311	14,175
Investment review committee fees		3,241	4,417
Interest expense		46,937	11,783
Commissions and other portfolio transaction costs	6	-	-
Security borrowing expenses		192,181	207,142
Harmonized sales tax		130,787	92,367
Total expenses		1,375,947	1,023,494
Increase (decrease) in net assets attributable to holders of redeemable units		3,359,901	2,524,696
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units per Class</b>			
- Units		3,359,891	2,524,696
- Class A Units		-	-
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units per Unit</b>			
- Units	7	0.35	0.30
- Class A Units		-	-

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

# ECIGIF TRUST

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (Unaudited) For the periods ended June 30

		2014	2013
		\$	\$
<b>Net assets attributable to holders of redeemable units at beginning of period</b>		<b>114,083,383</b>	<b>130,386,964</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>		3,359,901	2,524,696
<b>Distributions to holders of redeemable units</b>			
From net investment income	- Units	(3,950,000)	(4,400,000)
	- Class A Units	-	-
		(3,950,000)	(4,400,000)
From net realized gains on investments and derivatives	- Units	-	-
	- Class A Units	-	-
		-	-
Return of Capital	- Units	-	-
	- Class A Units	-	-
		-	-
<b>Total distributions to holders of redeemable units</b>		<b>(3,950,000)</b>	<b>(4,400,000)</b>
<b>Redeemable unit transactions</b>			
Proceeds from redeemable units issued	- Units	-	-
	- Class A Units	10	-
Reinvestments of distributions to holders of redeemable units	- Units	-	-
	- Class A Units	-	-
Redemption of redeemable units	- Units	-	-
	- Class A Units	-	-
		-	-
<b>Net increase (decrease) from redeemable unit transactions</b>		<b>10</b>	<b>-</b>
<b>Net increase (decrease) in net assets attributable to holders of redeemable units</b>		<b>(590,089)</b>	<b>(1,875,304)</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>		<b>113,493,294</b>	<b>128,511,660</b>

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

# ECIGIF TRUST

## Statements of Cash Flow (Unaudited) For the periods ended June 30

Note	2014 \$	2013 \$
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	3,359,901	2,524,696
Adjustment for:		
Foreign exchange loss (gain) on cash	(28,447)	137,382
Net realized loss (gain) on investments and derivatives	1,128,154	(1,777,743)
Net change in unrealized depreciation (appreciation) in value of investments and derivatives	(1,893,125)	2,792,745
Net change in unrealized loss (gain) on cash	-	(1,572,891)
Purchase of investments	(746,904,276)	(490,814,760)
Proceeds on sale of investments	746,569,544	492,866,041
(Increase) decrease in margin deposit on futures contracts	(1,030,244)	-
(Increase) decrease in cash collateral on swap contracts	(149,636)	-
Decrease (increase) in accrued interest and dividends receivable	290,092	(389,743)
Increase (decrease) in interest and dividends payable	(68,208)	(202,664)
Increase (decrease) in other liabilities	427,960	(9,548)
<b>Net cash from (used in) operating activities</b>	<b>1,701,715</b>	<b>3,553,515</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from redeemable units issued	10	-
Redemption of redeemable units	-	-
Distributions paid to holders of redeemable units, net of reinvested distributions	(3,950,000)	(4,400,000)
Increase (decrease) in cash overdraft	6,048,171	-
<b>Net cash from (used in) financing activities</b>	<b>2,098,181</b>	<b>(4,400,000)</b>
<b>Net Increase (decrease) in cash</b>	<b>3,799,896</b>	<b>(846,485)</b>
Cash at beginning of the period	529,842	2,775,563
Foreign exchange gain (loss) on cash	28,447	(137,382)
<b>Cash at end of the period</b>	<b>4,358,185</b>	<b>1,791,696</b>
Interest received*	5,284,225	5,275,166
Interest paid*	(1,305,278)	(1,727,436)

\*Included as part of cash flows from operating activities

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

# ECIGIF TRUST

Schedule of Investment Portfolio (Unaudited) - As at June 30, 2014

## FIXED INCOME LONG POSITIONS 180.3%

SECURITY NAME	CURRENCY	COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE	AVERAGE COST
Aimia Inc	CAD	7.900%	Sep/02/2014	1,360,000 \$	1,372,370 \$	1,439,203
Algonquin Power Co	CAD	4.650%	Feb/15/2022	1,144,000	1,217,437	1,203,602
American Media Inc	USD	11.500%	Dec/15/2017	369,000	418,590	369,304
Aon Finance NS 1 ULC	CAD	4.760%	Mar/08/2018	9,632,000	10,346,646	10,352,021
APT Pipelines Ltd	AUD	4.245%	Jul/24/2019	4,101,000	4,312,274	4,211,399
AT&T Inc	USD	3.825%	Nov/25/2020	2,648,000	2,777,407	2,684,851
Bank of America Corp	USD	5.125%	Dec/31/2049	1,883,000	2,008,676	2,043,341
Bell Aliant Regional Communications LP	CAD	5.410%	Sep/26/2016	2,856,000	3,072,435	3,096,114
Bell Canada	CAD	5.000%	Feb/15/2017	2,797,000	3,016,905	3,031,523
Bell Canada	CAD	4.400%	Mar/16/2018	3,779,000	4,075,006	4,069,983
Bell Canada	CAD	4.700%	Sep/11/2023	3,863,000	4,211,845	3,886,890
BP Capital Markets PLC	GBP	2.744%	Feb/24/2017	378,000	385,862	386,138
BP Capital Markets PLC	GBP	3.497%	Nov/09/2020	986,000	1,025,024	1,014,654
Canadian Energy Services & Technology Corp	CAD	7.375%	Apr/17/2020	1,846,000	1,968,298	1,875,580
Canadian Government Bond	CAD	2.000%	Jun/01/2016	229	233	234
Canadian Natural Resources Ltd	CAD	2.600%	Dec/03/2019	2,834,000	2,839,459	2,828,955
Cascades Inc	CAD	5.500%	Jul/15/2021	945,000	943,937	945,000
Choice Properties LP	CAD	3.600%	Apr/20/2020	1,513,000	1,558,888	1,545,318
CIT Group Inc	USD	5.500%	Feb/15/2019	600,000	694,615	712,881
CIT Group Inc	USD	3.875%	Feb/19/2019	600,000	650,661	659,587
Cogeco Cable Inc	CAD	4.175%	May/26/2023	2,482,000	2,555,582	2,483,812
Cominar Real Estate Investment Trust	CAD	4.274%	Jun/15/2017	2,632,000	2,743,568	2,743,413
First National Financial Corp	CAD	5.070%	May/07/2015	9,139,000	9,344,683	9,497,420
Ford Auto Securitization Trust	CAD	1.353%	Mar/15/2016	600,000	452,095	452,012
Ford Credit Canada Ltd	CAD	2.634%	Nov/21/2016	4,302,000	4,359,641	4,352,228
Ford Credit Canada Ltd	CAD	4.875%	Feb/08/2017	3,405,000	3,643,297	3,646,040
Ford Credit Canada Ltd	CAD	3.279%	Jul/02/2021	3,388,000	3,400,768	3,388,000
GFL Environmental Corp	CAD	7.500%	Jun/18/2018	560,000	578,900	578,200
Goldman Sachs Group Inc	USD	5.000%	May/03/2018	3,779,000	4,119,940	4,116,956
Goldman Sachs Group Inc	USD	1.830%	Nov/29/2023	3,304,000	3,635,093	3,730,844
Heathrow Funding Ltd	JRY	4.000%	Jul/03/2019	1,890,000	2,020,007	2,012,321
Home Trust Co	CAD	2.350%	May/24/2017	1,134,000	1,134,281	1,133,739
Inter Pipeline Ltd	CAD	4.637%	May/30/2044	1,890,000	1,928,847	1,897,560
JPMorgan Chase & Co	USD	2.920%	Sep/19/2017	5,669,000	5,811,170	5,815,808
JPMorgan Chase & Co	USD	5.000%	Dec/29/2049	3,765,000	4,016,787	4,024,289
Kellogg Canada Inc	CAD	2.050%	May/23/2017	2,269,000	2,271,907	2,268,546
Leisureworld Senior Care LP	CAD	3.474%	Feb/03/2021	6,356,000	6,508,591	6,443,840
Lloyds Bank PLC	GBP	5.280%	Apr/19/2016	3,800,000	4,025,429	4,049,888
Loblaw Cos Ltd	CAD	3.748%	Mar/12/2019	3,779,000	3,979,264	3,968,706
Loblaw Cos Ltd	CAD	6.050%	Jun/09/2034	327,000	379,539	332,922
Loblaw Cos Ltd	CAD	6.150%	Jan/29/2035	1,088,000	1,277,801	1,251,245
Manufacturers Life Insurance Co	CAD	4.210%	Nov/18/2021	6,490,000	6,836,842	6,850,371
Medavie Inc	CAD	6.000%	May/21/2024	600,000	603,750	600,000
Monsanto Co	USD	2.750%	Jul/15/2021	1,697,000	1,809,449	1,814,867
Mood Media Corp	CAD	9.250%	Oct/15/2020	600,000	581,575	624,793
Pembina Pipeline Corp	CAD	4.810%	Mar/25/2044	1,892,000	1,963,365	1,912,216
Penske Truck Leasing Canada Inc	CAD	3.650%	Feb/01/2018	7,876,000	8,157,411	7,973,155
Postmedia Network Inc	CAD	8.250%	Aug/16/2017	142,185	147,961	146,273
Rogers Communications Inc	CAD	5.380%	Nov/04/2019	3,780,000	4,275,369	4,265,401
RONA Inc	CAD	5.400%	Oct/20/2016	190,000	196,042	197,048
Royal Bank of Scotland Group PLC	GBP	6.666%	Apr/29/2049	666,000	745,470	621,079
Royal Bank of Scotland PLC	GBP	1.993%	Mar/30/2015	2,507,000	2,496,972	2,444,325
Royal Bank of Scotland PLC	GBP	10.500%	Mar/16/2022	730,000	866,875	832,200
Shaw Communications Inc	CAD	5.700%	Mar/02/2017	562,000	615,521	618,925
Shaw Communications Inc	CAD	5.650%	Oct/01/2019	2,339,000	2,665,768	2,651,289
Shaw Communications Inc	CAD	4.350%	Jan/31/2024	10,994,000	11,475,758	11,101,653
Shaw Communications Inc	CAD	6.750%	Nov/09/2039	629,000	766,870	734,483
SLM Corp	USD	5.500%	Jan/25/2023	728,000	769,618	702,630
SLM Corp	USD	6.125%	Mar/25/2024	150,000	162,370	166,719
SLM Corp	USD	5.625%	Aug/01/2033	640,000	592,226	523,225
Southern Pacific Resource Corp	CAD	8.750%	Jan/25/2018	3,215,000	2,414,934	3,009,407
Suncor Energy Inc	CAD	5.800%	May/22/2018	1,892,000	2,145,670	2,145,474
Telus Corp	CAD	3.350%	Apr/01/2024	3,951,000	3,881,517	3,808,978
TELUS Corp	CAD	4.400%	Apr/01/2043	10,624,000	10,283,605	9,897,078
TELUS Corp	CAD	4.850%	Apr/05/2044	5,676,000	5,869,761	5,668,848
Trident Exploration Corp	CAD	8.250%	Apr/13/2018	340,000	316,116	286,450
Videotron Ltd	CAD	7.125%	Jan/15/2020	340,000	366,648	371,838
Videotron Ltd	CAD	5.625%	Jun/15/2025	11,960,000	12,141,393	11,762,817
Wells Fargo Canada Corp	CAD	2.774%	Feb/09/2017	1,891,000	1,937,855	1,937,197
WTH Car Rental ULC	CAD	2.619%	Dec/20/2016	1,773,000	1,774,383	1,805,127
WTH Car Rental ULC	CAD	2.542%	Aug/20/2019	1,773,000	1,771,414	1,773,000
YPG Financing Inc	CAD	9.250%	Nov/30/2018	818,729	872,456	848,117

Total Fixed Income Long Positions

\$ 204,588,722 \$ 202,639,350

# ECIGIF TRUST

Schedule of Investment Portfolio (Unaudited) - As at June 30, 2014

## FIXED INCOME SHORT POSITIONS -76.9%

SECURITY NAME		COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE	PROCEEDS
Canadian Government Bond	CAD	1.500%	Feb/01/2017	(3,624,000)	\$ (3,653,864)	\$ (3,657,768)
Canadian Government Bond	CAD	1.500%	Sep/01/2017	(8,902,000)	(8,961,448)	(8,927,238)
Canadian Government Bond	CAD	1.250%	Mar/01/2018	(756,000)	(753,484)	(750,927)
Canadian Government Bond	CAD	1.750%	Mar/01/2019	(4,454,000)	(4,498,270)	(4,485,406)
Canadian Government Bond	CAD	1.750%	Sep/01/2019	(940,000)	(945,808)	(944,353)
Canadian Government Bond	CAD	3.750%	Jun/01/2019	(495,000)	(546,374)	(545,171)
Canadian Government Bond	CAD	3.500%	Jun/01/2020	(2,204,600)	(2,429,220)	(2,424,069)
Canadian Government Bond	CAD	3.250%	Jun/01/2021	(4,216,000)	(4,602,164)	(4,599,773)
Canadian Government Bond	CAD	2.500%	Jun/01/2024	(25,131,000)	(25,719,121)	(25,357,900)
Canadian Government Bond	CAD	5.000%	Jun/01/2037	(209,924)	(289,867)	(279,283)
Canadian Government Bond	CAD	4.000%	Jun/01/2041	(10,533,000)	(12,923,499)	(12,394,984)
Canadian Government Bond	CAD	3.500%	Dec/01/2045	(5,050,000)	(5,807,494)	(5,628,802)
Monsanto Co	USD	4.400%	Jul/15/2044	(188,000)	(201,520)	(199,534)
RBC Capital Trust	CAD	6.821%	Jun/30/2018	(1,890,000)	(2,212,016)	(2,221,601)
TD Capital Trust III	CAD	7.243%	Dec/31/2018	(1,890,000)	(2,265,108)	(2,276,807)
United States Treasury Note	USD	1.500%	Jan/31/2019	(1,200,000)	(1,277,541)	(1,314,575)
United States Treasury Note	USD	1.625%	Apr/30/2019	(5,195,000)	(5,544,522)	(5,582,758)
United States Treasury Note	USD	2.000%	May/31/2021	(1,697,000)	(1,794,012)	(1,797,497)
United States Treasury Note	USD	2.500%	Aug/15/2023	(728,000)	(780,160)	(733,230)
United States Treasury Note	USD	2.750%	Feb/15/2024	(128,000)	(139,450)	(141,233)
United States Treasury Note	USD	2.500%	May/15/2024	(2,000)	(2,127)	(2,137)
Veresen Inc	CAD	3.950%	Mar/14/2017	(1,891,000)	(1,977,502)	(1,978,873)

Total Fixed Income Short Positions \$ (87,324,571) \$ (86,243,919)

## Schedule 1 - Derivative assets and liabilities

\$ (59,166) \$ 170,887

## LONG OPTION POSITIONS 0.3%

SECURITY NAME	CONTRACTS	EXPIRY DATE	STRIKE PRICE	FAIR VALUE	AVERAGE COST
Royal Bank Put	420	15-Jan-16	40	\$ 17,895	\$ 29,299
S&P 500 Index Call	44	18-Sep-14	1,990	231,988	213,314
Swaption CDX.NA.HY.S22 Payer	16,271,000	17-Sep-14	103.5	68,763	98,499

Total Long Option Contracts \$ 318,646 \$ 341,112

## SHORT OPTION POSITIONS -0.0%

SECURITY NAME	CONTRACTS	EXPIRY DATE	STRIKE PRICE	FAIR VALUE	PROCEEDS
Swaption CDX.NA.IG.S22 Payer	(75,677,000)	17-Sep-14	90	\$ (32,808)	\$ (170,225)

Total Short Option Contracts \$ (32,808) \$ (170,225)

## FUTURES CONTRACTS -0.2%

SECURITY NAME	CONTRACTS	EXPIRY DATE	NOTIONAL VALUE	UNREALIZED GAIN/(LOSS)
Canadian 90Day B. A. Futures Jun 15	(94)	15-Jun-15	(23,182,468)	\$ 4,700
Canadian 90Day B. A. Futures Sep 15	(94)	14-Sep-15	(23,166,018)	11,750
CBOT 10Yr US T-Note Futures Sep 14	(6)	19-Sep-14	(810,220)	(6,191)
CBOT 10Yr US T-Note Futures Sep 14	(13)	19-Sep-14	(1,755,034)	(13,847)
EUREX Bund (Long-Term) Futures Sep 14	38	8-Sep-14	8,214,460	115,268
Euro Oat French Govt Bond Futures Sep 14	(40)	8-Sep-14	(8,226,502)	(154,002)
IMM Canadian Dollar Futures Sep 14	(50)	16-Sep-14	(4,980,133)	(95,863)
S&P 500 Stock Index Futures Sep 14	(16)	18-Sep-14	(8,361,637)	(124,410)

Total Futures Contracts (62,267,552) \$ (262,595)



# ECIGIF TRUST

Schedule of Investment Portfolio (Unaudited) - As at June 30, 2014

## SWAPS LONG POSITIONS -0.1%

SECURITY NAME	NOTIONAL VALUE	FAIR VALUE
EC-IRS CAD 1.7575%A Receive Floating/Pays Fix 6-Jun-2018	6,991,000 \$	1,386
EC-IRS CAD 1.95%A Receive Floating/pays Fix 6-Jun-2019	15,266,000	(14,505)
IRS CAD 1.7775%A Receive Floating/Pays Fix 08-Mar-2018	7,622,000	(25,577)
IRS CAD 2.025% Receive Floating/Pays Fix 02-Aug-2018	3,693,000	(44,299)
IRS CAD 2.325%A IRS CAD Receive Floating/Pays Fix 25-Nov-2020	7,397,000	(70,806)
Credit Agricole BP 5% 5Y 20-Sep-2019	3,800,000	(797,235)
Deutsche Bank BP 1% 5Y 20-Sep-2019	3,800,000	16,844
Ford Motor Credit SP 5% 5Y 20-Jun-2019	3,826,000	851,782
<b>Total Swaps Long Positions</b>	<b>\$</b>	<b>(82,408)</b>

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

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

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### 1. GENERAL INFORMATION

ECIGIF Trust (the "Fund") is an open-ended investment trust established under the laws of Ontario and is governed by the Declaration of Trust dated April 26, 2012, (the "Declaration of Trust"). The Fund commenced operations on May 18, 2012.

The investment objective of the Fund is to maximize total returns to unitholders while reducing risk by holding a diversified portfolio comprised primarily of investment grade debt securities (both long and short positions) of Canadian corporate and government issuers.

The Manager of the Fund is Arrow Capital Management Inc. (the "Manager"). East Coast Fund Management Inc. is the Portfolio Advisor of the Fund (the "Portfolio Advisor").

The address of the Fund's registered office is 36 Toronto Street, Suite 750, Toronto, Ontario.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of Presentation and Adoption of IFRS

These interim financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CPA Handbook ("Canadian GAAP"). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Note 8 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 25, 2014, which is the date on which the interim financial statements were authorized for issue by the Manager. Any subsequent changes to IFRS that are given effect in the Fund's annual financial statements for the year ending December 31, 2014 could result in restatement of these interim financial statements, including the transition adjustments recognized on transition to IFRS.

#### b) Financial Instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit and loss ("FVTPL"). Regular way purchases and sales of financial assets are recognized at their trade date. The Fund's long investment positions are designated at "FVTPL". The Fund's short investment positions and derivatives are classified as held for trading ("HFT") and are measured at FVTPL. The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Fund's accounting policies for measuring the fair value of its investments and derivatives are substantially similar to those used in measuring its net asset value ("NAV") for transactions with unitholders. There were no differences between the net asset value attributable to holders of redeemable units used for reporting purposes under IFRS and that used for transactions with unitholders.

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

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Realized gains and losses on sale of investments and unrealized appreciation or depreciation in investments are determined on an average cost basis. Realized gains and losses on securities sold short and unrealized appreciation or depreciation on securities sold short are calculated with reference to the average proceeds of the related securities. Average cost does not include amortization of premiums or discounts on fixed income securities except for zero coupon bonds which are amortized on a straight line basis.

Interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the fund accounted for on an accrual basis.

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

### **c) Financial Instruments - Fair Value Measurement**

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 fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for securities where the last traded price falls within the bid-ask spread. In circumstances where the last traded 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. The fair value of bonds is determined using mid-market pricing derived from bid and ask prices provided by independent security pricing services or recognized investment dealers. Gains and losses arising from changes in the fair value of financial assets or liabilities are presented in the statement of comprehensive income. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same and other commonly used methods by market participants which make the maximum use of observable inputs.

### **d) Impairment of Financial Assets**

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of future cash flows discounted using the asset's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

### **e) Foreign Currency Translation**

The Fund's functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash and cash overdraft, are presented as 'Foreign exchange gain (loss) on cash' and those relating to other

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

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financial assets and liabilities are presented within 'Net realized gain (loss) on investments and derivatives' and 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the statement of comprehensive income.

### **f) Cash**

Cash is comprised of deposits with financial institutions.

### **g) Margin Deposit on Futures Contracts**

Cash collateral provided by the Fund for futures trading is identified in the statement of financial position as 'Margin deposit on futures deposits'.

### **h) Cash Collateral on Swap Contracts**

Cash collateral provided by the Fund for investing in swap contracts is identified in the statement of financial position as 'Cash collateral on swap contracts'.

### **i) Cash Overdraft**

Cash overdraft represents cash amounts borrowed under a margin agreement with the Fund's prime broker and is payable upon demand. The Fund has granted a first priority security interest over investments and other assets held at the prime broker in support of its obligations under its margin lending agreement.

### **j) Options**

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. Options held by the Fund are exchange-traded. Subsequent to initial recognition, changes in fair value, the difference between the premium paid or received, and fair value, are presented in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the statement of comprehensive income. When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the statement of comprehensive income within 'Net realized gain (loss) on investments and derivatives'.

### **k) Futures Contracts**

The Fund may purchase or sell futures contracts. Futures contracts are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price established in an organized market. Subsequent to initial recognition, changes in fair value are presented in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the statement of comprehensive income. When futures contracts are closed out, the gain or loss is presented in the statement of comprehensive income within 'Net realized gain (loss) on investments and derivatives'.

### **l) Credit Default Swap Contracts**

A credit default swap contract is an agreement to transfer credit risk from one party, a buyer of protection, to another party, a seller of protection. The Fund as a seller of protection would be required to pay a notional or other agreed upon value to the buyer of protection in the event of a default by a third party. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations.

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

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The Fund as a buyer of protection would receive a notional or other agreed upon value from the seller of protection in the event of a default by a third party. In return, the Fund would be required to pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs.

Premiums received or paid for entering into a credit default swap are included in the statement of financial position as either an asset or liability. Credit default swap contracts are fair valued on each valuation day based upon quotations from independent security pricing sources. The change in the difference between the premium and the fair value is included in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' and upon closing or expiry of a contract, the gain or loss is included in 'Net realized gain (loss) on investments and derivatives' in the statement of comprehensive income.

### **m) Interest Rate Swap Contracts**

An interest swap contract is a contractual agreement entered into between the Fund and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as a realized gain or loss on investments. Interest rate swap contracts are fair valued on each valuation day using indicative bid/ask prices from third party broker dealers. The change in fair value is included in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' and upon closing or expiry of a contract, the gain or loss is included in 'Net realized gain (loss) on investments and derivatives' in the statement of comprehensive income.

### **n) Commissions and Other Portfolio Transaction Costs**

Commissions and other portfolio transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers. Such costs are expensed when incurred.

### **o) Income and Expense Allocation**

The net assets of each class are computed by calculating the value of that class' proportionate share of the Fund's assets less that class' proportionate share of the Fund's common liabilities less class specific liabilities, if any. Expenses directly attributable to a class are charged to that class. Other income, expenses and gains/losses are allocated based on a reasonable allocation methodology which will include allocations based upon the assets of the Fund or the number of unitholders in the Fund or other methodology the Manager determines is fair.

### **p) Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit**

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase (decrease) in net assets attributable to the class divided by the weighted average number of units outstanding in that class during the period. Refer to Note 7 for the calculation.

### **q) Taxation**

The Fund is a trust, and therefore is not taxed on taxable income to the extent that the income is distributed to the unitholders of the Fund. All of the net income for tax purposes and sufficient net capital gains realized were distributed or declared to unitholders such that no income tax is payable by the Fund. As a result, the Fund has determined that it is in substance not taxable and therefore, did not record income taxes. The Fund is classified as a financial institution under the Income Tax Act (Canada) ("Tax Act"). Financial institutions are required to recognize any gains and losses accrued on securities and certain types of debt obligation on a mark-to-market basis at the end of every taxation year. Any income resulting from such treatment has been included in amounts required to be distributed to unitholders. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses would not be reflected in the statement of financial position as a deferred income tax asset. The Fund currently does not have any capital or non-capital losses.

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

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### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

#### Use of Estimates

##### *Fair Value measurement of derivatives and securities not quoted in an active market*

The Fund holds financial instruments that are not quoted in active markets, including derivatives. Fair value of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to Note 4 for further information about the fair value measurement of the Fund's financial instruments.

#### Use of Judgments

##### *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 invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, *Financial Instruments - Recognition and Measurement* (IAS 39). The most significant judgments made include the determination that certain investments are held-for-trading and that the fair value option can be applied to those which are not.

### 4. FINANCIAL INSTRUMENTS

The Fund's activities expose it to a variety of risks associated with financial instruments: credit risk, liquidity risk and market risk (including price risk, currency risk, and interest rate risk).

The Fund's overall risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments present a risk of loss of capital. The maximum loss of capital on long equity, options, interest rate swaps, credit default swaps and debt securities is limited to the fair value of those positions. The maximum loss on equities, options and debt sold short can be unlimited and the maximum loss on futures contracts is the notional contract value of those positions.

The management of these risks is carried out by the Manager and Portfolio Advisor in accordance with the Declaration of Trust.

The Fund's use of leverage and borrowings can increase the Fund's exposure to these risks, which in turn can also increase the potential returns the Fund can achieve. The Portfolio Advisor manages these exposures on a daily basis in accordance with investment restrictions that have been established by the Fund to manage the overall potential exposure. Specifically the Fund will not make borrowings, including pursuant to a loan facility or by purchasing securities on margin,

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

if, immediately following the borrowings, the aggregate amount borrowed would exceed 35% of the net asset value of the Fund.

### Credit Risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the credit risk to which the Fund is exposed arises from its investments in debt securities.

The Fund's policy to manage this risk is to not invest more than 10% of its net assets in the securities of any single issuer (as determined at the time of purchase), other than securities issued or guaranteed by the Government of Canada, the Government of the United States of America or a province, state or territory thereof; to not invest more than 12.5% of its net assets in non-investment grade securities and to not invest more than 10% of its net assets in illiquid assets.

The analysis below summarizes the credit quality of the Fund's debt portfolio at June 30, 2014, December 31, 2013 and January 1, 2013.

Percentage of total long debt securities			
Credit Rating*	As at June 30, 2014	As at December 31, 2013	As at January 1, 2013
AAA	2.0%	2.5%	0.8%
AA	-	-	-
A	23.3%	16.1%	11.0%
BBB	61.4%	70.4%	81.3%
Below BBB	13.3%	11.0%	5.8%
Not Rated	-	-	1.1%
Total	100.0%	100.0%	100.0%

\* Credit ratings are obtained from Standard & Poor's, Moody's and/or Dominion Bond Rating Service.

The Fund is exposed to counterparty credit risk on swaps and futures contracts. The counterparties to the Fund's swaps is Bank of America, JP Morgan Chase & Co. and Credit Suisse which have credit rating as rated by Moody's bond rating services of Baa2, A3 and A2 respectively. The counterparty to the Fund's futures contracts is JP Morgan Chase & Co.

The Fund is also exposed to counterparty credit risk on cash, margin deposits and other receivable balances. The Fund's broker and custodian services are provided by RBC Investor Services Trust, TD Securities and Bank of Montreal, which have credit ratings as rated by Moody's bond rating services of Aa3, Aa1 and Aa3 respectively.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The credit risk related to the associated receivables is considered limited, 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. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

### Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to daily cash redemptions which are payable within 10 business days after the redemption date and as such, retains sufficient cash to fund anticipated redemptions.

The Fund aims to retain sufficient cash to maintain adequate liquidity including coverage of obligations related to short sales and all current liabilities (liabilities are typically due within three months).

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

### Market Risk

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The following include sensitivity analyses that show how the net assets attributable to holders of redeemable units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

#### (a) Currency Risk

The Fund invests in financial instruments and enters into transactions that are denominated in currencies other than the Canadian dollar, primarily US dollars (USD). Consequently, the Fund is exposed to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The table below indicates the Fund's exposure to USD as at June 30, 2014, December 31, 2013 and January 1, 2013, in Canadian dollar terms, and the notional amounts of foreign currency contracts. The table below illustrates the potential impact on the net assets attributable to holders of redeemable units if the Canadian dollar had strengthened or weakened by 10% in relation to USD, with all other variables held constant. Non-monetary assets are comprised of equities. Monetary assets include cash, cash overdraft, margin deposit, derivative assets, fixed income securities, and other current receivables and payables.

June 30, 2014		Exposure		
Currency	Monetary	Non-Monetary		Total
United States Dollar - Long	\$22,501,695	\$249,883		\$22,751,578
United States Dollar - Short	(26,085,442)	-		(26,085,442)
Total Net Exposure	(\$3,583,747)	\$249,883		(\$3,333,864)
% of net assets attributable to holders of redeemable units	(3.1%)	0.2%		(2.9%)

Impact on net assets attributable to holders of redeemable units			
Currency	Monetary	Non-Monetary	Total
United States Dollar	(\$358,375)	\$24,988	(\$333,387)
% of net assets attributable to holders of redeemable units	(0.31%)	0.02%	(0.29%)

December 31, 2013		Exposure		
Currency	Monetary	Non-Monetary		Total
United States Dollar - Long	\$2,867,334	\$112,200		\$2,979,534
United States Dollar - Short	(3,804,809)	(4,463)		(3,809,272)
Total Net Exposure	(\$937,475)	\$107,737		(\$829,738)
% of net assets attributable to holders of redeemable units	(0.8%)	0.1%		(0.7)%

Impact on net assets attributable to holders of redeemable units			
Currency	Monetary	Non-Monetary	Total
United States Dollar	(\$93,748)	\$10,774	(\$82,974)
% of net assets attributable to holders of redeemable units	(0.08%)	0.01%	(0.07%)



# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

January 1, 2013	Exposure		
Currency	Monetary	Non-Monetary	Total
United States Dollar - Long	\$1,282,004	-	\$1,282,004
United States Dollar - Short	(2,423,130)	-	(2,423,130)
Total Net Exposure	(\$1,141,126)	-	(\$1,141,126)
% of net assets attributable to holders of redeemable units	(0.87%)	-	(0.87%)

	Impact on net assets attributable to holders of redeemable units		
Currency	Monetary	Non-Monetary	Total
United States Dollar	(\$114,123)	-	(\$114,443)
% of net assets attributable to holders of redeemable units	(0.09%)	-	(0.09%)

### (b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds securities with fixed interest rates that expose the Fund to fair value interest rate risk. The Portfolio Advisor manages this risk by short selling primarily government bonds to reduce the interest rate risk inherent in the Fund's corporate investment grade debt positions.

The table below summarizes the Fund's exposure to interest rate risk as at June 30, 2014, December 31, 2013 and January 1, 2013. The table also illustrates the potential impact, or sensitivity, on the net assets attributable to holders of redeemable units if the prevailing levels of market interest rates changed by 1.0%, assuming a parallel shift in the yield curve with all other variables held constant.

Long Positions	Total Exposure		
Term to Maturity	June 30, 2014	December 31, 2013	January 1, 2013
Less than 1 year	\$13,666,119	\$18,400,915	-
1-3 years	29,177,359	48,057,378	\$93,375,474
3-5 years	44,729,342	36,537,271	56,107,177
Greater than 5 years	117,015,902	124,659,178	126,484,952
Total	\$204,588,722	\$227,654,742	\$275,967,603
Sensitivity:			
Total \$ sensitivity	\$7,764,223	\$9,186,462	\$11,792,899
Total % sensitivity	6.8%	8.1%	9.1%

Short Positions	Total Exposure		
Term to Maturity	June 30, 2014	December 31, 2013	January 1, 2013
Less than 1 year	-	-	-
1-3 years	(\$5,631,366)	(\$2,972,956)	(\$113,844)
3-5 years	(21,581,640)	(23,726,855)	(66,470,407)
Greater than 5 years	(60,111,565)	(86,065,470)	(82,192,007)
Total	(\$87,324,571)	(\$112,765,281)	(\$148,776,258)
Sensitivity:			
Total \$ sensitivity	(\$3,931,618)	(\$6,210,495)	(\$8,630,351)
Total % sensitivity	3.5%	5.5%	6.7%

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

### (c) Price Risk

The Fund is exposed to price risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Fund's investments are subject to the risk of changes in the prices of bonds, options and futures contracts.

The Fund's policy is to manage price risk through diversification and selection of investments within specified limits established by the investment restrictions within the Declaration of Trust. The Fund will not have total exposure exceeding 400% determined on a daily mark-to-market basis; will not have net long exposure exceeding 300% determined on a daily mark-to-market basis and also will not have net short exposure exceeding 150% determined on a daily mark-to-market basis. The Fund's investment restrictions also limits investments in any single issuer to 10% of the Fund's net assets (as determined at the time of purchase), limits investments in non-investment grade debt securities to no more than 12.5% of the Fund's net assets and limits investments in illiquid assets to no more than 10% of its net assets. The Fund generally invests in bonds that have observable market prices that are quoted by multiple dealers.

As at June 30, 2014, if the Fund's relevant benchmark index, FTSE TMX Canada All Corporate Bond Index (formerly DEX Universe All Corporate Bond Index (PC-Bond)), had increased or decreased by 10%, with all other variables constant, the net assets attributable to holders of redeemable units of the Fund would have increased or decreased by approximately \$2,269,866 [December 31, 2013 - \$2,270,044; January 1, 2013 - \$1,296,126] representing 2% of net assets attributable to holders of redeemable units [December 31, 2013 - 2%; January 1, 2013 - 1%].

The Fund engages in short selling activities, wherein it borrows securities and sells them to third parties. Until the Fund covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold, not yet purchased, at prices which may be significantly higher than the fair value reflected on the financial statements.

### Concentration Risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type.

The following is a summary of the Fund's concentration risk as a percentage of net assets attributable to holders of redeemable units:

Market Segment	June 30, 2014		December 31, 2013		January 1, 2013	
	Fixed Income (Long)	Fixed Income (Short)	Fixed Income (Long)	Fixed Income (Short)	Fixed Income (Long)	Fixed Income (Short)
Basic Materials	2.4%	(0.2%)	2.8%	-	7.6%	-
Communications	66.5%	-	75.4%	-	50.5%	-
Consumer, Cyclical	0.2%	-	3.1%	-	-	-
Consumer, Non-Cyclical	20.4%	-	19.5%	-	5.6%	-
Diversified	1.1%	-	-	-	1.4%	-
Energy	13.2%	(1.7%)	5.6%	-	18.3%	-
Financial	70.4%	(3.9%)	73.8%	-	103.6%	-
Government	0.0%	(71.1%)	5.1%	(99.4%)	0.1%	(114.8%)
Industrial	2.3%	-	-	-	4.4%	-
Utilities	3.8%	-	14.8%	-	20.8%	-

### Capital Risk Management

Redeemable units issued and outstanding are considered to be the 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

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

requirements. Unitholders are entitled to require payment of the net asset value per unit of the Fund for all or any of the units of such unitholder by giving written notice to the Manager. The written notice is irrevocable and must be received no later than 4:00 p.m., EST, on the valuation day upon which the units are to be redeemed (a "Redemption Date"). The redeeming unitholder will receive payment in respect of any units surrendered for redemption on or before the 10th business day immediately following a Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances.

### Fair Value Measurement

The Fund classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are unobservable for the asset or liability.

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at June 30, 2014, December 31, 2013 and January 1, 2013:

As at June 30, 2014	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Fixed income long	-	\$204,588,722	-	\$204,588,722
Derivatives	\$318,646	870,014	-	1,188,660
<b>Total</b>	<b>\$318,646</b>	<b>\$205,458,736</b>	<b>-</b>	<b>\$205,777,382</b>
<b>Liabilities</b>				
Fixed income short	-	(\$87,324,571)	-	(\$87,324,571)
Derivatives	(\$295,403)	(952,422)	-	(1,247,825)
<b>Total</b>	<b>(\$295,403)</b>	<b>(\$88,276,993)</b>	<b>-</b>	<b>(\$88,572,396)</b>

As at December 31, 2013	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Fixed income long	-	\$227,654,742	-	\$227,654,742
Derivatives	\$112,200	-	-	112,200
<b>Total</b>	<b>\$112,200</b>	<b>\$227,654,742</b>	<b>-</b>	<b>\$227,766,942</b>
<b>Liabilities</b>				
Fixed income short	-	(\$112,765,281)	-	(\$112,765,281)
Derivatives	(\$46,928)	(476,190)	-	(523,118)
<b>Total</b>	<b>(\$46,928)</b>	<b>(\$113,241,471)</b>	<b>-</b>	<b>(\$113,288,399)</b>

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

As at January 1, 2013	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Fixed income long	-	\$275,967,603	-	\$275,967,603
Derivatives	\$84,095	16,115	-	100,210
<b>Total</b>	<b>\$84,095</b>	<b>\$275,983,718</b>		<b>\$276,067,813</b>
<b>Liabilities</b>				
Fixed income short	-	(\$148,776,258)	-	(\$148,776,258)
Derivatives	(\$130,038)	(85,620)	-	(215,658)
<b>Total</b>	<b>(\$130,038)</b>	<b>(\$148,861,878)</b>		<b>(\$148,991,916)</b>

All fair value measurements above are recurring. The carrying values of all of the Fund's financial instruments not carried at FVTPL approximate their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it would be classified as Level 3.

As at June 30, 2014, December 31, 2013 and January 1, 2013, the Fund did not hold any level 3 financial instruments. There were no transfers between levels during the period.

### a) Bonds

The Fund's bond portfolio is comprised primarily of investment grade Canadian bonds and also includes government bonds. Bond pricing is obtained from bid and ask prices provided by independent security pricing services or recognized investment dealers. Bond prices may be derived by using models which include inputs such as interest rate curves, credit spreads and volatilities. The inputs that are significant to valuation are generally observable and therefore the Fund's bonds have been classified as Level 2.

### b) Derivative assets and liabilities

Derivative assets and liabilities consist of futures contracts, options, interest rate swaps and credit default swaps. Futures contracts and options are exchange traded and are classified as Level 1 as they are actively traded and a reliable price is observable. Interest rate swaps are valued using indicative bid/ask prices from third party broker dealers while credit default swaps are valued based upon quotations from independent security pricing sources. The inputs that are significant to valuation are generally observable and therefore both interest rate swaps and credit default swaps have been classified as Level 2.

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

### Financial Instruments by Category

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the periods ended June 30, 2014 and 2013.

	Net realized gains /(losses)		Net unrealized gains /(losses)	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Financial assets at FVTPL:				
Designated as FVTPL	\$1,245,597	\$1,068,944	\$5,330,724	(\$5,982,835)
HFT	(305,967)	-	9,570	-
	939,630	1,068,944	5,340,294	(5,982,835)
Financial liabilities at FVTPL:				
HFT	(2,067,784)	708,799	(3,447,169)	3,190,090
Total:	(\$1,128,154)	\$1,777,743	\$1,893,125	(\$2,792,745)

## 5. REDEEMABLE UNITS

During the periods ended June 30, 2014 and 2013, the number of units issued, redeemed and outstanding was as follows:

For the period ended June 30, 2014

	Redeemable units outstanding at beginning of period	Redeemable units issued	Redeemable units issued on reinvestments	Redeemable units redeemed	Redeemable units issued and outstanding at end of period
Units	9,560,033	-	-	-	9,560,033
Class A Units	1	-	-	-	1

For the period ended June 30, 2013

	Redeemable units outstanding at beginning of period	Redeemable units issued	Redeemable units issued on reinvestments	Redeemable units redeemed	Redeemable units issued and outstanding at end of period
Units	10,750,000	-	-	-	10,750,000

## 6. RELATED PARTY TRANSACTIONS

The Manager is responsible for making decisions relating to the investment of the Fund's assets and providing key management personnel.

### a) Management and Performance Fee

Management fees of 1% per annum are paid by the Fund to the Manager as compensation for investment management and advisory services. Management fees are calculated and paid as of the last Valuation Date of each month. No management fees are charged on Class A Units.

The Manager is also entitled to receive from the Fund an annual Performance Fee equal to 10% of the increase in the net asset value of the Fund (including any distributions paid on the units of the Fund), subject to an annual hurdle rate of 5.30%.

The Performance Fee will be calculated daily and payable on the last valuation date of each calendar year, except when units of the Fund are redeemed on the applicable redemption date, in which case, the Fund shall pay a Performance Fee in

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

respect of any redeemed units of the Fund (the "Interim Performance Fee"). The Interim Performance Fees shall be payable on the applicable redemption date. For any partial fiscal year, including with respect to Interim Performance Fees the hurdle rate will be pro-rated. During the period ended June 30, 2014, the Manager earned \$378,794 in Performance Fees [June 30, 2013 - NIL].

The Fund is responsible for all operating expenses incurred by or on behalf of the Fund. If the Manager provides any of these services, it shall be entitled to fees for such services not exceeding fees charged by arm's length third parties for the provision of similar services.

As at June 30, 2014, included in other liabilities are amounts owing to the Manager relating to management fees of \$96,385 (excluding HST) [December 31, 2013 - \$96,913; January 1, 2013 - \$110,569]. Also included in other liabilities are amounts owing to the Manager for administration expenses paid on behalf of the Fund by the Manager in the amount of \$11,981 [December 31, 2013 - \$12,366; January 1, 2013 - \$12,493].

As at June 30, 2014, the Manager purchased 1 Class A unit at a subscription price of \$10 per unit.

### b) Brokerage Commissions

Total commissions paid to dealers for the period ended June 30, 2014 in connection with portfolio transactions were nil [June 30, 2013 - nil].

### 7. INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS PER UNIT

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the periods ended June 30, 2014 and June 30, 2013 is calculated as follows:

June 30, 2014	Increase (decrease) in net assets attributable to holders of redeemable units	Weighted average units outstanding during the period	Increase (decrease) in net assets attributable to holders of redeemable units per unit
Units	\$3,359,901	9,560,033	\$0.35
Class A Units	-	1	-

June 30, 2013	Increase (decrease) in net assets attributable to holders of redeemable units	Weighted average units outstanding during the period	Increase (decrease) in net assets attributable to holders of redeemable units per unit
Units	\$2,524,696	8,293,460	\$0.30

### 8. TRANSITION TO IFRS

The effect of the Fund's transition to IFRS is summarized in this note as follows:

#### Transition Elections

The only voluntary exemption adopted by the Fund upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss upon transition to IFRS. All financial assets designated at FVTPL upon transition were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, *Investment Companies*.

#### Revaluation of Investments at FVTPL

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, *Financial Instruments - Recognition and Measurement*, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, *Fair Value Measurement* (IFRS 13), which requires that if an asset or a liability has a bid price and an

# ECIGIF TRUST

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

### **Reconciliation of Equity and Comprehensive Income as Previously Reported Under Canadian GAAP to IFRS**

<b>Equity</b>	<b>December 31, 2013</b>	<b>June 30, 2013</b>	<b>January 1, 2013</b>
Equity as reported under Canadian GAAP	\$113,502,216	\$127,913,272	\$129,639,144
Revaluation of investments at FVTPL	581,167	598,388	747,820
Net assets attributable to holders of redeemable units	\$114,083,383	\$128,511,660	\$130,386,964

<b>Comprehensive income</b>	<b>For the year ended December 31, 2013</b>	<b>For the 6 months ended June 30, 2013</b>
Comprehensive income as reported under Canadian GAAP	\$6,713,072	\$2,674,128
Revaluation of investments at FVTPL	(\$166,653)	(\$149,432)
Increase (decrease) in net assets attributable to holders of redeemable units	\$6,546,419	\$2,524,696

### **Classification of redeemable units issued by the Fund**

Prior to June 30, 2014, only Units had been issued by the Fund and such Units met all criteria required by IAS 32 to be classified as equity, despite that they include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset. On June 30, 2014, the Fund issued Class A Units in addition to the Units. As both Units and Class A Units are equally subordinate and do not have identical features due to different management fee rates (Note 6), all units have been subsequently classified as financial liabilities. The reclassification of redeemable units from equity to financial liabilities did not result in any measurement differences.

## **9. FUTURE ACCOUNTING CHANGES - IFRS 9, FINANCIAL INSTRUMENTS**

The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

August 25, 2014

The accompanying financial statements have been prepared by Arrow Capital Management Inc., the Manager of ECIGIF Trust (the Fund), and approved by the Board of Directors of the Manager. The Fund's manager is responsible for the information and representations contained in these financial statements.

Arrow Capital Management Inc. maintains appropriate processes to ensure that reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Fund are described in Note 2 to the financial statements.

"James L. McGovern"

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JAMES L. MCGOVERN  
Managing Director & CEO  
ARROW CAPITAL MANAGEMENT INC.

"Robert W. Maxwell"

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ROBERT W. MAXWELL  
Managing Director & CFO  
ARROW CAPITAL MANAGEMENT INC.



