

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 2016

ECIGIF TRUST

ECIGIF TRUST

Statements of Financial Position

	As at December 31, 2016	As at December 31, 2015
ASSETS		
Current assets		
Financial assets designated at fair value through profit and loss	\$191,561,672	\$190,182,926
Financial assets held for trading		
Unrealized gain on futures contracts - long	-	6,913
Unrealized gain on futures contracts - short	256,590	19,419
Options at fair value - long	146,385	455,399
Unrealized gain on swap contracts	20,906	-
Cash	379,004	975,213
Margin deposits	1,879,743	7,734,043
Cash collateral on swap contracts	-	2,726,523
Accrued interest and dividends receivable	1,424,975	1,641,540
Receivable for securities sold	258,720	-
	195,927,995	203,741,976
LIABILITIES		
Current liabilities		
Financial liabilities held for trading		
Investments sold short	136,293,982	142,686,001
Unrealized loss on futures contracts - long	57,969	-
Unrealized loss on futures contracts - short	14,476	-
Options at fair value - short	35,043	-
Unrealized loss on swap contracts	294,333	2,174,275
Margin loan	11,426,792	7,557,369
Payable for securities purchased	-	170,166
Accrued interest and dividends payable	627,950	596,520
Other liabilities (Note 9)	811,604	100,100
	149,562,149	153,284,431
Net assets attributable to holders of redeemable units	\$46,365,846	\$50,457,545
Net assets attributable to holders of redeemable units		
Units	\$46,365,836	\$50,457,535
Class A Units	\$10	\$10
Number of units outstanding (Note 8)		
Units	4,501,013	5,071,263
Class A Units	1	1
Net assets attributable to holders of redeemable units per unit		
Units	\$10.30	\$9.95
Class A Units	\$10.00	\$10.00

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

“James L. McGovern”

“Robert W. Maxwell”

James L. McGovern, Director

Robert W. Maxwell, Director

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

ECIGIF TRUST

Statements of Comprehensive Income For the years ended December 31,

	2016 \$	2015 \$
INCOME		
Net gains (losses) on investments and derivatives <i>(Note 5)</i>		
Interest for distribution purposes	6,242,733	8,982,659
Interest Income on derivatives	37,301	456,524
Interest expense on short sales	(2,946,491)	(3,992,668)
Dividend income	172,089	-
Securities lending income (net)	4	-
Net realized gain (loss) on investments and derivatives	(465,100)	(3,891,561)
Net change in unrealized appreciation (depreciation) in value of investments and derivatives	4,793,234	(1,276,994)
Net gains (losses) on investments and derivatives	7,833,770	277,960
Other Income Items:		
Interest on cash	-	6,096
Foreign exchange gain (loss)	(369,470)	(1,791,412)
Net change in unrealized foreign exchange gain (loss)	192,920	160,037
Total income (net)	7,657,220	(1,347,319)
EXPENSES		
Securityholder reporting fees	111,221	95,784
Custodial fees	10,871	14,406
Management fees <i>(Note 9)</i>	502,765	860,693
Performance fees <i>(Note 9)</i>	637,281	-
Legal fees	1,893	2,174
Audit fees	28,086	31,999
Independent Review Committee fees	4,600	4,573
Interest expense	52,158	35,340
Commissions and other portfolio transaction costs <i>(Note 9)</i>	11,784	10,762
Security borrowing expenses	469,686	579,791
Harmonized sales tax	168,574	131,252
Total expenses	1,998,919	1,766,774
Increase (decrease) in net assets attributable to holders of redeemable units	5,658,301	(3,114,093)
Increase (decrease) in Net Assets attributable to holders of redeemable units per Class		
Units	5,658,301	(3,114,093)
Class A Units	-	-
Increase (decrease) in Net Assets attributable to holders of redeemable units per Unit <i>(Note 11)</i>		
Units	1.13	(0.38)
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
For the years ended December 31,

		2016 \$	2015 \$
Net assets attributable to holders of redeemable units at beginning of year			
	Units	50,457,535	95,321,628
	Class A Units	10	10
		<u>50,457,545</u>	<u>95,321,638</u>
Increase (decrease) in net assets attributable to holders of redeemable units			
	Units	5,658,301	(3,114,093)
	Class A Units	-	-
		<u>5,658,301</u>	<u>(3,114,093)</u>
Distributions to holders of redeemable units			
From net investment income	Units	-	-
	Class A Units	-	-
		<u>-</u>	<u>-</u>
From net realized gains on investments and derivatives	Units	-	-
	Class A Units	-	-
		<u>-</u>	<u>-</u>
Return of capital	Units	(3,950,000)	(6,450,000)
	Class A Units	-	-
		<u>(3,950,000)</u>	<u>(6,450,000)</u>
Total distributions to holders of redeemable units		<u>(3,950,000)</u>	<u>(6,450,000)</u>
Redeemable unit transactions			
Proceeds from redeemable units issued	Units	-	-
	Class A Units	-	-
		<u>-</u>	<u>-</u>
Reinvestments of distributions to holders of redeemable units	Units	-	-
	Class A Units	-	-
		<u>-</u>	<u>-</u>
Redemption of redeemable units	Units	(5,800,000)	(35,300,000)
	Class A Units	-	-
		<u>(5,800,000)</u>	<u>(35,300,000)</u>
Net increase (decrease) from redeemable unit transactions		<u>(5,800,000)</u>	<u>(35,300,000)</u>
Net increase (decrease) in net assets attributable to holders of redeemable units		<u>(4,091,699)</u>	<u>(44,864,093)</u>
Net assets attributable to holders of redeemable units at end of year			
	Units	46,365,836	50,457,535
	Class A Units	10	10
		<u>46,365,846</u>	<u>50,457,545</u>

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Statements of Cash Flows
For the years ended December 31,

	2016 \$	2015 \$
Cash flows from (used in) operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	5,658,301	(3,114,093)
Adjustment for:		
Net change in unrealized foreign exchange (gain) loss on cash	(192,774)	(160,037)
Net realized loss (gain) on investments and derivatives	465,100	3,891,561
Net change in unrealized depreciation (appreciation) in value of investments and derivatives	(4,793,234)	1,276,994
Purchase of investments	(1,098,317,838)	(931,735,506)
Proceeds on sale of investments	1,092,731,717	980,775,350
(Increase) decrease in margin deposit on futures contracts	5,854,300	(7,033,283)
(Increase) decrease in cash collateral on swap contracts	2,726,523	(1,625,137)
Decrease (increase) in accrued interest and dividends receivable	216,565	910,301
Increase (decrease) in accrued interest and dividends payable	31,430	114,558
Increase (decrease) in other liabilities	711,504	(56,689)
Net cash from (used in) operating activities	5,091,594	43,244,019
Cash flows from (used in) financing activities		
Redemption of redeemable units	(5,800,000)	(35,300,000)
Distributions paid to holders of redeemable units, net of reinvested distributions	(3,950,000)	(6,450,000)
Increase (decrease) in margin loan	3,869,423	(1,487,940)
Net cash from (used in) financing activities	(5,880,577)	(43,237,940)
Net Increase (decrease) in cash	(788,983)	6,079
Cash at beginning of the year	975,213	809,097
Net change in unrealized foreign exchange gain (loss) on cash	192,774	160,037
Cash at end of the year	379,004	975,213
Supplemental information:		
Interest received*	6,483,777	10,428,300
Interest paid*	(2,968,729)	(3,913,494)
Dividends received*	161,771	-

*Included as part of cash flows from operating activities

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

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Schedule of Investment Portfolio – As at December 31, 2016

Equity Positions - Long		12.6%			
Security Name	Currency		Quantity	Average Cost \$	Fair Value \$
Energy		4.1%			
Enbridge Inc. - Preferred Series H	CAD		22,215	337,766	357,662
Enbridge Inc. - Preferred Series L	USD		8,738	222,047	261,625
TransCanada Corporation - Preferred Series 15	CAD		40,000	1,000,000	1,018,400
TransCanada Corporation - Preferred Series 13	CAD		7,600	190,000	202,616
Trident Exploration Corp	CAD		133,963	39,100	39,100
				<u>1,788,913</u>	<u>1,879,403</u>
Financials		8.5%			
Bank of Montreal - Preferred Series 25	CAD		26,700	529,026	556,695
Bank of Montreal - Preferred Series 38	CAD		73,000	1,852,152	1,884,130
The Bank of Nova Scotia	CAD		33,000	651,475	691,680
Manulife Financial Corporation	CAD		25,000	625,000	630,000
The Toronto-Dominion Bank	CAD		9,000	214,398	222,435
				<u>3,872,051</u>	<u>3,984,940</u>
				<u>5,660,964</u>	<u>5,864,343</u>

Funds - Long		3.3%			
Security Name	Currency		Quantity	Average Cost \$	Fair Value \$
BMO Laddered Preferred Share Index ETF	CAD		141,000	1,398,397	1,508,700

Fixed Income Positions - Long		397.3%				
Security Name	Currency	Coupon Rate %	Maturity Date	Par Value	Average Cost \$	Fair Value \$
Ag Growth International Inc. ⁽¹⁾⁽²⁾	CAD	5.25	12-31-19	668,000	699,729	691,547
Aon Finance N.S. 1, ULC	CAD	4.76	03-08-18	6,909,000	7,387,142	7,164,426
AT&T Inc.	CAD	3.83	11-25-20	2,788,000	2,979,678	2,939,862
Bank of America Corporation ⁽²⁾	USD	2.15	11-09-20	1,977,000	2,653,497	2,622,317
Bank of America Corporation	CAD	5.15	05-30-17	3,290,000	3,359,499	3,341,390
Bank of America Corporation	CAD	3.23	06-22-22	1,406,000	1,406,000	1,446,057
Bank of Montreal ⁽²⁾	CAD	3.34	12-08-25	1,899,000	1,942,716	1,937,170
Bank of Montreal ⁽²⁾	CAD	3.32	06-01-26	933,000	948,558	948,339
Bank of Montreal ⁽²⁾	CAD	3.12	09-19-24	2,701,000	2,734,484	2,736,572
Bank of Montreal	CAD	1.61	10-28-21	1,483,000	1,461,170	1,455,846
The Bank of Nova Scotia	CAD	2.46	03-14-19	4,033,000	4,123,097	4,118,258
Bell Canada Inc.	CAD	5.52	02-26-19	4,690,000	5,121,203	5,076,831
Brookfield Infrastructure Finance ULC	CAD	3.54	10-30-20	646,000	646,000	664,301
Bruce Power L.P.	CAD	2.84	06-23-21	1,130,000	1,130,000	1,150,204
Canadian Imperial Bank of Commerce ⁽²⁾	CAD	3.42	01-26-26	1,885,000	1,926,957	1,921,663
Canadian Imperial Bank of Commerce	CAD	2.35	10-18-17	10,000,000	10,126,080	10,099,000
Cominar REIT	CAD	3.62	06-21-19	2,727,000	2,760,408	2,780,995
Enbridge Inc.	CAD	0.00	05-10-17	5,210,000	5,168,997	5,168,997
Fairfax Financial Holdings Limited	CAD	7.25	06-22-20	2,966,000	3,382,990	3,373,291
Fairfax Financial Holdings Limited ⁽²⁾	CAD	4.70	12-16-26	1,037,000	1,034,971	1,048,728
First Capital Realty Inc.	CAD	5.60	04-30-20	2,782,000	3,126,412	3,074,722
Ford Auto Securitization Trust ⁽²⁾	CAD	2.00	11-15-20	1,547,000	1,547,000	1,548,191

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Schedule of Investment Portfolio – As at December 31, 2016

Fixed Income Positions - Long		397.3%					
Security Name	Currency	Coupon Rate %	Maturity Date	Par Value	Average Cost \$	Fair Value \$	
Ford Credit Canada Limited	CAD	3.14	06-14-19	2,024,000	2,054,037	2,075,450	
Ford Credit Canada Limited	CAD	2.94	02-19-19	1,647,000	1,685,968	1,679,182	
GMF Canada Leasing Trust ⁽²⁾	CAD	1.64	03-20-19	988,000	988,000	986,693	
GMF Canada Leasing Trust ⁽²⁾	CAD	1.38	08-20-18	2,634,000	2,147,270	2,147,031	
The Goldman Sachs Group, Inc.	CAD	5.00	05-03-18	3,913,700	4,182,836	4,093,535	
The Goldman Sachs Group, Inc. ⁽²⁾	CAD	5.20	04-19-22	525,000	514,500	518,359	
The Goldman Sachs Group, Inc. ⁽²⁾	USD	2.30	12-13-19	1,482,000	1,954,460	1,988,954	
Government of Canada	CAD	5.00	06-01-37	76	121	109	
Government of Canada	CAD	3.25	06-01-21	1,362,980	1,492,054	1,489,246	
Government of Canada	CAD	1.50	03-01-17	1,384,000	1,386,823	1,386,242	
Government of Canada	CAD	2.50	06-01-24	1,686,000	1,870,287	1,801,862	
HSBC Bank Canada	CAD	2.08	11-26-18	2,964,000	2,994,796	2,995,567	
HSBC Holdings plc	CAD	3.20	12-05-23	1,483,000	1,476,138	1,479,782	
JPMorgan Chase & Co.	CAD	2.92	09-19-17	15,000,000	15,246,400	15,185,850	
Loblaw Companies Limited	CAD	5.22	06-18-20	1,703,000	1,880,041	1,885,783	
Manitoba Telecom Services Inc.	CAD	5.63	12-16-19	4,810,000	5,340,174	5,325,728	
The Manufacturers Life Insurance Company ⁽²⁾	CAD	4.17	06-01-22	2,387,000	2,423,938	2,414,164	
Medavie Inc. ⁽²⁾	CAD	6.00	05-21-24	380,000	380,000	380,889	
Merrill Lynch & Co., Inc. ⁽²⁾	CAD	5.29	05-30-22	392,000	386,120	387,308	
Metropolitan Life Global Funding I	CAD	2.68	04-16-19	4,749,000	4,876,249	4,854,414	
Molson Coors International LP	CAD	2.25	09-18-18	5,427,000	5,433,244	5,471,339	
Northgroup Preferred Capital Corporation ⁽²⁾	USD	6.38	01-29-49	2,775,000	3,617,290	3,725,854	
Penske Truck Leasing Canada Inc.	CAD	3.65	02-01-18	4,004,000	4,090,251	4,081,878	
Postmedia Network Inc. ⁽²⁾	CAD	8.25	07-15-21	93,489	95,695	81,218	
Quebecor Media Inc. ⁽²⁾	CAD	7.38	01-15-21	596,000	623,193	613,135	
RioCan REIT	CAD	2.19	08-26-20	1,947,000	1,950,297	1,937,518	
RioCan REIT	CAD	3.85	06-28-19	890,000	932,302	932,231	
Royal Bank of Canada ⁽²⁾	CAD	3.04	07-17-24	4,503,000	4,551,903	4,552,803	
Royal Bank of Canada ⁽²⁾	CAD	3.31	01-20-26	800,000	813,208	812,784	
The Royal Bank of Scotland Group plc ⁽²⁾	CAD	6.67	12-31-49	526,000	490,521	565,450	
The Royal Bank of Scotland PLC ⁽²⁾	CAD	10.50	03-16-22	250,000	285,000	254,123	
Shaw Communications Inc.	CAD	5.65	10-01-19	4,455,000	4,920,224	4,865,038	
The Manufacturers Life Insurance Company ⁽²⁾	CAD	3.94	09-21-22	2,016,000	2,061,710	2,052,328	
TD Bank, National Association ⁽²⁾	CAD	4.64	09-20-22	5,326,000	5,493,779	5,431,860	
Thomson Reuters Corporation	CAD	3.37	05-23-19	4,700,000	4,906,336	4,868,166	
TransCanada Pipelines Ltd.	CAD	9.45	03-20-18	6,295,000	7,601,308	6,877,061	
TransCanada Pipelines Ltd. ⁽²⁾	USD	6.35	05-15-67	1,666,000	1,614,998	1,873,366	
US Treasury Bill ⁽³⁾	USD	0.00	04-27-17	1,000,000	1,279,412	1,335,979	
Ventas Canada Finance Limited	CAD	3.00	09-30-19	812,000	831,447	833,672	
Videotron Ltd. ⁽²⁾	CAD	6.88	07-15-21	2,195,000	2,326,645	2,271,825	
Wells Fargo & Company	CAD	2.22	03-15-21	2,274,000	2,276,212	2,274,318	
Wells Fargo Canada Corporation	CAD	2.94	07-25-19	5,630,000	5,838,077	5,817,029	
WTH Car Rental, ULC	CAD	1.91	07-20-20	4,004,000	3,997,583	3,967,900	
Yellow Pages Digital & Media Solutions	CAD	9.25	11-30-18	296,521	307,165	306,899	
					185,284,600	184,188,629	

⁽¹⁾ Convertible

⁽²⁾ Callable

⁽³⁾ Pledged as collateral with respect to swap transactions

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Schedule of Investment Portfolio – As at December 31, 2016

Option Positions - Long							0.3%
Security Name	Currency	Strike Price	Expiry Date	Contracts	Average Cost	Fair Value	
					\$	\$	
BMO S&P/TSX Equal Weight Banks	CAD	18.00	01-21-17	1,445	132,940	1,445	
Enbridge Inc.	CAD	30.00	01-20-18	532	228,494	8,512	
iShares S&P/TSX 60 Index ETF	CAD	20.50	01-21-17	2,522	87,009	3,783	
S&P 500 Emini FUT (CME) Mar 17	USD	2130.00	03-18-17	74	122,568	132,645	
					<u>571,011</u>	<u>146,385</u>	

Option Positions - Short							(0.1%)
Security Name	Currency	Strike Price	Expiry Date	Contracts	Proceeds	Fair Value	
					\$	\$	
iShares S&P/TSX 60 Index ETF	CAD	18.50	01-21-17	(2,522)	(21,437)	(1,261)	
S&P 500 Emini FUT (CME) Mar 17	USD	1910.00	03-18-17	(74)	(29,644)	(33,782)	
					<u>(51,081)</u>	<u>(35,043)</u>	

Swap Positions						(0.6%)
Security Name	Currency			Notional Value	Average Cost	Fair Value
					\$	\$
CDS BP CANADIAN NATURAL RESOURCES LIMITED	USD	Credit Default Swap		1,723,000	151,473	20,906
CDS ENBCN 100 12/21 US	USD	Credit Default Swap		3,727,000	(254,540)	(111,505)
CDX IG S27 100 12/21	USD	Credit Default Swap Index		9,000,000	(154,499)	(182,828)
					<u>(257,566)</u>	<u>(273,427)</u>

Investment Portfolio Summary				Average Cost	Fair Value
			%	\$	\$
Equity Positions - Long			12.6	5,660,964	5,864,343
Funds - Long			3.3	1,398,397	1,508,700
Fixed Income Positions - Long			397.3	185,284,600	184,188,629
Fixed Income Positions - Short			(294.0)	(137,805,601)	(136,293,982)
Futures Contracts - Long			(0.1)	-	(57,969)
Futures Contracts - Short			0.5	-	242,114
Option Positions - Long			0.3	571,011	146,385
Options Positions - Short			(0.1)	(51,081)	(35,043)
Swap Positions			(0.6)	(257,566)	(273,427)
Total Investments			119.2	54,800,724	55,289,750
Total Other Net Assets			(19.2)	-	(8,923,904)
Total Net Assets			100.0	<u>54,800,724</u>	<u>46,365,846</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

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 Declaration of Trust was last amended on June 30, 2014. 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, M5C 2C5.

These financial statements are as at December 31, 2016 and December 31, 2015 and for the years then ended.

2. 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.

These financial statements were authorized for issue by the Manager on March 24, 2017.

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. 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 the 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 the unitholders at December 31, 2016 and 2015.

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.

Dividend income and expense is recognized in the statements of comprehensive income on the ex-dividend date.

Securities lending income is recognized in the statements of comprehensive income 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

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

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.

Securities lending transactions are subject to master netting arrangements.

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 statements 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 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, margin deposit on futures contracts, cash collateral on swap contracts, and margin loan, 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

Cash is comprised of deposits with financial institutions.

g) Margin Deposit on Futures Contracts

Cash collateral provided by the Fund to brokers for counterparties to futures transactions is identified in the statements of financial position as 'Margin deposit on futures contracts'.

h) Cash Collateral on Swap Contracts

Cash collateral provided by the Fund to brokers for counterparties to swap transactions is identified in the statements of financial position as 'Cash collateral on swap contracts'.

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i) Collateral

For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral and such party has identified the securities which are pledged as collateral, the Fund classifies that asset in the statements of financial position as 'pledged collateral'.

j) 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.

k) 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'.

l) 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 statement 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'.

m) 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.

n) 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

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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.

o) 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.

p) 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.

q) 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 11 for the calculation.

r) Classification of Redeemable Units

The Fund's redeemable units contain multiple contractual obligations and multiple series of units have been issued which do not have identical features. 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.

s) Securities Lending

The Fund may enter into securities lending arrangements. These transactions involve the temporary exchange of securities for collateral with a commitment to deliver the same securities at a future date. Income is earned from these transactions in the form of fees paid by the counterparty ("lending fees") and, in certain circumstances, interest paid on cash or securities held as collateral ("lending interest income"). Income earned from these transactions is included in "Securities lending income" in the statement of comprehensive income.

t) Reclassification Adjustment

Certain prior year market segment classifications have been reclassified to conform to current year presentation.

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

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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 5 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 – RISK MANAGEMENT

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, 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. The maximum loss on futures contracts is the notional contract value of those positions. The maximum loss of capital on credit default swaps purchased is the cumulative premiums paid. The maximum loss of capital on credit default swaps sold is the notional value of those positions less the cumulative fee payments received, if any.

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, 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 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.

The analysis below summarizes the credit quality of the Fund's debt portfolio at December 31, 2016 and 2015.

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Credit Rating*	Percentage of total debt securities	
	As at December 31, 2016	As at December 31, 2015
	%	%
AAA	5.8	3.0
AA	12.0	27.6
A	28.7	18.7
BBB	44.2	30.4
Below BBB	2.2	8.3
Not Rated	7.1	12.0
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 Baa1 and A3 respectively (2015: Baa1 and A3 respectively). The counterparty to the Fund's futures contracts is Bank of America (2015: JP Morgan Chase & Co.) which has a credit rating of Baa1 (2015: JP Morgan Chase & Co. - A3) 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, Aa1, Aa3 and Aa3 respectively (2015: Aa3, 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 Aa1 (2015: 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 daily cash redemptions which are redeemable on demand at the holder's option and payable within 10 business days after the redemption date and as such, retains sufficient cash to fund anticipated redemptions.

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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).

From time to time, the Fund may use margin borrowings in one or more of its brokerage accounts. During the year ended December 31, 2016, the minimum margin borrowings used was \$6,810,860 and the maximum net margin borrowings used was \$21,324,969 (2015: min: \$7,726,861, max: \$14,021,769).

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 foreign currencies as at December 31, 2016 and 2015, 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 foreign currencies, with all other variables held constant. Non-monetary items are comprised of long and short equities and options. Monetary items include cash, margin loan, margin deposit, derivatives, fixed income securities, and other current receivables and payables.

December 31, 2016	Exposure			Impact on net assets attributable to holders of redeemable units		
	Monetary \$	Non-Monetary \$	Total \$	Monetary \$	Non-Monetary \$	Total \$
Currency						
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%

December 31, 2015	Exposure			Impact on net assets attributable to holders of redeemable units		
	Monetary \$	Non-Monetary \$	Total \$	Monetary \$	Non-Monetary \$	Total \$
Currency						
United States Dollar - Long	7,161,702	568,317	7,730,019	716,170	56,832	773,002
United States Dollar - Short	(10,789,860)	-	(10,789,860)	(1,078,986)	-	(1,078,986)
Euro Currency - Short	(88,594)	-	(88,594)	(8,859)	-	(8,859)
Total	(3,716,752)	568,317	(3,148,435)	(371,675)	56,832	(314,843)
% of net assets attributable to holders of redeemable units	(7.4%)	1.1%	(6.2%)	(0.7%)	0.1%	(0.6%)

(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

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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 December 31, 2016 and 2015. 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, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Less than 1 year	\$ 36,517,458	\$ 45,788,667	\$ (15,794,772)	\$ -
1-3 years	80,031,924	64,672,079	(86,224,238)	(68,957,928)
3-5 years	31,349,677	45,043,817	(23,960,505)	(45,866,650)
Greater than 5	36,289,570	32,676,274	(10,314,467)	(27,861,423)
Total	\$ 184,188,629	\$ 188,180,837	\$ (136,293,982)	\$ (142,686,001)
Sensitivity:				
Total \$ sensitivity	+/- \$ 5,559,834	+/- \$ 5,805,156	+/- \$ 3,373,159	+/- \$ 5,582,627
Total %	12.0%	11.5%	7.3%	11.1%

(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, 2016, 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 \$510,024 (2015: \$403,660) representing 1.1% of net assets attributable to holders of redeemable units (2015: 0.8%).

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:

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Market Segment	December 31, 2016		December 31, 2015	
	Long %	Short %	Long %	Short %
Energy	4.1	-	0.7	-
Financials	8.5	-	2.3	-
Funds	3.3	-	1.0	-
Federal Bonds	13.0	(277.9)	9.4	(262.9)
Corporate Bonds	384.3	(16.0)	363.5	(19.9)
Derivatives	0.2	(0.2)	1.0	(4.3)
Total	413.4	(294.1)	377.9	(287.1)

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 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.

5. 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 Fund may participate in securities lending and; therefore, receive collateral categorized as Level 1 or 2 as defined above. Such collateral is not considered significant to the financial instrument hierarchy of the securities owned by the Fund.

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, 2016 and 2015:

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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)

December 31, 2015	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Equities long	1,502,948	-	-	1,502,948
Fixed income long	-	188,180,838	-	188,180,838
Funds	499,140	-	-	499,140
Derivatives	481,731	1	-	481,732
Total	2,483,819	188,180,839	-	190,664,658
Financial liabilities				
Fixed income short	-	(142,686,001)	-	(142,686,001)
Derivatives	-	(2,174,274)	-	(2,174,274)
Total	-	(144,860,275)	-	(144,860,275)

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 December 31, 2016 and 2015, the Fund did not hold any level 3 financial instruments. There were no transfers between levels during the years ended December 31, 2016 and 2015.

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) 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.

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c) 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. As at December 31, 2016, the non-cash collateral related to swaps was \$988,299 (2015: \$nil).

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, 2016 and 2015.

	Net realized gains / (losses)	Net change in unrealized gains / (losses)	Interest income	Interest expense	Securities lending income	Dividend income	Total
December 31, 2016	\$	\$	\$	\$	\$	\$	\$
Financial asset at FVTPL:							
Designated as FVTPL	(881,780)	1,243,451	6,242,733	-	4	172,089	6,776,497
HFT	600,152	148,274	37,301	-	-	-	785,727
	(281,628)	1,391,725	6,280,034	-	4	172,089	7,562,224
Financial liabilities at FVTPL:							
HFT	(183,472)	3,401,509	-	(2,946,491)	-	-	271,546
Total	(465,100)	4,793,234	6,280,034	(2,946,491)	4	172,089	7,833,770

	Net realized gains / (losses)	Net change in unrealized gains / (losses)	Interest income	Interest expense	Securities lending income	Dividend income	Total
December 31, 2015	\$	\$	\$	\$	\$	\$	\$
Financial asset at FVTPL:							
Designated as FVTPL	3,294,269	(3,516,542)	8,982,659	-	-	-	8,760,386
HFT	1,172,782	(1,793,156)	456,524	-	-	-	(163,850)
	4,467,051	(5,309,698)	9,439,183	-	-	-	8,596,536
Financial liabilities at FVTPL:							
HFT	(8,358,612)	4,032,704	-	(3,992,668)	-	-	(8,318,576)
Total	(3,891,561)	(1,276,994)	9,439,183	(3,992,668)	-	-	277,960

6. 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, 2016 and 2015. 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.

ECIGIF TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

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		
				Financial instruments	Cash collateral	Net amount
	\$	\$	\$	\$	\$	\$
Financial assets:						
Counterparty 1	256,590	-	256,590	(255,273)	-	1,317
Counterparty 2	1,356,885	-	1,356,885	(111,505)	-	1,245,380
Financial liabilities:						
Counterparty 1	(255,273)	-	(255,273)	255,273	-	-
Counterparty 2	(111,505)	-	(111,505)	111,505	-	-

December 31, 2015	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		
				Financial instruments	Cash collateral	Net amount
	\$	\$	\$	\$	\$	\$
Financial assets:						
Counterparty 1	26,332	-	26,332	(10,253)	-	16,079
Counterparty 2	-	-	-	-	-	-
Counterparty 3	-	-	-	-	-	-
Financial liabilities:						
Counterparty 1	(10,253)	-	(10,253)	10,253	-	-
Counterparty 2	(1,880,347)	-	(1,880,347)	-	1,880,347	-
Counterparty 3	(283,675)	-	(283,675)	-	276,814	(6,861)

7. INVESTMENT IN STRUCTURED ENTITIES

Information related to investments in Structured Entities is as follows:

December 31, 2016

Fund	Fair Value of Fund's Investment in Structured Entity	Net Assets Attributable to Holders of Redeemable Shares	Ownership of Structured Entities
	\$	%	%
BMO Laddered Preferred Share Index ETF	1,508,700	3.3	0.1

December 31, 2015

Fund	Fair Value of Fund's Investment in Structured Entity	Net Assets Attributable to Holders of Redeemable Shares	Ownership of Structured Entities
	\$	%	%
BMO Laddered Preferred Share Index ETF	499,140	1.0	0.0

ECIGIF TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

8. REDEEMABLE UNITS

During the years ended December 31, 2016 and 2015, the number of units issued, redeemed and outstanding was as follows:

	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
December 31, 2016					
Units	5,071,263	-	-	(570,250)	4,501,013
Class A Units	1	-	-	-	1

	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
December 31, 2015					
Units	8,519,202	-	-	(3,447,939)	5,071,263
Class A Units	1	-	-	-	1

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.

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 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, 2016, the Manager earned \$637,281 in Performance Fees (2015: \$nil).

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

As at December 31, 2016, included in other liabilities are amounts owing to the Manager relating to management fees of \$39,076 (excluding HST) (2015: \$43,183). 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 \$8,831 (2015: \$8,783).

b) Brokerage Commissions

Total commissions paid to dealers for the year ended December 31, 2016 in connection with portfolio transactions were \$11,784 (2015: \$10,762).

10. TAXATION

The Fund qualifies as a unit trust under the Income Tax Act (Canada) (the "Tax Act"), 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 Tax Act. Financial institutions are required to recognize any gains and losses accrued on securities and certain types of debt

ECIGIF TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

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. As at December 31, 2016, the Fund had \$1,399,080 of unused non-capital losses which expire no earlier than 2035.

11. 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, 2016 and 2015 is calculated as follows:

December 31, 2016	Increase (decrease) in net assets attributable to holders of redeemable units (\$)	Weighted average units outstanding during the year	Increase (decrease) in net assets attributable to holders of redeemable units per unit (\$)
Units	5,658,301	5,002,708	1.13
Class A Units	-	-	-

December 31, 2015	Increase (decrease) in net assets attributable to holders of redeemable units (\$)	Weighted average units outstanding during the year	Increase (decrease) in net assets attributable to holders of redeemable units per unit (\$)
Units	(3,114,093)	8,107,098	(0.38)
Class A Units	-	1	-

12. 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

March 24, 2017

The accompanying audited 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.

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 ECIGIF Trust (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2016 and 2015 and the statements of comprehensive income, changes in net assets attributable to holder 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, 2016 and 2015 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 24, 2017

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