



East Coast Investment Grade Income Fund

Unaudited Financial Statements

June 30, 2014

Experience. Intelligent Investing.

NOTICE TO UNITHOLDERS

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

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

EAST COAST INVESTMENT GRADE INCOME FUND

Statements of Financial Position (Unaudited)

	Note	June 30, 2014	December 31, 2013	January 1, 2013
Assets				
Current assets				
Financial assets designated at fair value through profit and loss		\$ 20,000	\$ 20,002	\$ 19,950
Financial assets held for trading				
Forward agreement	2	113,493,283	114,083,383	130,360,424
Cash		165,624	84,099	42,491
Accrued interest and dividends receivable		33	33	33
		113,678,940	114,187,517	130,422,898
Liabilities				
Current liabilities				
Distributions payable		515,109	515,109	579,250
Other liabilities	8	304,078	332,531	355,101
		819,187	847,640	934,351
Net assets attributable to holders of redeemable units				
		\$ 112,859,753	\$ 113,339,877	\$ 129,488,547
Net assets attributable to holders of redeemable units		\$ 112,859,753	\$ 113,339,877	\$ 129,488,547
Number of units outstanding	7	10,302,185	10,302,185	11,585,000
Net assets attributable to holders of redeemable units per unit	10	\$ 10.95	\$ 11.00	\$ 11.18

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 (Unaudited) For the periods ended June 30

	Note	2014 \$	2013 \$
Income			
Net gains on investments and forward agreement			
Interest for distribution purposes		100	99
Net realized gain (loss) on investments and forward agreement	6	336,500	181,569
Net change in unrealized appreciation (depreciation) in value of investments and forward agreement	6	2,774,068	2,082,405
Net gains on investments and forward agreement		3,110,668	2,264,073
Expenses			
Security holder reporting fees		295,147	342,656
Management fees	8	140,980	159,115
Performance fees	8	-	-
Service fees		11	-
Legal		946	-
Audit fees		9,983	10,500
Investment review committee fees		1,741	6,738
Commissions and other portfolio transaction costs		-	-
Custodial fees		5,144	5,138
Harmonized sales tax		46,184	55,897
Total expenses		500,136	580,044
Increase (decrease) in net assets attributable to holders of redeemable units		2,610,532	1,684,029
Increase (decrease) in Net Assets attributable to holders of redeemable units per Class		2,610,532	1,684,029
Increase (decrease) in Net Assets attributable to holders of redeemable units per Unit		0.25	0.15

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 (Unaudited)
For the periods ended June 30

	2014 \$	2013 \$
Net assets attributable to holders of redeemable units at beginning of period	113,339,877	129,488,547
Increase (decrease) in net assets attributable to holders of redeemable units	2,610,532	1,684,029
Distributions to holders of redeemable units		
From net investment income	(3,090,656)	(3,475,500)
	(3,090,656)	(3,475,500)
From net realized gains on investments and derivatives	-	-
	-	-
Return of capital	-	-
	-	-
Total distributions to holders of redeemable units	(3,090,656)	(3,475,500)
Redeemable unit transactions		
Proceeds from redeemable units issued	-	-
Issuance costs and agents' fees	-	(9,483)
Redemption of redeemable units	-	-
Net increase (decrease) from redeemable unit transactions	-	(9,483)
Net increase (decrease) in net assets attributable to holders of redeemable units	(480,124)	(1,800,954)
Net assets attributable to holders of redeemable units at end of period	112,859,753	127,687,593

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

EAST COAST INVESTMENT GRADE INCOME FUND

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

Note	2014 \$	2013 \$
Cash flows from (used in) operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	2,610,532	1,684,029
Adjustment for:		
Foreign exchange loss (gain) on cash	-	-
Net realized loss (gain) on investments and forward agreement	(336,500)	(181,569)
Net change in unrealized depreciation (appreciation) in value of investments and forward agreement	(2,774,068)	(2,082,405)
Net change in unrealized loss (gain) on cash	-	-
Purchase of investments	-	-
Prepayment of forward agreement	-	(287,166)
Net proceeds on sale of securities from partial settlement of forward agreement ⁽¹⁾	3,700,670	4,399,905
Decrease (increase) in interest and dividends receivable	-	1
Increase (decrease) in other liabilities	(28,453)	(12,737)
Net cash from (used in) operating activities	3,172,181	3,520,058
Cash flows from (used in) financing activities		
Proceeds from redeemable units issued	-	-
Issuance costs and agents' fees	-	(9,483)
Redemption of redeemable units	-	-
Distributions paid to holders of redeemable units, net of reinvested distributions	(3,090,656)	(3,475,500)
Net cash from (used in) financing activities	(3,090,656)	(3,484,983)
Net Increase (decrease) in cash	81,525	35,075
Cash at beginning of the period	84,099	42,491
Foreign exchange gain (loss) on cash	-	-
Cash at end of the period	165,624	77,566
⁽¹⁾ <i>Net of counterparty fees</i>		
Interest received*	100	99
*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 (Unaudited) - As at June 30, 2014

Forward Agreement	Percentage of Fund	Fair Value *	Average Cost
Forward Agreement (Note 2)	100.6%	113,493,283	102,545,765
		\$113,493,283	\$102,545,765

FIXED INCOME LONG POSITIONS 0.0%

SECURITY NAME	Coupon Rate	Maturity Date	Par Value	Fair Value	Average Cost
Canadian Government Bond	1.00%	Nov/01/2014	20,000	20,000	19,977
				\$20,000	\$19,977

*See attached schedule for summary of the ECIGIF Trust portfolio to which the Forward Agreement gives exposure

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

EAST COAST INVESTMENT GRADE INCOME FUND

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

The following positions are held in ECIGIF Trust

FIXED INCOME LONG POSITIONS 180.3%

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

Total Fixed Income Long Positions

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

FIXED INCOME SHORT POSITIONS -76.9%

SECURITY NAME		COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE	PROCEEDS	
Canadian Government Bond	CAD	1.500%	Feb/01/2017	(3,624,000) \$	(3,653,864) \$	(3,657,768)	
Canadian Government Bond	CAD	1.500%	Sep/01/2017	(8,902,000)	(8,961,448)	(8,927,238)	
Canadian Government Bond	CAD	1.250%	Mar/01/2018	(756,000)	(753,484)	(750,927)	
Canadian Government Bond	CAD	1.750%	Mar/01/2019	(4,454,000)	(4,498,270)	(4,485,406)	
Canadian Government Bond	CAD	1.750%	Sep/01/2019	(940,000)	(945,808)	(944,353)	
Canadian Government Bond	CAD	3.750%	Jun/01/2019	(495,000)	(546,374)	(545,171)	
Canadian Government Bond	CAD	3.500%	Jun/01/2020	(2,204,600)	(2,429,220)	(2,424,069)	
Canadian Government Bond	CAD	3.250%	Jun/01/2021	(4,216,000)	(4,602,164)	(4,599,773)	
Canadian Government Bond	CAD	2.500%	Jun/01/2024	(25,131,000)	(25,719,121)	(25,357,900)	
Canadian Government Bond	CAD	5.000%	Jun/01/2037	(209,924)	(289,867)	(279,283)	
Canadian Government Bond	CAD	4.000%	Jun/01/2041	(10,533,000)	(12,923,499)	(12,394,984)	
Canadian Government Bond	CAD	3.500%	Dec/01/2045	(5,050,000)	(5,807,494)	(5,628,802)	
Monsanto Co	USD	4.400%	Jul/15/2044	(188,000)	(201,520)	(199,534)	
RBC Capital Trust	CAD	6.821%	Jun/30/2018	(1,890,000)	(2,212,016)	(2,221,601)	
TD Capital Trust III	CAD	7.243%	Dec/31/2018	(1,890,000)	(2,265,108)	(2,276,807)	
United States Treasury Note	USD	1.500%	Jan/31/2019	(1,200,000)	(1,277,541)	(1,314,575)	
United States Treasury Note	USD	1.625%	Apr/30/2019	(5,195,000)	(5,544,522)	(5,582,758)	
United States Treasury Note	USD	2.000%	May/31/2021	(1,697,000)	(1,794,012)	(1,797,497)	
United States Treasury Note	USD	2.500%	Aug/15/2023	(728,000)	(780,160)	(733,230)	
United States Treasury Note	USD	2.750%	Feb/15/2024	(128,000)	(139,450)	(141,233)	
United States Treasury Note	USD	2.500%	May/15/2024	(2,000)	(2,127)	(2,137)	
Veresen Inc	CAD	3.950%	Mar/14/2017	(1,891,000)	(1,977,502)	(1,978,873)	
Total Fixed Income Short Positions					\$	(87,324,571) \$	(86,243,919)

Schedule 1 - Derivative assets and liabilities
LONG OPTION POSITIONS 0.3%

SECURITY NAME	CONTRACTS	EXPIRY DATE	STRIKE PRICE	FAIR VALUE	AVERAGE COST		
Royal Bank Put	420	15-Jan-16	40 \$	17,895 \$	29,299		
S&P 500 Index Call	44	18-Sep-14	1,990	231,988	213,314		
Swaption CDX.NA.HY.S22 Payer	16,271,000	17-Sep-14	103.5	68,763	98,499		
Total Long Option Contracts					\$	318,646 \$	341,112

SHORT OPTION POSITIONS -0.0%

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

FUTURES CONTRACTS -0.2%

SECURITY NAME	CONTRACTS	EXPIRY DATE	NOTIONAL VALUE	UNREALIZED GAIN/(LOSS)		
Canadian 90Day B. A. Futures Jun 15	(94)	15-Jun-15	(23,182,468)	4,700		
Canadian 90Day B. A. Futures Sep 15	(94)	14-Sep-15	(23,166,018)	11,750		
CBOT 10Yr US T-Note Futures Sep 14	(6)	19-Sep-14	(810,220)	(6,191)		
CBOT 10Yr US T-Note Futures Sep 14	(13)	19-Sep-14	(1,755,034)	(13,847)		
EUREX Bund (Long-Term) Futures Sep 14	38	8-Sep-14	8,214,460	115,268		
Euro Oat French Govt Bond Futures Sep 14	(40)	8-Sep-14	(8,226,502)	(154,002)		
IMM Canadian Dollar Futures Sep 14	(50)	16-Sep-14	(4,980,133)	(95,863)		
S&P 500 Stock Index Futures Sep 14	(16)	18-Sep-14	(8,361,637)	(124,410)		
Total Futures Contracts				(62,267,552)	\$	(262,595)

SWAPS LONG POSITIONS -0.1%

SECURITY NAME	NOTIONAL VALUE	FAIR VALUE	AVERAGE COST	CREDIT RATING	COUNTER PARTY	
EC-IRS CAD 1.7575%A Receive Floating/Pays Fix 6-Jun-2018	6,991,000	1,386	-	Baa2	Bank Of America	
EC-IRS CAD 1.95%A Receive Floating/pays Fix 6-Jun-2019	15,266,000	(14,505)	-	Baa2	Bank Of America	
IRS CAD 1.7775%A Receive Floating/Pays Fix 08-Mar-2018	7,622,000	(25,577)	-	Baa2	Bank Of America	
IRS CAD 2.025% Receive Floating/Pays Fix 02-Aug-2018	3,693,000	(44,299)	-	Baa2	Bank Of America	
IRS CAD 2.325%A IRS CAD Receive Floating/Pays Fix 25-Nov-2020	7,397,000	(70,806)	-	Baa2	Bank Of America	
Credit Agricole BP 5% 5Y 20-Sep-2019	3,800,000	(797,235)	-	A3	JP Morgan Chase	
Deutsche Bank BP 1% 5Y 20-Sep-2019	3,800,000	16,844	-	A3	JP Morgan Chase	
Ford Motor Credit SP 5% 5Y 20-Jun-2019	3,826,000	851,782	-	A2	Credit Suisse	
Total Swaps Long Positions					\$	(82,408)

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

EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

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

The Fund's investment objective is to provide unitholders with attractive monthly, tax-advantaged cash distributions, while preserving capital through exposure to the Underlying Fund, which has an actively managed, diversified portfolio of investment grade debt securities of Canadian corporate and government issuers.

The Manager of the Fund is Arrow Capital Management Inc. (the "Manager"). The address of the Fund's registered office is 36 Toronto Street, Suite 750, Toronto, Ontario.

2. FORWARD AGREEMENT

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

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.

Under the terms of the Forward Agreement, the Fund paid substantially all of the net proceeds to the Counterparty and in return the Counterparty has agreed to deliver to the Fund, on or about May 15, 2017 or earlier, in whole or in part at the request of the Fund, a Canadian securities portfolio having a value equal to the redemption proceeds of the units of the Underlying Fund specified in the Forward Agreement. To secure the obligations of the Counterparty under the Forward Agreement, the Counterparty will pledge collateral, consisting of securities listed on the Toronto Stock Exchange, in favour of the Fund with an aggregate value equal to 100% of the mark-to-market value of the Fund's exposure under the Forward Agreement and the amount of the collateral will be reset on a weekly basis to 100%. The Counterparty may substitute other forms of collateral with the consent of the Fund. As at June 30, 2014, the market value of securities held as collateral was \$113,521,975 [December 31, 2013 - 113,985,208; January 1, 2013 - \$130,123,880].

In order to permit the Fund to pay (i) monthly distributions, (ii) redemptions and repurchases of units, and (iii) operating expenses and other liabilities of the Fund, the terms of the Forward Agreement provide that the Forward Agreement may be settled in whole or in part prior to May 15, 2017, by the Fund at its discretion.

Under the Forward Agreement, the Fund pays to the Counterparty a fee of 0.3% of the Net Asset Value of the Underlying Fund calculated and payable quarterly in arrears.

As at June 30, 2014 the Fund's exposure to the Underlying Fund, by way of the Forward Agreement, represented 100% [December 31, 2013 - 100%; January 1, 2013 - 100%] of the Underlying Fund's net assets attributable to holders of redeemable shares [the "Underlying Fund Exposure"].

The 2013 Federal Budget eliminated the tax benefits associated with character conversion transactions, forward sale and forward purchase agreements used by many mutual funds and other investment funds to convert the return on a portfolio of investments from fully taxable ordinary income into capital gains. A Grandfathering provision was made available for a derivative forward agreement entered into before March 21, 2013. The Fund utilizes such an arrangement to provide a tax advantaged return to its investors. The Grandfathering provision will remain in effect until the termination date of the Forward Agreement which is May 18, 2017. At that date it is anticipated that the Fund will participate directly in the returns offered by the Underlying Fund.

EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation and Adoption of IFRS

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

Note 12 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

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

b) Financial Instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit and loss ("FVTPL"). Regular way purchases and sales of financial assets are recognized at their trade date. The Fund's long investment positions are designated at FVTPL. The Fund's 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. The Fund's accounting policies for measuring the fair value of its investments and derivatives are substantially similar to those used in measuring its net asset value ("NAV") for transactions with unitholders.

Realized gains and losses on sale of investments and unrealized appreciation or depreciation in investments are determined on an average cost 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.

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 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

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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 (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 statement of comprehensive income.

d) Impairment of Financial Assets

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

e) Foreign Currency Translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash are presented as 'Foreign exchange gain (loss) on cash' and those relating to other financial assets and liabilities are presented within 'Net realized gain (loss) on investments and forward agreement' and 'Net change in unrealized appreciation (depreciation) in value of investments and forward agreement' in the statement of comprehensive income.

f) Cash

Cash is comprised of deposits with financial institutions

g) 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.

h) 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.

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i) **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 11 for the calculation.

j) **Agents' Fees and Issue Expenses**

Agents' fees and issue expenses related to the offering of Units are netted against proceeds received on issuance of units and are shown in the statement of changes in net assets attributable to holders of redeemable units.

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 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.

5. **FINANCIAL INSTRUMENTS**

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).

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 and the Underlying Fund's positions and market events, diversifying the investment portfolio within the constraints of the investment objectives of the Fund and the Underlying Fund, and periodically may use derivatives to hedge certain risk exposures.

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Credit Risk

Credit risk is the risk that a counterparty to a financial instrument or a security issuer will fail to discharge an obligation or commitment that it has entered into with the Fund.

As at June 30, 2014, the Fund was fully exposed to credit risk of the forward counterparty, however, the counterparty has pledged collateral in favour of the Fund to secure its obligations under the Forward Agreement. The counterparty of the Fund's Forward Agreement is Scotia Capital Inc., which has a credit rating of Aa2, 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 Underling Fund Exposure.

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

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

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

The Fund's and the Underlying Fund's broker and custodian services are provided by RBC Investor Services Trust, TD Securities and Bank of Montreal, which have credit ratings of Aa3, Aa1 and Aa3 respectively, as rated by Moody's bond rating services. The counterparty to the Underlying Fund's swaps are Bank of America, JP Morgan Chase & Co. and Credit Suisse which have credit rating as rated by Moody's bond rating services of Baa2, A3 and A2 respectively. The counterparty to the Underlying Fund's futures contracts is JP Morgan Chase & Co.

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 before the 15th business day of the month following the Annual Redemption Date while monthly redemptions are payable on or before the last business day of the following month. The Fund aims to retain sufficient cash and pre-settle the Fund's Forward Agreement 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).

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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

Currency risk is the risk that the value of investments and cash, denominated in currencies other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. Equities in foreign markets and foreign bonds are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value. The Fund's exposure to currency risk, if any, is presented below.

As at June 30, 2014, December 30, 2013 and January 1, 2013, the Fund was only exposed to the Canadian Dollar and investments denominated in the Canadian Dollar.

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 Underlying Fund's exposure to USD as at June 30, 2014, December 31, 2013 and January 1, 2013, 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 USD, with all other variables held constant. Non-monetary assets are comprised of equities. Monetary assets include cash, derivative assets, fixed income securities, and other current receivables and payables.

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

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

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

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

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

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

(b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at June 30, 2014, December 31, 2013 and January 1, 2013, the Fund had no significant direct exposure to debt instruments except for a \$20,000 investment in government bonds which produces no material interest rate risk.

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

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

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

(c) Price Risk

Other price risk 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), whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Fund invests in a Forward Agreement whose value is based on the performance of the Underlying Fund and is exposed to indirect other price risk.

As at June 30, 2014, if the Fund's relevant benchmark index, FTSE TMX Canada All Corporate Bond Index (formerly DEX Universe All Corporate Bond Index (PC-Bond)), had increased or decreased by 10%, with all other variables constant, the net assets attributable to holders of redeemable units of the Fund would have increased or decreased by approximately \$2,370,055 [December 31, 2013 - \$2,266,798; January 1, 2013 - \$1,294,885] representing 2.1% of net assets attributable to holders of redeemable units [December 31, 2013 - 2.0%; January 1, 2013 - 1.0%].

The Underlying Fund engages in short selling activities, wherein it borrows securities and sells them to third parties. Until the Underlying 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.

As at June 30, 2014, the Fund held 100.6% [December 31, 2013 - 100.7%; January 1, 2013 - 99.6%] of its net assets attributable to holders of redeemable shares in the Forward Agreement whose value is based on the performance of the Underlying Fund and is therefore exposed to the concentration risk of the Underlying Fund.

The following is a summary of the Underlying Fund's concentration risk:

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

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6. FAIR VALUE MEASUREMENT

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

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

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

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

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

As at June 30, 2014	Level 1	Level 2	Level 3	Total
Assets				
Forward Agreement	-	\$113,493,283	-	\$113,493,283
Fixed Income	-	20,000	-	20,000
Total	-	\$113,513,283	-	\$113,513,283

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Assets				
Forward Agreement	-	\$114,083,383	-	\$114,083,383
Fixed Income	-	20,002	-	20,002
Total	-	\$114,103,385	-	\$114,103,385

As at January 1, 2013	Level 1	Level 2	Level 3	Total
Assets				
Forward Agreement	-	\$130,360,424	-	\$130,360,424
Fixed Income	-	19,950	-	19,950
Total	-	\$130,380,374	-	\$130,380,374

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

a) Bonds

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

b) Derivative assets and liabilities

Derivative assets and liabilities consist of the Forward Agreement whose fair value is 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 has been classified as Level 2.

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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 June 30, 2014, December 31, 2013 and January 1, 2013:

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

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

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

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

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.

a) Bonds

The Underlying 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

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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 Underlying Fund's bonds have been classified as Level 2.

b) Derivative assets and liabilities

The Underlying Fund's 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.

Financial Instruments by Category

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

	Net realized gains /(losses)		Net unrealized gains /(losses)	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Financial assets at FVTPL:				
Designated as FVTPL	-	-	(\$2)	\$1
HFT	\$336,500	\$181,569	2,774,070	2,082,404
	\$336,500	\$181,569	\$2,774,068	\$2,082,405
Financial liabilities at FVTPL	-	-	-	-
Total:	\$336,500	\$181,569	\$2,774,068	\$2,082,405

7. REDEEMABLE UNITS

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

For the period ended June 30, 2014

	Redeemable units outstanding at beginning of period	Redeemable units issued	Redeemable units issued on reinvestments	Redeemable units redeemed	Redeemable units issued and outstanding at end of period
Units	10,302,185	-	-	-	10,302,185

For the period ended June 30, 2013

	Redeemable units outstanding at beginning of period	Redeemable units issued	Redeemable units issued on reinvestments	Redeemable units redeemed	Redeemable units issued and outstanding at end of period
Units	11,585,000	-	-	-	11,585,000

8. RELATED PARTY TRANSACTIONS

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

Management fees of 0.25% per annum are paid by the Fund to the Manager as compensation for investment management and advisory services. The Underlying Fund pays management fees to the Manager of 1.00% per annum of the Net Asset Value of the Underlying Fund. Management fees are calculated and paid as of the last Valuation Date of each month.

The Manager will pay each registered dealer a service fee (the "Service Fee") equal to 0.40% annually of the NAV per Unit for each Unit held by the clients of such registered dealer, plus any applicable taxes. The Manager will receive an amount

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For the six-month period ended June 30, 2014

equal to the Service Fee, plus any applicable taxes, from the Fund. This Service Fee is reflected in the calculation of the NAV of the Fund.

No Performance Fee will be charged by the Fund. The Manager is entitled to receive from the Underlying Fund an annual Performance Fee equal to 10% of the increase in the Net Asset Value of the Underlying Fund including distributions, subject to an annual hurdle rate of 5.30%.

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

As at June 30, 2014, included in other liabilities are amounts owing to the Manager relating to management fees of \$24,031 (excluding HST) [December 31, 2013 - \$24,147; January 1, 2013 - \$24,147]. 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 \$17,999 [December 31, 2013 - \$19,487; January 1, 2013 - \$19,487].

9. INCOME TAXES

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 period 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 statement of financial position as a deferred income tax asset. As at December 31, 2013, the Fund had \$3,607,331 of unused non-capital losses which expire no earlier than 2032.

10. 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 Statements of Comprehensive Income.

EAST COAST INVESTMENT GRADE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six-month period ended June 30, 2014

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 periods ended June 30, 2014 and June 30, 2013 is calculated as follows:

	June 30, 2014	June 30, 2013
Increase (decrease) in net assets attributable to holders of redeemable units	\$2,610,532	\$1,684,029
Weighted average units outstanding during the year	10,302,185	11,585,000
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$0.25	\$0.15

12. TRANSITION TO IFRS

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

Transition Elections

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

Revaluation of Investments at FVTPL

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, *Financial Instruments - Recognition and Measurement*, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, *Fair Value Measurement* (IFRS 13), which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. There was no change in the value of the Fund's investments as at December 31, 2013 and January 1, 2013 or for the six-month period ended June 30, 2014. Consequently, there were no differences between equity and comprehensive income reported previously under Canadian GAAP and IFRS.

Classification of redeemable units issued by the Fund

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 Fund's outstanding redeemable units are classified as financial liabilities in accordance with the requirements of International Accounting Standard 32 *Financial Instruments: Presentation*.

13. FUTURE ACCOUNTING CHANGES - IFRS 9, FINANCIAL INSTRUMENTS

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

August 25, 2014

The accompanying financial statements have been prepared by Arrow Capital Management Inc., the Manager of 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.

"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.

