

A N N U A L F I N A N C I A L S T A T E M E N T S



AUDITED ANNUAL FINANCIAL STATEMENTS

DECEMBER 2017

EAST COAST INVESTMENT GRADE INCOME FUND

EAST COAST INVESTMENT GRADE INCOME FUND

Statements of Financial Position

	As at December 31, 2017	As at December 31, 2016
ASSETS		
Current assets		
Financial assets designated at fair value through profit and loss	\$388,069,184	\$-
Financial assets held for trading		
Forward agreement (Note 2)	-	46,365,835
Options at fair value - long	1,596	-
Unrealized gain on futures contracts - long	27,755	-
Unrealized gain on futures contracts - short	5,224	-
Cash and cash equivalents	813,980	101,477
Margin deposits	5,919,689	-
Accrued interest and dividends receivable	2,893,222	-
	397,730,650	46,467,312
LIABILITIES		
Current liabilities		
Financial liabilities held for trading		
Investments sold short	299,876,353	-
Unrealized loss on futures contracts - long	1,450,249	-
Unrealized loss on swap contracts	1,329,514	-
Margin loan	8,851,452	-
Distributions payable	444,718	243,094
Accrued interest and dividends payable	695,925	-
Other liabilities (Note 9)	632,333	133,863
	313,280,544	376,957
Net assets attributable to holders of redeemable units	84,450,106	46,090,355
Number of units outstanding (Note 8)	8,894,356	4,861,877
Net assets attributable to holders of redeemable units per unit	\$9.49	\$9.48

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

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

EAST COAST INVESTMENT GRADE INCOME FUND

Statements of Comprehensive Income
For the years ended December 31,

	2017 \$	2016 \$
INCOME		
Net gains (losses) on investments and derivatives		
Interest for distribution purposes	6,465,588	-
Interest expense on derivatives	(76,958)	-
Dividend income	119,201	-
Interest expense on short sales	(2,594,488)	-
Net realized gain (loss) on investments and derivatives	7,040,003	880,399
Net change in unrealized appreciation (depreciation) in value of investments and derivatives	(5,821,140)	4,554,974
Net gains (losses) on investments and derivatives	5,132,206	5,435,373
Other income items:		
Interest on cash	18,538	-
Foreign exchange gain (loss)	266,262	-
Net change in unrealized foreign exchange gain (loss)	135,509	-
Total income (net)	5,552,515	5,435,373
EXPENSES		
Securityholder reporting fees	130,307	86,716
Management fees (Note 9)	642,791	125,391
Performance fees (Note 9)	216,061	-
Interest expense on margin loan	88,276	-
Service fees	42,921	172,667
Legal	100,922	11,823
Audit fees	38,832	14,684
Independent Review Committee fees	5,590	4,600
Security borrowing expense	519,226	-
Commissions and other portfolio transaction costs (Note 10)	2,988	-
Custodial fees	10,734	558
Harmonized sales tax	94,882	34,079
Total expenses	1,893,530	450,518
Increase (decrease) in net assets attributable to holders of redeemable units	3,658,985	4,984,855
Increase (decrease) in Net Assets attributable to holders of redeemable units per Unit (Note 13)	0.56	0.92

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

EAST COAST INVESTMENT GRADE INCOME FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
For the years ended December 31,

	2017 \$	2016 \$
Net assets attributable to holders of redeemable units at beginning of year	46,090,355	50,038,760
Increase (decrease) in net assets attributable to holders of redeemable units	3,658,985	4,984,855
Distributions to holders of redeemable units		
From net investment income	(3,279,622)	-
Return of capital	(729,282)	(3,220,938)
Total distributions to holders of redeemable units	(4,008,904)	(3,220,938)
Redeemable unit transactions		
Proceeds from redeemable units issued	39,475,662	-
Issuance costs and agents' fees	(765,992)	-
Redemption of redeemable units	-	(5,712,322)
Net increase (decrease) from redeemable unit transactions	38,709,670	(5,712,322)
Net increase (decrease) in net assets attributable to holders of redeemable units	38,359,751	(3,948,405)
Net assets attributable to holders of redeemable units at end of the year	84,450,106	46,090,355

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

EAST COAST INVESTMENT GRADE INCOME FUND

Statements of Cash Flows
For the years ended December 31,

	2017 \$	2016 \$
Cash flows from (used in) operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	3,658,985	4,984,855
Adjustment for:		
Unrealized foreign exchange (gain) loss on cash	(136,131)	-
Net realized loss (gain) on investments and derivatives	(7,040,003)	(880,399)
Net change in unrealized depreciation (appreciation) in value of investments and derivatives	5,821,140	(4,554,974)
Purchase of investments	(2,082,333,479)	-
Settlement of forward agreement ⁽¹⁾	(4,322,775)	9,527,070
Proceeds on sale of investments	2,048,793,309	-
Change in margin deposits	(5,919,689)	-
Change in accrued interest and dividends receivable	(2,893,222)	-
Change in accrued interest and dividends payable	695,925	-
Change in margin loan	8,851,452	-
Change in other liabilities	498,470	(57,463)
Net cash from (used in) operating activities	(34,326,018)	9,019,089
Cash flows from (used in) financing activities		
Proceeds from redeemable units issued	39,475,662	-
Issuance costs and agents' fees	(765,992)	-
Redemption of redeemable units	-	(5,712,322)
Distributions paid to holders of redeemable units, net of reinvested distributions	(3,807,280)	(3,251,319)
Net cash from (used in) financing activities	34,902,390	(8,963,641)
Net Increase (decrease) in cash	576,372	55,448
Cash at beginning of the year	101,477	46,029
Unrealized foreign exchange gain (loss) on cash	136,131	-
Cash at end of the year	813,980	101,477
<i>(1) Net of counterparty fees</i>		
Supplemental information:		
Interest received*	3,580,593	-
Dividends received, net of withholding tax*	112,171	-
Interest paid*	(2,063,797)	-
*Included as part of cash flows from operating activities		

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

EAST COAST INVESTMENT GRADE INCOME FUND

Schedule of Investment Portfolio – As at December 31, 2017

Equities - Long - 5.4%

Security Name	Currency	No. of Shares/Units	Average Cost (\$)	Fair Value (\$)
Equities - 5.4%				
Bank of Montreal, Preferred, Class 'B', Series '25', Variable Rate, Perpetual	CAD	62,500	1,358,661	1,423,750
Bank of Montreal, Preferred, Series '40', Variable Rate, Perpetual	CAD	10,000	256,450	259,100
Bank of Montreal, Preferred, Class 'B', Series '42', Variable Rate, Perpetual	CAD	22,000	549,598	560,780
Bank of Nova Scotia, Preferred, Series '32', Variable Rate, Perpetual	CAD	7,600	170,357	174,952
Canadian Imperial Bank of Commerce, Preferred, Series '45', Variable Rate, Perpetual	CAD	22,000	550,550	561,000
Enbridge Inc., Preferred, Series 'B', Variable Rate, Perpetual	CAD	48,100	873,483	899,470
Enbridge Inc., Preferred, Series 'L', Variable Rate, Perpetual	USD	2,738	86,659	82,325
Toronto-Dominion Bank (The), Preferred, Series '16', Variable Rate, Perpetual	CAD	21,000	525,000	539,070
Trident Exploration Corporation	CAD	133,963	39,100	39,100
			4,409,858	4,539,547

Fixed Income - Long - 454.1%

Security Name	Maturity Date	Coupon Rate (%)	Currency	Par Value	Average Cost (\$)	Fair Value (\$)
Corporate Bonds - 454.1%						
Alimentation Couche-Tard Inc. ⁽²⁾	07-26-24	3.06	CAD	3,965,000	3,971,181	3,946,765
Alimentation Couche-Tard Inc. ⁽²⁾	08-21-20	4.21	CAD	3,315,000	3,487,208	3,466,440
Allied Properties REIT, Series 'A' ⁽²⁾	05-13-20	3.75	CAD	1,273,000	1,333,633	1,296,903
AltaGas Ltd.	01-17-19	4.55	CAD	2,321,000	2,433,011	2,376,393
AltaGas Ltd. ⁽²⁾	09-28-21	3.72	CAD	5,685,000	5,900,051	5,867,097
Anheuser-Busch InBev Finance Inc. ⁽²⁾	01-25-23	3.38	CAD	3,505,000	3,637,136	3,603,519
APT Pipelines Ltd., Restricted	07-24-19	4.25	CAD	2,000,000	2,057,500	2,048,635
AT&T Inc., Series 'Maple', Restricted	11-25-20	3.83	CAD	4,084,000	4,282,941	4,225,961
Bank of America Corp., Variable Rate ⁽²⁾	03-15-23	2.60	CAD	7,654,000	7,641,018	7,601,779
Bank of Montreal	09-13-18	3.21	CAD	16,000,000	16,190,000	16,161,254
Bank of Montreal, Variable Rate ⁽²⁾	09-19-24	3.12	CAD	6,160,000	6,234,745	6,223,814
Bank of Nova Scotia	08-13-18	2.75	CAD	26,897,000	27,118,293	27,066,000
Bank of Nova Scotia	01-11-21	3.27	CAD	5,000,000	5,180,050	5,134,082
Bell Canada, Series 'M-24' ⁽²⁾	05-19-21	4.95	CAD	8,980,000	9,749,175	9,671,547
Bell Canada, Series 'M-26' ⁽²⁾	03-22-23	3.35	CAD	4,311,000	4,413,094	4,415,482
Bell Canada, ⁽²⁾	09-11-23	4.70	CAD	263,000	286,494	286,593
Brookfield Infrastructure Finance ULC	10-30-20	3.54	CAD	646,000	676,859	661,993
BRP Finance ULC ⁽²⁾	02-07-22	4.79	CAD	1,161,000	1,253,776	1,247,566
Bruce Power L.P., Restricted	06-23-21	2.84	CAD	3,250,000	3,361,800	3,274,045
SmartCentres REIT, ⁽²⁾	07-27-20	4.05	CAD	2,238,000	2,362,284	2,322,105
Canadian Imperial Bank of Commerce, Floating Rate	06-01-18	1.90	CAD	16,546,000	16,599,357	16,576,279
Canadian Imperial Bank of Commerce	10-09-18	1.70	CAD	10,000,000	9,994,500	9,995,807
Canadian Natural Resources Ltd., Series '1' ⁽²⁾	06-19-19	3.05	CAD	3,738,000	3,797,444	3,779,029
Canadian Natural Resources Ltd., Series '2' ⁽²⁾	08-14-20	2.89	CAD	2,633,000	2,670,704	2,656,605
Canadian Natural Resources Ltd.	02-11-22	3.31	CAD	1,484,000	1,522,966	1,514,337
Central 1 Credit Union	03-16-20	1.87	CAD	4,801,000	4,827,229	4,743,170
Choice Properties L.P., Series '8', Restricted ⁽²⁾	04-20-20	3.60	CAD	5,883,000	6,084,168	6,019,447
Choice Properties REIT	02-08-21	3.50	CAD	2,009,000	2,120,367	2,059,401
CI Financial Corp.	12-07-20	2.65	CAD	1,458,000	1,458,146	1,460,685
Cominar REIT	12-04-19	4.23	CAD	2,677,000	2,712,591	2,713,621
Cominar REIT, Series '7'	06-21-19	3.62	CAD	4,807,000	4,871,809	4,827,095
Crombie REIT, Series 'D' ⁽²⁾	11-21-22	4.07	CAD	1,685,000	1,687,554	1,683,077
Crombie REIT, Series 'C'	02-10-20	2.78	CAD	674,000	669,012	667,159
Daimler Canada Finance Inc.	10-02-18	1.42	CAD	5,000,000	4,987,800	4,983,196
Dollarama Inc., Floating Rate, Restricted	03-16-20	2.05	CAD	2,000,000	2,010,860	2,013,580
Dream Office REIT, Series 'A' ⁽²⁾	06-13-18	3.42	CAD	1,655,000	1,666,602	1,662,416
Enbridge Inc., Variable Rate ⁽²⁾	09-27-77	5.38	CAD	2,663,000	2,670,525	2,654,021
Enbridge Inc. Discount Note	02-21-18	0.00	CAD	5,210,000	5,160,922	5,160,922
Enbridge Inc. Discount Note	04-03-18	0.00	CAD	9,476,000	9,379,661	9,379,661
Enbridge Inc. Discount Note	02-27-18	0.00	CAD	650,000	644,345	644,345
Enbridge Income Fund (The) ⁽²⁾	11-12-20	4.85	CAD	4,268,000	4,555,905	4,520,886
Enbridge Income Fund (The) ⁽²⁾	02-22-19	4.10	CAD	2,066,000	2,133,637	2,108,084
Export-Import Bank of Korea, Restricted	02-24-20	1.93	CAD	3,401,000	3,387,780	3,333,218
Fairfax Financial Holdings Ltd. ⁽²⁾	05-15-21	5.80	USD	2,112,000	2,914,259	2,867,320
Fairfax Financial Holdings Ltd.	06-22-20	7.25	CAD	2,232,000	2,549,072	2,461,508
Finning International Inc.	09-29-21	2.84	CAD	1,744,000	1,744,000	1,747,622
First Capital Realty Inc. ⁽²⁾	04-30-20	5.60	CAD	6,068,000	6,628,058	6,483,838
Ford Credit Canada Co., Floating Rate	09-21-20	2.34	CAD	3,270,000	3,279,672	3,293,642
Ford Credit Canada Co.	05-07-20	2.45	CAD	6,788,000	6,826,573	6,764,490

EAST COAST INVESTMENT GRADE INCOME FUND

Schedule of Investment Portfolio – As at December 31, 2017

Fixed Income - Long (Cont'd)

Security Name	Maturity Date	Coupon Rate (%)	Currency	Par Value	Average Cost (\$)	Fair Value (\$)
General Motors Financial of Canada Ltd., Restricted ⁽²⁾	05-22-20	3.08	CAD	5,420,000	5,466,539	5,474,293
Goldman Sachs Group Inc. (The)	02-12-21	3.55	CAD	4,077,000	4,216,155	4,197,074
Goldman Sachs Group Inc. (The), Variable Rate, Restricted ⁽²⁾	04-26-23	2.43	CAD	4,240,000	4,179,389	4,156,747
Goldman Sachs Group Inc. (The), Floating Rate ⁽²⁾	10-31-22	2.19	USD	3,800,000	4,819,350	4,785,419
Inter Pipeline Ltd. ⁽²⁾	09-13-23	2.61	CAD	5,000,000	4,934,500	4,884,148
Inter Pipeline Ltd. ⁽²⁾	05-30-22	3.78	CAD	1,579,000	1,644,724	1,639,951
Kraft Canada Inc., Restricted, ⁽²⁾	07-06-20	2.70	CAD	2,009,000	2,042,478	2,015,495
Leisureworld Senior Care L.P., Series 'B' ⁽²⁾	02-03-21	3.47	CAD	2,661,000	2,755,040	2,737,073
MCAP Commercial L.P.	12-14-22	5.00	CAD	1,379,000	1,387,631	1,381,664
Medavie Inc., Series '1', Variable Rate,, Restricted ⁽²⁾	05-21-24	6.00	CAD	380,000	383,165	383,215
Merrill Lynch & Co. Inc., Variable Rate ⁽²⁾	05-30-22	2.33	CAD	7,004,000	6,992,736	6,916,170
Molson Coors International L.P. ⁽²⁾	07-15-23	2.84	CAD	9,711,000	9,646,512	9,575,406
Molson Coors International L.P., Series '2' ⁽²⁾	09-18-20	2.75	CAD	777,000	793,941	780,591
Morgan Stanley, Restricted	02-07-24	3.00	CAD	84,000	82,905	83,607
National Bank of Canada	08-09-18	2.79	CAD	15,000,000	15,180,400	15,097,539
Nissan Canada Financial Services Inc., Series 'D'	10-19-20	2.42	CAD	6,662,000	6,685,773	6,666,800
Pembina Pipeline Corp. ⁽²⁾	03-29-21	4.89	CAD	1,580,000	1,694,550	1,685,453
Penske Truck Leasing Canada Inc. ⁽²⁾	12-07-22	2.85	CAD	2,632,000	2,631,868	2,629,918
Penske Truck Leasing Canada Inc.	06-12-20	2.95	CAD	1,486,000	1,498,274	1,499,297
Postmedia Network Inc. ⁽²⁾	07-15-21	8.25	CAD	1	1	1
RioCan REIT	08-26-20	2.19	CAD	4,832,000	4,852,875	4,788,405
RioCan REIT, Series 'S' ⁽²⁾	03-05-18	2.87	CAD	6,000,000	6,019,720	6,013,343
Rogers Communications Inc. ⁽²⁾	03-22-21	5.34	CAD	4,968,000	5,449,300	5,404,553
Royal Bank of Canada	10-11-18	2.89	CAD	27,000,000	27,269,082	27,231,006
Shaw Communications Inc.	02-19-21	3.15	CAD	3,778,000	3,872,317	3,845,940
Sun Life Financial Inc., Variable Rate ⁽²⁾	09-25-25	2.60	CAD	8,289,000	8,326,705	8,293,416
Sydney Airport Finance Co. Pty Ltd. ⁽²⁾	07-27-18	4.60	CAD	3,000,000	3,059,940	3,044,976
TELUS Corporation	01-26-21	3.60	CAD	4,376,000	4,570,969	4,522,464
Toronto-Dominion Bank (The), Floating Rate	03-28-18	2.12	CAD	1,500,000	1,504,770	1,502,115
TransCanada Trust, Series '2017-A', Variable Rate ⁽²⁾	05-18-77	4.65	CAD	3,700,000	3,716,093	3,696,067
Wells Fargo & Company	10-27-23	2.51	CAD	5,095,000	4,971,898	4,974,207
WTH Car Rental ULC, Series 'A'	07-20-20	1.91	CAD	4,004,000	4,017,493	3,947,744
					385,792,860	383,526,531
Federal Bonds - 0.00%						
Government of Canada	06-01-37	5.00	CAD	76	112	109
Government of Canada	09-01-18	1.25	CAD	3,000	2,999	2,998
					3,111	3,107
					385,795,971	383,529,638

Fixed Income - Short - (355.1%)

Security Name	Maturity Date	Coupon Rate (%)	Currency	Par Value	Average Cost (\$)	Fair Value (\$)
Corporate Bonds - (2.7%)						
Bank of Montreal	12-09-26	2.70	CAD	(2,333,000)	(2,295,738)	(2,307,226)
					(2,295,738)	(2,307,226)
Federal Bonds - (352.4%)						
Government of Canada	09-01-20	0.75	CAD	(46,024,000)	(45,198,632)	(44,860,507)
Government of Canada	06-01-19	3.75	CAD	(10,951,000)	(11,459,692)	(11,273,053)
Government of Canada	06-01-20	3.50	CAD	(27,532,000)	(29,149,195)	(28,683,630)
Government of Canada	06-01-22	2.75	CAD	(6,344,000)	(6,638,229)	(6,590,736)
Government of Canada	06-01-21	3.25	CAD	(10,950,020)	(11,612,225)	(11,479,223)
Government of Canada	06-01-23	1.50	CAD	(24,107,000)	(23,794,265)	(23,620,789)
Government of Canada	06-01-24	2.50	CAD	(3,724,000)	(3,896,871)	(3,848,431)
Government of Canada	06-01-27	1.00	CAD	(95,816,000)	(88,805,203)	(87,321,113)
Government of Canada	09-01-22	1.00	CAD	(5,737,000)	(5,555,396)	(5,517,094)

EAST COAST INVESTMENT GRADE INCOME FUND

Schedule of Investment Portfolio – As at December 31, 2017

Fixed Income - Short (Cont'd)

Security Name	Maturity Date	Coupon Rate (%)	Currency	Par Value	Average Cost (\$)	Fair Value (\$)
Government of Canada	03-01-19	1.75	CAD	(4,131,000)	(4,172,240)	(4,140,572)
Government of Canada	09-01-19	1.75	CAD	(8,288,000)	(8,316,190)	(8,299,705)
Government of Canada	03-01-20	1.50	CAD	(26,394,000)	(26,667,498)	(26,275,910)
Government of Canada	03-01-22	0.50	CAD	(11,881,000)	(11,320,824)	(11,252,308)
Government of Canada	09-01-21	0.75	CAD	(9,285,000)	(8,999,232)	(8,945,184)
Government of Canada	03-01-21	0.75	CAD	(15,959,000)	(15,558,915)	(15,460,872)
					(301,144,607)	(297,569,127)
					(303,440,345)	(299,876,353)
					(4,012)	-
Commissions and other portfolio transaction costs						
Total Investments - 104.4%					86,761,472	88,192,832
Derivatives (see schedule of derivative instruments) - (3.3%)					(1,201,962)	(2,745,188)
Cash and Other Net Assets (Liabilities) - (1.1%)						(997,538)
Net Assets Attributable to Holders of Redeemable Units - 100.0%						84,450,106

(1) Convertible (2) Callable (3) Restricted

SCHEDULE OF DERIVATIVE INSTRUMENTS

Options Bought - 0.00%

Security Name	Strike Price (\$)	Expiry Date	Currency	No. of Contracts	Average Cost (\$)	Fair Value \$
Enbridge Inc.	30	01-20-18	CAD	532	6,916	1,596
					6,916	1,596

Futures Contracts - Long - (1.7%)

Security Name	Contract Size	Expiry Date	Currency	No. of Contracts	Notional Value	Unrealized Gain/(Loss) (\$)
Bond Futures - (1.7%)						
Canada 10 Year Bond Futures	1,000	03-20-18	CAD	699	94,225,200	(1,443,080)
Canadian Dollar Futures	1,000	03-20-18	USD	16	1,278,400	27,755
Interest Rate Futures - 0.0%						
90 Day Bankers Acceptance Futures	2,500	03-19-18	CAD	25	6,143,125	(7,169)
						(1,422,494)

Futures Contracts - Short - 0.0%

Security Name	Contract Size	Expiry Date	Currency	No. of Contracts	Notional Value	Unrealized Gain/(Loss) (\$)
Bond Futures - 0.0%						
US 5 Year Treasury Note Futures	1,000	03-29-18	USD	(14)	(2,044,255)	5,224

Swaps - (1.6%)

Security Name	Currency	Notional Value	Average Cost (\$)	Unrealized Gain/(Loss) (\$)
BP CDS Republic of Korea 12/20/2022	Credit Default Swap	USD	1,500,000	(25,546)
BP Markit CDX.NA.IG.S29-5Y 12/20/2022	Credit Default Swap	USD	43,000,000	(1,183,332)
			(1,208,878)	(1,329,514)

Total Derivative Instruments at Fair Value	(1,201,962)	(2,745,188)
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EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

1. FORMATION OF THE FUND

East Coast Investment Grade Income Fund (the "Fund") was formed as a closed-end investment trust created pursuant to a trust indenture dated April 26, 2012. The trust indenture was last amended on April 17, 2017.

The Fund completed its initial public offering ("IPO") and commenced operations on May 18, 2012.

The Fund's investment objectives are to maximize total returns to unitholders while reducing risk; and to provide unitholders with attractive monthly cash distributions.

The Fund will seek to achieve these investment objectives by investing in a diversified portfolio comprised primarily of investment grade debt securities (both long and short positions) of Canadian corporate and government issuers.

Prior to April 17, 2017, the Fund achieved its investment objective by obtaining exposure to ECIGIF Trust (the "Underlying Fund") which invests in a broad range of public and private corporate debt securities. Through a forward agreement, on April 17, 2017, the forward agreement settled and the Fund acquired the Underlying Fund. The Manager of the Underlying Fund was Arrow Capital Management Inc. (the "Manager"). East Coast Fund Management Inc. (the "Portfolio Advisor"), was the portfolio advisor of the Underlying Fund.

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

The Fund's units are listed on the Toronto Stock Exchange and trade under the symbol ECF.UN. The closing market price on December 31, 2017 was \$10.06 (2016: \$9.50).

The address of the Fund's registered office is 36 Toronto Street, Suite 750, Toronto, Ontario, M5C 2C5.

The Statements of Financial Position of the Fund are as at December 31, 2017 and December 31, 2016, unless otherwise noted. The Statements of Comprehensive Income, Statements of Changes in Net Assets Attributable to Holders of Redeemable Units and Statements of Cash Flows for the Fund are for the years ended December 31, 2017 and 2016. The Schedule of Investment Portfolio for the Fund is as at December 31, 2017.

These financial statements were authorized for issue by the Manager on March 27, 2018.

2. FORWARD AGREEMENT

On May 18, 2012, the Fund entered into a forward purchase and sale agreement (the "Forward Agreement") with a Canadian chartered bank ("Counterparty"). The obligations of the Counterparty to the Fund under the Forward Agreement are determined by reference to the performance of the Underlying Fund, with the profit and loss allocated to the Fund.

On April 17, 2017, the Manager settled the Forward Agreement in accordance with the terms of the Forward Agreement. The Fund also consummated a portfolio acquisition agreement (the "Acquisition Agreement") with the Underlying Fund pursuant to which the Fund purchased all of the Underlying Fund's assets comprised primarily of investment grade debt securities (both long and short positions) of Canadian corporate and government issuers that are rated BBB- or higher by Standard & Poor's or a similar rating from a qualified rating agency.

The Forward Agreement was terminated in response to certain changes to the Income Tax Act (Canada) and in connection with the implementation of certain amendments to the Fund's declaration of trust (the "Declaration of Trust") to, among other things, extend the term of the Fund to May 31, 2022 (the "Extension"). The Extension was approved by the Fund's unitholders at a special meeting on April 12, 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). 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.

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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 Forward Agreement is classified as held for trading. 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. Due to their short term nature, the carrying values of other assets and liabilities and net assets attributable to holders of redeemable units approximate their fair values. The Fund's accounting policies for measuring the fair value of its investments and derivatives are the same to those used in measuring its net asset value ("NAV") for transactions with unitholders. There were no differences between the net assets attributable to holders of redeemable units used for reporting purposes under IFRS and that used for transactions with unitholders at December 31, 2017 and 2016.

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 and interest expense on derivatives and short sales is shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis.

Dividend income is recognized in the Statements of Comprehensive Income on the ex-dividend date.

Financial assets and liabilities are 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 enters 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 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. 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.

The fair value of the Forward Agreement (refer to Note 2) is the value that would be realized if, as of any date, the Forward Agreement were settled in accordance with its terms, in which case the value shall be determined with reference to the current fair value of the underlying investments of the Underlying Fund. The fair value for actively traded securities of the Underlying Fund will be determined using closing prices however, if no sale has taken place that day, valuation will be at the average of the bid and ask price. The fair value of bonds of the Underlying Fund will be determined by taking the average of the bid and ask prices. The value takes into account amounts equal to other assets including cash, prepaid expenses and interest receivable, less the liabilities of the Underlying Fund and other liabilities attributed to the Forward Agreement on such date.

The unrealized appreciation on the Forward Agreement and the realized gains on partial settlements on the Forward Agreement are included in the Statements of Comprehensive Income.

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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 years 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 are presented as 'Foreign exchange gain (loss)' and those relating to other 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 Statements of Comprehensive Income.

f) Cash and Cash Equivalents

Cash and cash equivalents which includes cash deposited with financial institutions and short-term investments that are readily convertible to cash, are subject to an insignificant risk of changes in value, and are used by the Fund in the management of short-term commitments. Cash and cash equivalents are reported at fair value which closely approximates their amortized cost due to their nature of being highly liquid and having short terms to maturity.

g) Margin Deposits

Cash collateral provided by the Fund to brokers for counterparties for securities sold short and counterparties to derivative transactions is identified in the Statements of Financial Position as 'Margin deposits'.

h) Margin Loan

Margin loan 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.

i) 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 premiums paid or received, and fair value, are presented in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the Statements 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 Statements of Comprehensive Income within 'Net realized gain (loss) on investments and derivatives'.

j) Futures Contracts

The Fund may purchase or sell futures contracts. Futures contracts are exchange traded 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 Statements of Comprehensive Income. When futures contracts are closed out, the gain or loss is presented in the Statements of Comprehensive Income within 'Net realized gain (loss) on investments and derivatives'.

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k) 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.

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 Statements 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 Statements of Comprehensive Income.

l) 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 Statements of Comprehensive Income.

m) 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.

n) 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 holders of redeemable units divided by the weighted average number of units outstanding during the period. Refer to Note 13 for the calculation.

o) Classification of Redeemable Units

The Fund's outstanding redeemable units' entitlements include a contractual termination date and therefore the ongoing redemption feature is not the units' only contractual obligation. Consequently, the units do not meet the conditions in IAS 32 to be classified as equity. As a result, the Fund's obligations for net assets attributable to holders of redeemable units are presented at the redemption amounts.

4. 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 estimates and judgments 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

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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 6 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.

Capital Risk Management

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. Additional redemption requirements are disclosed in Note 12.

5. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Risk Management

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

The Manager seeks to minimize potential adverse effects of financial instruments risks on the Fund's performance by employing professional managers and experienced portfolio advisors to monitor the Fund's positions and market events, diversifying the investment portfolio within the constraints of the investment objectives of the Fund, and periodically may use derivatives to hedge certain risk exposures.

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 may also participate in securities lending and; therefore, be exposed to counterparty risk on all such loans, if any.

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.

As at December 31, 2016, the Fund was fully exposed to credit risk of the forward counterparty, however, the counterparty had pledged collateral in favour of the Fund to secure its obligations under the Forward Agreement. The counterparty of the Fund's Forward Agreement was Scotia Capital Inc., which has a credit rating of A1 (2016: Aa3), as rated by Moody's bond rating services.

The Fund has indirect credit risk related to the Underlying Fund's investments in debt instruments and derivatives to the extent of the Fund's Underlying Fund Exposure.

The analysis below summarizes the credit quality of the Fund's debt portfolio at December 31, 2017 and of the Underlying Fund's debt portfolio for December 31, 2016.

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Credit Rating*	Percentage of total debt securities	
	December 31, 2017	December 31, 2016
	%	%
AAA	34.5	5.8
AA	-	12.0
A	-	28.7
BBB	45.4	44.2
Below BBB	-	2.2
Not Rated	20.1	7.1
Total	100.0	100.0

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

The Fund has provided the broker with a general lien over assets held in return for services including borrowed securities and derivatives trading. The terms and conditions associated with collateral have no significant unusual requirements from the usual practice of recourse when a default occurs. Therefore, the Fund is also exposed to credit risk of the broker.

The Fund is exposed to counterparty credit risk on cash, cash collateral, margin deposits, swaps, futures contracts, receivable for securities sold, and other receivable balances. The Fund's brokerage agreements require cash collateral in return for services including borrowed securities and derivatives trading. The counterparties to the Fund's swaps are Bank of America and JP Morgan Chase & Co. which have credit rating as rated by Moody's bond rating services of A3 and A3 respectively (2016: Baa1 and A3 respectively). The counterparty to the Fund's futures contracts is Bank of America which has a credit rating of A3 (2016: Baa1) as rated by Moody's bond rating services. The Fund's broker and custodian services are provided by CIBC Mellon, TD Securities, Bank of Montreal and The Bank of Nova Scotia, which have credit ratings as rated by Moody's bond rating services of A1, Aa2, Aa3 and A1 respectively (December 31, 2016: A1, Aa1, Aa3, and Aa3, respectively).

The Fund's maximum exposure to counterparty risk is the carrying value of its swaps, futures contracts, cash, margin deposits, and other receivable balances.

The Fund is also exposed to credit risk on margin deposits held at TD Canada Trust which has a credit rating as rated by Moody's bond rating services of Aa2 (2016: Aa1).

The Fund may also participate in securities lending up to a maximum of 50% of the aggregate net asset value of the Fund, excluding the collateral held in respect to such loans, and is exposed to counterparty risk on all such loans, if any. The credit risk related to the securities lending program is limited as the Fund holds a minimum collateral equal to 102% of the fair value of the loaned securities. The collateral and loaned securities are marked to market on each valuation date.

There are also risks involved in dealing with custodians or brokers who settle trades with regard to the segregation of assets. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the Fund. Therefore, the Fund should not be exposed to credit risk with respect to such parties. However, it may not always be possible to achieve this segregation, so the portfolio of the Fund may experience increased exposure to credit risk associated with the applicable custodians or brokers.

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 annual and monthly cash redemptions of redeemable units. Annual redemptions are payable on demand at the holder's option before the 15th business day of the month following the Annual Redemption Date while monthly redemptions are payable on demand at the holder's option or before the last business day of the following month.

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The Fund aims to retain sufficient cash to maintain adequate liquidity including coverage of obligations related to all current liabilities payable (liabilities are typically due within three months except for monthly distributions which are payable monthly).

From time to time, the Fund may use margin borrowings in one or more of its brokerage accounts. During the year ended December 31, 2017, the minimum margin borrowings used was \$3,605,440 and the maximum net margin borrowings used was \$23,468,660.

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 was 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.

Prior to the settlement of the Forward Agreement the Underlying 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 indirectly exposed to currency risk to the extent of the Fund's Underlying Fund Exposure.

The table below indicates the Fund's exposure to foreign currencies as at December 31, 2017, and the Underlying Fund's exposure to foreign currencies as at December 31, 2016, in Canadian dollar terms. The table below also 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 foreign currencies, with all other variables held constant. Non-monetary is comprised of long and short equities. Monetary includes cash, derivatives, fixed income securities, and other current receivables and payables.

December 31, 2017	Exposure			Impact on net assets attributable to holders of redeemable units		
	Monetary \$	Non-Monetary \$	Total \$	Monetary \$	Non-Monetary \$	Total \$
United States Dollar - Long	9,309,180	82,325	9,391,505	930,918	8,233	939,151
United States Dollar - Short	(8,630,816)	-	(8,630,816)	(863,082)	-	(863,082)
Total	678,364	82,325	760,689	67,836	8,233	76,069
% of net assets attributable to holders of redeemable units	0.8%	0.1%	0.9%	0.1%	0.0%	0.1%

December 31, 2016	Exposure			Impact on net assets attributable to holders of redeemable units		
	Monetary \$	Non-Monetary \$	Total \$	Monetary \$	Non-Monetary \$	Total \$
United States Dollar - Long	12,770,699	394,270	13,164,969	1,277,070	39,427	1,316,497
United States Dollar - Short	(12,456,430)	(33,782)	(12,490,212)	(1,245,643)	(3,378)	(1,249,021)
Euro Currency - Short	(30)	-	(30)	(3)	-	(3)
Total	314,239	360,488	674,727	31,424	36,049	67,473
% of net assets attributable to holders of redeemable units	0.7%	0.8%	1.5%	0.1%	0.1%	0.1%

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(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. As at December 31, 2017 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.

As at December 31, 2016, the Fund had no direct exposure to debt instruments, however the Fund had indirect interest rate risk as a result of the Underlying Fund's investments in interest bearing financial instruments to the extent of the Fund's Underlying Fund Exposure.

The table below summarizes the Fund's exposure to interest rate risk as at December 31, 2017 and the Underlying Fund's exposure as at December 31, 2016. 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.

Term to Maturity	Long Exposure		Short Exposure	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Less than 1 year	\$ 144,521,857	\$ 36,517,458	\$ -	\$ (15,794,772)
1-3 years	99,417,112	80,031,924	(123,533,377)	(92,916,003)
3-5 years	74,811,774	31,349,677	(61,289,672)	(23,960,505)
Greater than 5 years	159,004,095	38,627,580	(117,097,559)	(10,314,467)
Total	\$ 477,754,838	\$ 186,526,639	\$ (301,920,608)	\$ (142,985,747)
Sensitivity:				
Total \$ sensitivity	+/- \$ 17,337,038	+/- \$ 5,559,834	+/- \$ 14,355,520	+/- \$ 3,438,841
Total % sensitivity	20.5%	12.5%	17.0%	7.5%

(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 December 31, 2017, if the Fund's relevant benchmark index, FTSE TMX Canada Universe Bond Index, 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 \$844,501 (2016: \$506,994) representing 1.0% of net assets attributable to holders of redeemable units (2016: 1.1%).

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 in 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.

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The following is a summary of the Fund's concentration risk as at December 31, 2017 and the Underlying Fund's concentration risk as at December 31, 2016:

Market Segment	December 31, 2017		December 31, 2016	
	Long (%)	Short (%)	Long (%)	Short (%)
Equities	5.4	-	12.6	-
Corporate Bonds	454.1	(2.7)	384.3	(16.0)
Federal Bonds	0.0	(352.4)	13.0	(277.9)
Funds	-	-	3.3	-
Derivatives	(1.7)	(1.6)	0.2	(0.2)
Totals	457.8	(356.7)	413.4	(294.1)

6. FINANCIAL INSTRUMENTS – 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 December 31, 2017 and 2016:

December 31, 2017	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Equities long	4,500,447	-	39,100	4,539,547
Fixed income long	-	383,529,638	-	383,529,638
Derivatives	34,575	-	-	34,575
Total	4,535,022	383,529,638	39,100	388,103,760
Financial liabilities				
Equities sold short	-	-	-	-
Fixed income short	-	(299,876,353)	-	(299,876,353)
Derivatives	(1,450,249)	(1,329,514)	-	(2,779,763)
Total	(1,450,249)	(301,205,867)	-	(302,656,116)
December 31, 2016	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial liabilities				
Forward Agreement	-	46,365,835	-	46,365,835
Total	-	46,365,835	-	46,365,835

The following table illustrates the classification of the Underlying Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2016:

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December 31, 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Equities long	5,864,343	-	-	5,864,343
Fixed income long	-	184,188,629	-	184,188,629
Funds	1,508,700	-	-	1,508,700
Derivatives	402,975	20,906	-	423,881
Total	7,776,018	184,209,535	-	191,985,553
Financial liabilities				
Fixed income short	-	(136,293,982)	-	(136,293,982)
Derivatives	(107,488)	(294,333)	-	(401,821)
Total	(107,488)	(136,588,315)	-	(136,695,803)

All fair value measurements above are recurring. The carrying values of all of the Fund's and Underlying 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.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. This includes private and illiquid securities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Manager has used its best judgment to derive the fair value.

The following table presents the movement in Level 3 instruments for the years ended December 31, 2017 and 2016 by class of financial instrument:

	Equities		Bonds		Warrants	
	December 31, 2017 \$	December 31, 2016 \$	December 31, 2017 \$	December 31, 2016 \$	December 31, 2017 \$	December 31, 2016 \$
Opening balance	-	-	-	-	-	-
Net purchases and sales	39,100	-	-	-	-	-
Net transfers in (out)	-	-	-	-	-	-
Realized gain (loss)	-	-	-	-	-	-
Unrealized gain (loss)	-	-	-	-	-	-
Closing balance	39,100	-	-	-	-	-

There were no transfers from Level 2 to Level 1 during the year ended December 31, 2017, (2016: \$nil)

a) Equities

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. Certain of the Fund's equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and the fair value is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

The Level 3 equity that amounts to \$39,100 (2016: \$nil) consists of the following private equity positions:

EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

December 31, 2017

Security Name	Currency	Quantity	Average Cost	Fair Value
			\$	\$
Trident Exploration Corp.	CAD	133,963	39,100	39,100

The Fund values these instruments based on cost as there is lack of market data throughout the year. The Fund also considers other liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary. The change in valuation disclosed in the below table shows the direction an increase or decrease in the respective input variables would have on the valuation result.

Description	Value	Valuation Technique	Unobservable inputs	Weighted average input	Reasonable possible shift (+/-)	Change in valuation (+/-)
	\$			%	%	\$
Equities – Private companies	39,100	Cost with adjustments	Probability of Bankruptcy	-	10.0	4,000

b) Bonds

The Fund's and Underlying Fund's bond portfolio was 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.

c) Derivative assets and liabilities

Derivative assets and liabilities consist of futures contracts, options, interest rate swaps, credit default swaps, and, as of December 31, 2016, the Forward Agreement. 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. The Forward Agreement's fair value was determined with reference to the fair value of the underlying investments of the Underlying Fund, as described in Note 3. The inputs that are significant to valuation are generally observable and therefore the Forward Agreement had been classified as Level 2.

Financial Instruments by Category

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the years ended December 31, 2017 and 2016.

December 31, 2017	Net realized gains / (losses)	Net change in unrealized gains / (losses)	Interest income	Interest expense	Dividend income	Dividend expense	Total
	\$	\$	\$	\$	\$	\$	\$
Financial asset at FVTPL:							
Designated as FVTPL	(2,559,457)	(2,137,047)	6,465,588	-	119,201	-	1,888,285
HFT	8,600,824	(7,253,309)	-	(76,958)	-	-	1,270,557
Financial liabilities at FVTPL:							
HFT	998,636	3,569,216	-	(2,594,488)	-	-	1,973,364
Total	7,040,003	(5,821,140)	6,465,588	(2,671,446)	119,201	-	5,132,206

EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

December 31, 2016	Net realized gains / (losses)	Net change in unrealized gains / (losses)	Interest income	Interest expense	Dividend income	Dividend expense	Total
	\$	\$	\$	\$	\$	\$	\$
Financial asset at FVTPL:							
HFT	880,399	4,554,974	-	-	-	-	5,435,373
Total	880,399	4,554,974	-	-	-	-	5,435,373

7. OFFSETTING OF FINANCIAL INSTRUMENTS

In the normal course of business, the Fund enters into various master netting arrangements or other 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 set off in certain circumstances, such as bankruptcy or termination of the contracts. The following tables show financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2017 and 2016. The "Net Amount" column displays what the net impact would be on the Fund's Statements of Financial Position if all amounts were set off.

December 31, 2017	Gross amounts	Financial instruments eligible for offset	Net amounts presented in the Statement of Financial Position	Related amounts not set-off in the Statement of Financial Position			Net amount
				Financial instruments	Cash collateral		
	\$	\$	\$	\$	\$		\$
Financial assets:							
Counterparty 1	-	-	-	-	-	-	-
Counterparty 2	32,979	-	32,979	(32,979)	-	-	-
Counterparty 3	-	-	-	-	-	-	-
Financial liabilities:							
Counterparty 1	-	-	-	-	-	-	-
Counterparty 2	(2,738,205)	-	(2,738,205)	32,979	2,705,226	-	-
Counterparty 3	(41,559)	-	(41,559)	-	-	-	(41,559)

December 31, 2016	Gross amounts	Financial instruments eligible for offset	Net amounts presented in the Statement of Financial Position	Related amounts not set-off in the Statement of Financial Position			Net amount
				Financial instruments	Cash collateral		
	\$	\$	\$	\$	\$		\$
Financial assets:							
Counterparty 1	46,365,835	-	46,365,835	-	-	-	46,365,835
Financial liabilities:							
Counterparty 1	-	-	-	-	-	-	-

EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

8. REDEEMABLE UNITS

During the years ended December 31, 2017 and 2016, the number of units issued, redeemed and outstanding was as follows:

December 31, 2017	Redeemable units outstanding at beginning of year	Redeemable units issued	Redeemable units issued on reinvestments	Redeemable units redeemed	Redeemable units issued and outstanding at end of year
Units	4,861,877	4,032,479	-	-	8,894,356

December 31, 2016	Redeemable units outstanding at beginning of year	Redeemable units issued	Redeemable units issued on reinvestments	Redeemable units redeemed	Redeemable units issued and outstanding at end of year
Units	5,469,503	-	-	(607,626)	4,861,877

9. RELATED PARTY TRANSACTIONS

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

Management and Performance Fee

On April 17, 2017, the Management Agreement between the Fund and the Manager (the "Management Agreement") was amended to reflect changes made to the investment mandate of the Fund to hold securities directly instead of through a Forward Contract with an underlying fund. (See Note 2 – Forward Agreement). The Manager is entitled to a single management fee of 1.25% per annum on the NAV of the Fund, instead of an aggregate direct and indirect management fee of approximately 1.25%. Management fees are calculated and paid as of the last Valuation Date of each month.

The Manager is also entitled to receive an annual Performance Fee from the Fund. Further to changes made in the Management Agreement, effective April 17, 2017 the annual Performance Fee is 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 4%. Prior to April 17, 2017 the hurdle rate was 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 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 year ended December 31, 2017, the Manager earned \$216,061 in Performance Fees (2016: \$nil).

The Fund is responsible for all operating expenses incurred by or on behalf of the Fund.

As at December 31, 2017, included in other liabilities are amounts owing to the Manager relating to management fees of \$89,991 (excluding HST) (2016: \$9,749) and performance fees of \$431,335 (2016: \$nil). 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 \$23,356 (2016: \$8,814).

10. BROKERAGE COMMISSIONS

Total commissions paid to dealers for the year ended December 31, 2017 in connection with portfolio transactions were \$2,988 (2016: \$nil).

11. TAXATION

The Fund qualifies as a mutual fund trust as defined in the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient net capital gains realized in any taxation year are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and noncapital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. As at December 31, 2017 the Fund had \$2,076,769 of unused non-capital losses which expire no earlier than 2032 and \$nil unused allowable capital losses.

EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

12. REDEMPTION

Unitholders may redeem their units annually during the period from September 15th until 5:00 p.m. (Toronto time) on the 10th business day in October of each year (the "Notice Period"). Units properly surrendered for redemption during the Notice Period will be redeemed on the last business day in October of each year (the "Annual Redemption Date") and the redeeming unitholder will receive a redemption price per unit equal to 100% of the net asset value per unit as determined on the Annual Redemption Date on or before the 15th business day of the month following the Annual Redemption Date, less any costs and expenses incurred by the Fund in order to fund such redemption, if any.

Unitholders may also redeem their units monthly to the Fund's registrar and transfer agent on the last business day of any month, other than October 2013 or October any year following 2013 (the "Monthly Redemption Date"), by no later than 5:00 p.m. (Toronto time) on the 15th day of such month or the immediately preceding business day in the event that the 15th day is not a business day. Payment of the proceeds of redemption will be made on or before the last business day of the following month (the "Redemption Payment Date"). Unitholders whose Units are surrendered for redemption will be entitled to receive a redemption price per Unit (the "Monthly Redemption Price") equal to the lesser of: (i) 95% of the Trading Price (the weighted average trading price on the TSX or such other stock exchange on which the units may be listed for the ten trading days immediately preceding the relevant Monthly Redemption Date) of the units; and (ii) the Market Price (the closing price of the Units on the TSX or such other stock exchange on which the Units may be listed on the Monthly Redemption Date or, if there was no trade during the relevant period preceding a Monthly Redemption Date, the average of the last bid and the last asking prices of the Units on the TSX or such other stock exchange on which the Units may be listed for each day during the relevant period) and less any costs and expenses incurred by the Fund in order to fund such redemption, if any.

Differences, if any, between the redemption price per unit and the NAV per unit at the redemption date is recorded as a realized gain or loss on redemption of redeemable units in the statement of comprehensive income.

13. 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 years ended December 31, 2017 and 2016 is calculated as follows:

	December 31, 2017	December 31, 2016
Increase (decrease) in net assets attributable to holders of redeemable units	\$3,658,985	\$4,984,855
Weighted average units outstanding during the year	6,526,379	5,401,436
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$0.56	\$0.92

14. SUBSEQUENT EVENT

On February 8, 2018, the Fund completed a treasury offering of units for gross proceeds of approximately \$18 million. The units were issued at a price of \$9.85.

15. FUTURE ACCOUNTING CHANGES - IFRS 9, FINANCIAL INSTRUMENTS

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after January 1, 2018.

Classification and measurement of debt assets will be driven by the Fund's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit and loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

On adoption of IFRS 9 the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortized cost with no material impact expected from adoption of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

In addition to the above, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

March 27, 2018

The accompanying audited financial statements have been prepared by Arrow Capital Management Inc., the Manager of East Coast Investment Grade Income Fund (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 3 to the financial statements.

PricewaterhouseCoopers LLP is the external auditor of the Fund, appointed by the unitholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out on the following page.

"James L. McGovern"

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

"Robert W. Maxwell"

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

Independent Auditor's Report

To the Unitholders of East Coast Investment Grade Income Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the Statements of Financial Position as at December 31, 2017 and 2016 and the Statements of Comprehensive Income, Changes in Net Assets Attributable to Holders of Redeemable Units and Cash Flows for the years then ended, and the related Notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 27, 2018

Arrow Capital Management Inc.

36 Toronto Street, Suite 750 • Toronto, Ontario • Canada M5C 2C5 • Tel: 416.323.0477 • Tel: 1.877.327.6048 • Fax: 416.323.3199 •
www.arrow-capital.com