



**UNAUDITED FINANCIAL STATEMENTS**

**JUNE 2021**

**ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND**

# TABLE OF CONTENTS

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Arrow EC Income Advantage Alternative Fund	2
General Notes to the Unaudited Financial Statements	22
Management's Responsibility for Financial Statements	37
Legal Notice	38

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## Statements of Financial Position (Unaudited) (in Canadian dollars)

As at	June 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current Assets</b>		
Financial assets at fair value (notes 2 and 3)		
Investments	481,634,104	366,232,274
Options purchased	24,077	57,033
Unrealized gain on futures and forward contracts	177,307	3,610
Unrealized gain on swaps and swaptions	190,700	102,194
Cash and cash equivalents	56,223,078	23,882,755
Margin deposits	9,377,321	17,307,397
Accrued investment income	3,094,706	2,253,866
Receivable for investments sold	44,906,677	2,973,408
Subscriptions receivable	1,073,270	1,756,707
	596,701,240	414,569,244
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Financial liabilities at fair value (notes 2 and 3)		
Investments sold short	160,045,963	236,091,812
Options written	112,309	92,593
Unrealized loss on futures and forward contracts	360,073	62,994
Unrealized loss on swaps and swaptions	679,498	917,136
Margin loans	95,588,294	35,982,269
Payable for investments purchased	53,450,125	3,131,726
Redemptions payable	826,976	3,060,447
Accrued Investment expense	831,784	746,307
Distributions payable	37,500	29,047
Accrued management fees	140,835	99,592
Accrued performance fees	394,162	542,670
Accrued expenses	223,100	149,786
	312,690,619	280,906,379
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<b>284,010,621</b>	<b>133,662,865</b>
<b>Net Assets Attributable to Holders of Redeemable Units (note 11)</b>		
Series A	7,813,363	2,410,130
Series AD	39,869,606	7,564,941
Series F	34,155,265	13,867,739
Series FD **	176,819,762	94,782,507
Series I	7,484	9,305,395
Series U	313,588	205,642
Series G	1,488,340	66,132
Series R	8,347,669	5,460,379
Series ETF	15,195,544	-

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

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## Statements of Financial Position (Unaudited)

(in Canadian dollars)

As at	June 30, 2021	December 31, 2020
<b>Net Assets Attributable to Holders of Redeemable Units per Unit (note 2)</b>		
Series A	10.95	10.79
Series AD	10.61	10.66
Series F	10.98	10.79
Series FD **	9.25	9.33
Series I	11.17	10.89
Series U* -- USD	10.55	10.60
Series G* -- USD	10.59	10.63
Series R	10.24	10.28
Series ETF	20.26	-
* USD/CAD Foreign Exchange Rate	0.8067	0.7856
** Units were re-designated as FD on June 26, 2020		

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.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## Statements of Comprehensive Income (Loss) (Unaudited)

(in Canadian dollars except per unit amounts)

For the Periods Ended June 30

2021

2020

### INCOME

#### Net Gains (Losses) on Investments and Derivatives

Interest for distribution purposes	4,790,828	5,749,531
Interest expense on derivatives	(220,679)	(180,578)
Interest expense on short sales	(1,175,119)	(1,976,342)
Dividend income	89,330	85,053
Net realized gain (loss) on non derivative investments	3,280,496	(3,140,721)
Net realized gain (loss) on derivative investments	309,527	2,033,753
Net change in unrealized appreciation (depreciation) in value of non derivative investments	(2,440,175)	(4,883,135)
Net change in unrealized appreciation (depreciation) in value of derivative investments	(123,381)	118,705
	4,510,827	(2,193,734)

#### Other Income

Net realized and unrealized foreign currency gain (loss)	(163,427)	(746,819)
Other income	283	1,493
	(163,144)	(745,326)
	4,347,683	(2,939,060)

### EXPENSES

Management fees (note 6)	705,973	701,105
Performance fees (note 6)	405,906	3
Unitholder reporting fees	206,953	122,886
Interest expense	116,863	222,019
Audit fees	15,930	16,592
Legal fees	10,409	7,267
Independent Review Committee fees (note 9)	3,286	3,286
Custodial fees	8,123	15,239
Security borrowing fees	267,986	499,762
Commissions and other portfolio transaction costs (note 8)	13,747	16,801
Harmonized sales tax	108,569	72,710
	1,863,745	1,677,670

#### Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units

2,483,938

(4,616,730)

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

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## Statements of Comprehensive Income (Loss) (Unaudited)

(in Canadian dollars except per unit amounts)

For the Periods Ended June 30

2021

2020

	2021	2020
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>		
Series A	45,335	1
Series AD	212,910	1
Series F	283,245	1
Series FD	1,710,069	(4,616,719)
Series I	115,719	2
Series U	(3,765)	(9)
Series G	10,325	(7)
Series R	107,377	-
Series ETF	2,723	-
<b>Weighted Average Number of Redeemable Units</b>		
Series A	303,266	100
Series AD	1,158,169	100
Series F	1,582,342	100
Series FD	10,969,115	12,939,949
Series I	217,423	100
Series U	23,461	100
Series G	9,351	100
Series R	638,526	-
Series ETF	730,000	-
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units Per Unit (note 2)</b>		
Series A	0.15	0.01
Series AD	0.18	0.01
Series F	0.18	0.01
Series FD	0.16	(0.36)
Series I	0.53	0.02
Series U	(0.16)	(0.09)
Series G	1.10	(0.07)
Series R	0.17	-
Series ETF	0.00	-

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

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (Unaudited)

(in Canadian dollars)

For the Periods Ended June 30

2021

2020

	2021	2020
<b>Net Assets Attributable to Holders of Redeemable Units - Beginning of Period</b>		
Series A	2,410,130	-
Series AD	7,564,941	-
Series F	13,867,739	-
Series FD	94,782,507	121,510,416
Series I	9,305,395	-
Series U	205,642	-
Series G	66,132	-
Series R	5,460,379	-
Series ETF	-	-
	<b>133,662,865</b>	<b>121,510,416</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>		
Series A	45,335	1
Series AD	212,910	1
Series F	283,245	1
Series FD	1,710,069	(4,616,719)
Series I	115,719	2
Series U	(3,765)	(9)
Series G	10,325	(7)
Series R	107,377	-
Series ETF	2,723	-
	<b>2,483,938</b>	<b>(4,616,730)</b>
<b>Distributions to Holders of Redeemable Units</b>		
From net investment income		
Series A	-	-
Series AD	(230,953)	-
Series F	-	-
Series FD	(2,566,762)	(2,614,633)
Series I	-	-
Series U	(6,015)	-
Series G	(1,681)	-
Series R	(131,059)	-
Series ETF	(37,500)	-
	<b>(2,973,970)</b>	<b>(2,614,633)</b>

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

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (Unaudited)

(in Canadian dollars)

For the Periods Ended June 30

2021

2020

	2021	2020
<b>Total Distributions to Holders of Redeemable Units</b>		
Series A	-	-
Series AD	(230,953)	-
Series F	-	-
Series FD	(2,566,762)	(2,614,633)
Series I	-	-
Series U	(6,015)	-
Series G	(1,681)	-
Series R	(131,059)	-
Series ETF	(37,500)	-
	<b>(2,973,970)</b>	<b>(2,614,633)</b>
<b>Redeemable Unit Transactions</b>		
Proceeds from redeemable units issued (note 11)		
Series A	6,727,831	1,000
Series AD	33,033,541	1,000
Series F	23,444,806	1,000
Series FD	92,752,428	-
Series I	6,347	1,000
Series U	115,635	1,367
Series G	1,413,414	1,367
Series R	4,071,909	-
Series ETF	15,230,321	-
	<b>176,796,232</b>	<b>6,734</b>
Reinvestments of distributions to holders of redeemable units		
Series A	-	-
Series AD	70,926	-
Series F	-	-
Series FD	790,270	-
Series I	-	-
Series U	2,091	-
Series G	150	-
Series R	24,164	-
Series ETF	-	-
	<b>887,601</b>	<b>-</b>
Redemption of redeemable units		
Series A	(1,369,933)	-
Series AD	(781,759)	-
Series F	(3,440,525)	-
Series FD	(10,648,750)	(7,308,756)
Series I	(9,419,977)	-
Series U	-	-
Series G	-	-
Series R	(1,185,101)	-
Series ETF	-	-
	<b>(26,846,045)</b>	<b>(7,308,756)</b>

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



# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (Unaudited)

(in Canadian dollars)

For the Periods Ended June 30

2021

2020

### Net Increase (Decrease) from Redeemable Units Transactions

Series A	5,357,898	1,000
Series AD	32,322,708	1,000
Series F	20,004,281	1,000
Series FD	82,893,948	(7,308,756)
Series I	(9,413,630)	1,000
Series U	117,726	1,367
Series G	1,413,564	1,367
Series R	2,910,972	-
Series ETF	15,230,321	-
	150,837,788	(7,302,022)

### Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units

Series A	5,403,233	1,001
Series AD	32,304,665	1,001
Series F	20,287,526	1,001
Series FD	82,037,255	(14,540,108)
Series I	(9,297,911)	1,002
Series U	107,946	1,358
Series G	1,422,208	1,360
Series R	2,887,290	-
Series ETF	15,195,544	-
	150,347,756	(14,533,385)

### Net Assets Attributable to Holders of Redeemable Units - End of Period

Series A	7,813,363	1,001
Series AD	39,869,606	1,001
Series F	34,155,265	1,001
Series FD	176,819,762	106,970,308
Series I	7,484	1,002
Series U	313,588	1,358
Series G	1,488,340	1,360
Series R	8,347,669	-
Series ETF	15,195,544	-
	284,010,621	106,977,031

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

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## Statements of Cash Flows (in Canadian dollars)

For the Periods Ended June 30

2021

2020

### Cash Flows From Operating Activities

Increase (decrease) in net assets attributable to holders of redeemable units	2,483,938	(4,616,730)
Adjustments to Reconcile Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units To Net Cash From (Used in) Operating Activities:		
Change in margin deposits	7,930,076	(5,372,055)
Change in margin loans	59,606,025	(511,698)
Change in classification of short term notes	18,685,859	(14,413,294)
Change in accrued investment income	(840,840)	298,648
Change in accrued investment expense	85,477	(85,590)
Change in other accrued expenses	(33,951)	(26,263)
Net realized (gain) loss on non derivative investments	(3,280,496)	3,140,721
Net realized (gain) loss on derivative investments	(309,527)	(2,033,753)
Net change in unrealized (appreciation) depreciation in value of non derivative investments	2,440,175	4,883,135
Net change in unrealized (appreciation) depreciation in value of derivative investments	123,381	(118,705)
Unrealized foreign exchange (gain) loss on cash and cash equivalents	139,912	(150,071)
Purchase of investments	(1,641,933,168)	(943,089,136)
Proceeds on sale of investments	1,549,230,728	960,178,231
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(5,672,411)</b>	<b>(1,916,560)</b>

### Cash Flows From Financing Activities

Proceeds from redeemable units issued (note 11)	65,181,803	-
Redemption of redeemable units	(24,951,241)	(7,308,756)
Distributions paid to holders of redeemable units, net of reinvested distributions	(2,077,916)	(3,137,560)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>38,152,646</b>	<b>(10,446,316)</b>

Unrealized foreign exchange gain (loss) on cash and cash equivalents	(139,912)	150,071
Cash and Cash Equivalents - Beginning of the Period	23,882,755	23,774,306
<b>Cash and Cash Equivalents - End of the Period</b>	<b>56,223,078</b>	<b>11,561,501</b>

### Supplemental Disclosure of Cash Flow

Interest received, net of withholding taxes from operating activities	3,950,255	6,049,672
Dividends received, net of withholding taxes from operating activities	89,326	85,053
Interest expense paid from operating activities	1,427,184	2,464,529

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

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

Schedule of Investment Portfolio (Unaudited) – As at June 30, 2021

## Equities - Long - 2.2%

Security Name	Currency	No. of Shares/Units	Average Cost (\$)	Fair Value (\$)
<b>Energy - 0.8%</b>				
Enbridge Inc., Preferred, Series 'B', Variable Rate, Perpetual	CAD	28,000	496,925	485,520
Enbridge Inc., Preferred, Series 'L', Variable Rate, Perpetual	USD	15,824	427,002	418,593
Pembina Pipeline Corp., Preferred, Class 'A', Series '23', Variable Rate, Perpetual	CAD	51,400	1,318,410	1,335,886
			2,242,337	2,239,999
<b>Financials - 1.4%</b>				
Bank of Montreal, Preferred, Class 'B', Series '25', Variable Rate, Perpetual	CAD	163,800	3,894,716	4,103,190
			3,894,716	4,103,190
			<b>6,137,053</b>	<b>6,343,189</b>

## Fixed Income - Long - 167.4%

Security Name	Maturity Date	Coupon Rate (%)	Currency	Par Value \$	Average Cost (\$)	Fair Value (\$)
<b>Corporate Bonds - 162.5%</b>						
AltaGas Ltd.	12/16/2022	2.61	CAD	4,270,000	4,384,755	4,374,090
AltaGas Ltd., Callable	6/12/2023	3.57	CAD	3,531,000	3,706,598	3,677,033
Bank of America Corp., Variable Rate, Callable	9/15/2027	1.98	CAD	4,310,000	4,309,828	4,306,311
Bank of Montreal, Variable Rate, Callable	10/5/2028	4.34	USD	8,318,000	11,253,637	11,077,718
Bell Canada, Callable	9/29/2027	3.60	CAD	9,920,000	10,735,548	10,731,967
Brookfield Asset Management Inc., Callable	3/8/2024	5.04	CAD	4,189,000	4,620,423	4,568,961
Brookfield Property Finance ULC	10/19/2021	4.12	CAD	6,378,000	6,491,859	6,428,639
Canadian Imperial Bank of Commerce, Variable Rate, Callable	4/4/2028	3.45	CAD	10,432,000	10,872,739	10,864,233
Canadian Natural Resources Ltd.	2/11/2022	3.31	CAD	10,086,000	10,323,387	10,241,170
Chartwell Retirement Residences, Callable	12/11/2023	3.79	CAD	1,935,000	2,027,656	2,020,161
Choice Properties L.P., Series '10', Callable	9/20/2022	3.60	CAD	728,000	743,065	747,786
CI Financial Corp., Callable	7/22/2024	3.22	CAD	13,141,000	13,614,939	13,707,094
CI Financial Corp., Callable	5/26/2025	3.76	CAD	3,460,000	3,694,157	3,688,958
Classic RMBS Trust, Class 'A', Series '19-1', Callable	8/16/2049	3.06	CAD	201,484	206,037	204,671
Coast Capital Savings Federal Credit Union, Floating Rate	12/9/2022	0.86	CAD	8,378,000	8,378,000	8,381,737
Cogeco Communications Inc., Callable	5/26/2023	4.18	CAD	16,965,000	17,902,366	17,796,165
Concentra Bank, Floating Rate	2/7/2022	0.90	CAD	8,589,000	8,589,000	8,608,394
Crombie REIT, Series 'D', Callable	11/21/2022	4.07	CAD	3,770,000	3,914,861	3,916,029
Enbridge Inc.	12/5/2022	3.19	CAD	65,000	67,969	67,087
Enbridge Inc., Callable	6/30/2023	3.94	CAD	1,959,000	2,085,427	2,055,166
Enbridge Inc., Callable	6/8/2027	3.20	CAD	1,969,000	2,102,579	2,078,529
Enbridge Inc., Series '10'	1/13/2023	3.94	CAD	1,624,000	1,723,973	1,697,735
Enbridge Inc., Variable Rate, Callable	9/27/2077	5.38	CAD	10,214,000	10,515,398	10,784,165
Equitable Bank	9/26/2022	2.95	CAD	4,582,000	4,654,397	4,690,229
Equitable Bank	9/21/2023	1.77	CAD	2,968,000	2,994,512	2,995,047
Equitable Bank	11/26/2025	1.88	CAD	1,960,000	1,960,161	1,938,835
Equitable Bank	3/10/2025	1.94	CAD	2,375,000	2,377,279	2,379,257
Fairfax Financial Holdings Ltd., Callable	12/16/2026	4.70	CAD	8,976,000	9,947,395	9,968,359
First National Financial Corp., Series '3', Callable	11/17/2025	2.96	CAD	4,646,000	4,646,000	4,737,384
Ford Credit Canada Co.	2/23/2022	2.71	CAD	6,287,000	6,329,577	6,329,939
Ford Credit Canada Co.	6/22/2022	2.77	CAD	1,578,000	1,544,681	1,593,024
Ford Credit Canada Co.	9/19/2022	3.35	CAD	1,191,000	1,179,908	1,210,602
Ford Credit Canada Co.	5/8/2023	3.74	CAD	654,000	645,939	673,457
Ford Credit Canada Co., Floating Rate	1/10/2022	3.47	CAD	11,273,000	11,412,810	11,329,647
Ford Credit Canada Co., Floating Rate	3/21/2024	3.58	CAD	702,000	644,085	723,469
GE Capital Canada Funding Co.	1/26/2022	4.60	CAD	982,000	1,025,159	1,004,104
Goldman Sachs Group Inc. (The), Floating Rate, Callable	4/29/2025	0.81	CAD	15,976,000	15,995,602	16,016,563
Goldman Sachs Group Inc. (The), Variable Rate, Callable	2/28/2029	2.01	CAD	5,314,000	5,243,693	5,239,700
Heathrow Funding Ltd., Class 'A-34'	5/21/2027	3.25	CAD	1,889,000	1,979,695	1,990,983
HSBC Holdings PLC	12/5/2023	3.20	CAD	859,000	913,632	900,243
Inter Pipeline Ltd., Callable	6/1/2027	4.23	CAD	1,778,000	1,943,930	1,951,288
Inter Pipeline Ltd., Callable	4/18/2024	2.73	CAD	3,569,000	3,707,380	3,687,595
Laurentian Bank of Canada	6/20/2022	2.55	CAD	2,770,000	2,798,315	2,821,016
Laurentian Bank of Canada, Floating Rate	12/13/2021	0.91	USD	9,983,000	12,649,487	12,407,103
Manulife Financial Corp., Variable Rate, Callable	5/9/2028	3.32	CAD	3,297,000	3,447,082	3,433,609
MCAP Commercial L.P.	8/25/2025	3.74	CAD	2,341,000	2,435,010	2,439,443
Metropolitan Life Global Funding I	3/20/2028	1.95	CAD	756,000	750,111	753,834

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

Schedule of Investment Portfolio (Unaudited) – As at June 30, 2021

Molson Coors International L.P., Callable	7/15/2023	2.84	CAD	15,622,000	15,857,580	16,107,579
Molson Coors International L.P., Callable	7/15/2026	3.44	CAD	3,524,000	3,717,325	3,729,298
Morgan Stanley, Floating Rate, Callable	2/3/2023	0.74	CAD	774,000	774,991	775,057
Morgan Stanley, Floating Rate, Callable	3/21/2025	0.77	CAD	10,048,000	10,054,729	10,060,218
Morguard Corp., Series 'E', Callable	1/25/2024	4.72	CAD	2,330,000	2,366,627	2,383,837
Morguard Corp., Series 'G'	9/28/2023	4.40	CAD	5,421,000	5,472,662	5,508,558
National Australia Bank Ltd., Variable Rate, Callable	6/12/2030	3.52	CAD	3,036,000	3,204,907	3,187,114
National Bank of Canada, Variable Rate, Callable	2/1/2028	3.18	CAD	20,346,000	21,166,990	21,015,686
National Bank of Canada, Variable Rate, Callable	8/15/2081	4.05	CAD	8,372,000	8,390,993	8,406,133
North West Redwater Partnership / NWR Financing Co. Ltd., Series 'C', Callable	2/23/2022	2.10	CAD	1,313,000	1,331,776	1,323,598
Pembina Pipeline Corp.	6/1/2023	2.56	CAD	1,525,000	1,570,709	1,565,689
Quebecor Media Inc., Callable	1/15/2023	5.75	USD	619,000	794,466	822,122
Quebecor Media Inc., Callable	1/15/2023	6.63	CAD	7,183,000	7,791,881	7,788,258
RioCan REIT, Series 'Y'	10/3/2022	2.83	CAD	761,000	776,045	778,336
Rogers Communications Inc., Callable	3/31/2027	3.65	CAD	11,710,000	12,728,484	12,576,051
Rogers Communications Inc., Callable	6/6/2022	4.00	CAD	4,465,000	4,599,263	4,596,644
Royal Bank of Canada, Variable Rate, Callable	11/24/2081	3.65	CAD	4,490,000	4,489,214	4,495,029
Sobeys Inc., Callable	8/8/2023	4.70	CAD	1,274,000	1,386,389	1,358,326
Sun Life Financial Inc., Variable Rate, Callable	11/23/2027	2.75	CAD	1,400,000	1,443,918	1,436,060
Sysco Canada Inc., Callable	4/25/2025	3.65	CAD	8,204,000	8,753,061	8,776,655
TD Capital Trust IV, Variable Rate, Callable	6/30/2108	10.00	CAD	5,237,000	5,805,844	5,414,136
TELUS Corp., Series 'CAC', Callable	1/27/2028	2.35	CAD	1,284,000	1,295,826	1,297,339
TransCanada PipeLines Ltd., Callable	4/5/2027	3.80	CAD	5,664,000	6,160,662	6,156,710
TransCanada PipeLines Ltd., Callable	10/15/2049	4.34	CAD	2,130,000	2,228,044	2,246,480
TransCanada Trust, Series '17-B', Variable Rate, Callable	5/18/2077	4.65	CAD	5,185,000	5,292,572	5,382,363
Ventas Canada Finance Ltd., Callable	2/1/2022	3.30	CAD	1,093,000	1,114,608	1,107,144
Ventas Canada Finance Ltd., Series 'F', Floating Rate	11/12/2021	0.97	CAD	2,026,000	2,026,140	2,025,700
Veresen Inc., Callable	11/10/2021	3.43	CAD	4,413,000	4,501,887	4,444,177
Wells Fargo & Co., Variable Rate, Callable	5/1/2026	2.57	CAD	11,789,000	12,219,739	12,202,004
Algonquin Power Co., Callable	2/15/2022	4.65	CAD	4,108,000	4,256,695	4,205,642
Artis REIT, Series 'D'	9/18/2023	3.82	CAD	1,075,000	1,082,338	1,102,204
Canadian Imperial Bank of Commerce, Floating Rate, Callable	6/10/2024	0.67	CAD	8,922,000	8,923,489	8,935,026
Central 1 Credit Union, Variable Rate, Callable	6/30/2031	2.39	CAD	3,514,000	3,514,000	3,523,235
Classic RMBS Trust, Class 'A', Series '21-1', Callable	11/15/2051	1.43	CAD	2,536,000	2,537,623	2,571,479
Cogeco Cable Inc., Callable	2/14/2022	4.93	CAD	1,686,000	1,752,320	1,728,406
Concentra Bank	5/17/2024	1.46	CAD	5,799,000	5,799,000	5,798,034
Dream Industrial REIT, Series 'B', Floating Rate	6/17/2024	0.79	CAD	1,933,000	1,933,000	1,904,815
Genworth MI Canada Inc., Callable	4/1/2024	4.24	CAD	858,000	922,829	916,550
H&R REIT, Series 'L'	5/6/2022	2.92	CAD	3,393,000	3,450,802	3,445,570
Industrial Alliance Insurance and Financial Services Inc., Variable Rate, Callable	2/23/2027	2.64	CAD	1,762,000	1,783,866	1,783,274
JPMorgan Chase & Co., Series 'KK', Variable Rate, Perpetual	12/31/2049	3.65	USD	474,000	583,384	589,127
Keyera Corp., Callable	5/29/2030	3.96	CAD	1,798,000	2,016,709	1,928,484
Morguard Corp., Series 'F', Callable	11/27/2024	4.20	CAD	1,911,000	1,911,529	1,922,773
North West Redwater Partnership / NWR Financing Co. Ltd., Series 'M', Callable	12/1/2026	2.00	CAD	8,103,000	8,087,766	8,117,715
Shaw Communications Inc., Callable	11/2/2023	3.80	CAD	2,945,000	3,137,568	3,111,360
Shaw Communications Inc., Callable	1/31/2024	4.35	CAD	562,000	601,893	601,324
Sienna Senior Living Inc., Series 'A', Callable	11/4/2024	3.11	CAD	3,594,000	3,627,769	3,721,579
Verizon Communications Inc., Callable	3/22/2028	2.38	CAD	634,000	643,694	642,124
Videotron Ltd., Callable	7/15/2022	5.00	USD	91,000	114,542	117,642
Videotron Ltd., Callable	1/15/2031	3.13	CAD	958,000	931,205	909,868
Videotron Ltd., Callable	1/15/2030	4.50	CAD	757,000	793,430	792,800
Videotron Ltd., Callable	1/15/2026	5.75	CAD	1,892,000	1,948,760	1,952,591
Videotron Ltd., Callable	6/15/2028	3.63	CAD	852,000	855,750	858,213
					462,017,334	461,384,665

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

Schedule of Investment Portfolio (Unaudited) – As at June 30, 2021

## Federal Bonds - 4.9%

Government of Canada	6/1/2037	5.00	CAD	76	116	112
Government of Canada	4/1/2024	0.25	CAD	1,728,000	1,716,474	1,709,466
Government of Canada	6/1/2031	1.50	CAD	1,180,000	1,182,596	1,186,781
Government of Canada	12/1/2030	0.50	CAD	5,063,000	4,654,915	4,668,213
United States Treasury Bond	5/15/2024	0.25	USD	7,000	8,423	8,631
United States Treasury Bond	2/15/2051	1.88	USD	1,396,000	1,624,541	1,653,691
United States Treasury Bond	6/30/2026	0.88	USD	1,822,000	2,246,617	2,258,639
United States Treasury Bond	5/31/2028	1.25	USD	11,000	13,368	13,682
United States Treasury Bond	5/15/2031	1.63	USD	1,910,000	2,321,737	2,407,035
					13,768,787	13,906,250

**475,786,121**      **475,290,915**

## Fixed Income - Short - (56.4%)

Security Name	Maturity Date	Coupon Rate (%)	Currency	Par Value \$	Average Cost (\$)	Fair Value (\$)
<b>Corporate Bonds - (4.8%)</b>						
Bank of Nova Scotia	12/16/2025	4.50	USD	(356,000)	(509,733)	(500,586)
Ford Motor Credit Co. LLC, Callable	11/1/2024	4.06	USD	(261,000)	(350,574)	(344,533)
Ford Motor Credit Co. LLC, Callable	6/17/2031	3.63	USD	(386,000)	(481,191)	(488,357)
Ford Motor Credit Co. LLC, Callable	11/13/2030	4.00	USD	(858,000)	(1,063,436)	(1,115,426)
Royal Bank of Canada	1/27/2026	4.65	USD	(367,000)	(563,908)	(521,837)
Royal Bank of Canada, Variable Rate, Callable	1/28/2033	1.67	CAD	(5,044,000)	(4,916,619)	(4,885,521)
Toronto-Dominion Bank (The), Variable Rate, Callable	3/4/2031	4.86	CAD	(1,833,000)	(2,133,329)	(2,079,055)
TransCanada PipeLines Ltd., Callable	3/15/2049	5.10	USD	(1,385,000)	(2,234,761)	(2,258,640)
Walt Disney Co. (The)	1/13/2031	2.65	USD	(1,070,000)	(1,424,954)	(1,395,096)
					(13,678,505)	(13,589,051)
<b>Federal Bonds - (49.4%)</b>						
Government of Canada	9/1/2022	1.00	CAD	(13,530,000)	(13,639,593)	(13,639,205)
Government of Canada	3/1/2023	1.75	CAD	(7,233,000)	(7,395,851)	(7,394,676)
Government of Canada	6/1/2023	1.50	CAD	(7,900,400)	(8,059,199)	(8,059,060)
Government of Canada	9/1/2023	2.00	CAD	(892,000)	(920,866)	(920,633)
Government of Canada	3/1/2024	2.25	CAD	(1,091,000)	(1,146,578)	(1,138,676)
Government of Canada	6/1/2024	2.50	CAD	(20,738,000)	(22,128,833)	(21,849,988)
Government of Canada	9/1/2024	1.50	CAD	(6,014,000)	(6,248,565)	(6,165,691)
Government of Canada	3/1/2025	1.25	CAD	(15,586,000)	(16,037,030)	(15,853,994)
Government of Canada	6/1/2025	2.25	CAD	(1,438,000)	(1,526,200)	(1,518,787)
Government of Canada	9/1/2025	0.50	CAD	(4,035,000)	(4,010,039)	(3,972,306)
Government of Canada	6/1/2026	1.50	CAD	(4,117,000)	(4,224,757)	(4,219,491)
Government of Canada	9/1/2026	1.00	CAD	(9,926,000)	(9,896,339)	(9,898,967)
Government of Canada	6/1/2027	1.00	CAD	(28,775,000)	(28,728,293)	(28,634,595)
Government of Canada	6/1/2028	2.00	CAD	(4,279,000)	(4,515,522)	(4,518,922)
Government of Canada	6/1/2029	2.25	CAD	(7,000)	(7,532)	(7,537)
Government of Canada	6/1/2030	1.25	CAD	(2,195,000)	(2,233,515)	(2,179,156)
Government of Canada	12/1/2051	2.00	CAD	(1,570,000)	(1,609,146)	(1,627,784)
Government of Canada	3/1/2026	0.25	CAD	(3,294,000)	(3,193,022)	(3,185,518)
United States Treasury Bond	10/15/2023	0.13	USD	(3,378,000)	(4,430,334)	(4,170,031)
United States Treasury Bond	5/31/2026	0.75	USD	(1,068,000)	(1,286,359)	(1,317,066)
					(141,237,573)	(140,272,083)
<b>Provincial Bonds - (2.2%)</b>						
Province of Ontario	6/2/2031	2.15	CAD	(1,268,000)	(1,278,816)	(1,280,778)
Province of Ontario	12/2/2030	1.35	CAD	(5,181,000)	(4,898,898)	(4,904,051)
					(6,177,714)	(6,184,829)
					<b>(161,093,792)</b>	<b>(160,045,963)</b>
Commissions					(829)	
<b>Total Investments - 113.2%</b>					<b>320,828,553</b>	<b>321,588,141</b>
<b>Derivatives (Refer to Schedule of Derivative Instruments) - (0.3%)</b>					<b>(369,853)</b>	<b>(759,796)</b>
<b>Cash and Other Net Assets (Liabilities) - (12.9%)</b>						<b>(36,817,724)</b>
<b>Net Assets Attributable to Holders of Redeemable Shares - 100.0%</b>						<b>284,010,621</b>

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

Schedule of Derivative Instruments (Unaudited) – As at June 30, 2021

## Options Bought - 0.0%

Security Name	Strike Price (\$)	Expiry Date	Currency	No. of Contracts	Average Cost (\$)	Fair Value (\$)
iShares iBoxx \$ High Yield Corporate Bond ETF Put Option	85.00	7/17/2021	USD	608	47,978	4,522
iShares iBoxx \$ High Yield Corporate Bond ETF Put Option	85.00	8/21/2021	USD	631	48,016	19,555
					95,994	24,077

## Options Written - (0.0%)

Security Name	Strike Price (\$)	Expiry Date	Currency	No. of Contracts	Average Cost (\$)	Fair Value (\$)
iShares iBoxx \$ High Yield Corporate Bond ETF Call Option	88.00	7/17/2021	USD	(608)	(18,449)	(8,290)
iShares iBoxx \$ High Yield Corporate Bond ETF Call Option	87.50	8/21/2021	USD	(1,220)	(50,823)	(91,604)
iShares iBoxx \$ High Yield Corporate Bond ETF Put Option	81.00	7/17/2021	USD	(608)	(17,725)	(2,638)
iShares iBoxx \$ High Yield Corporate Bond ETF Put Option	81.00	8/21/2021	USD	(631)	(17,530)	(9,777)
					(104,527)	(112,309)

## Futures Contracts - Long - (0.1%)

Security Name	Contract Size	Expiry Date	Currency	No. of Contracts	Notional Value (\$)	Unrealized Gain/(Loss) (\$)
<b>Bond Futures - 0.0%</b>						
US 10-Year Treasury Notes Futures	1,000	9/21/2021	USD	2	364,946	3,215
<b>Currency Futures - (0.1%)</b>						
CAD FX Currency Futures	1,000	9/14/2021	USD	237	23,684,963	(317,377)
						<b>(314,162)</b>

## Futures Contracts - Short - 0.0%

Security Name	Contract Size	Expiry Date	Currency	No. of Contracts	Notional Value (\$)	Unrealized Gain/(Loss) (\$)
<b>Bond Futures - 0.0%</b>						
Canada 10-Year Bond Futures	1,000	9/21/2021	CAD	(5)	(727,600)	(4,000)
Canada 5-Year Bond Futures	1,000	9/21/2021	CAD	(371)	(46,200,630)	(35,210)
US 2-Year Treasury Notes Futures	2,000	9/30/2021	USD	(30)	(8,193,272)	(3,486)
Canada 2-Year Bond Futures	1,000	9/21/2021	CAD	(951)	(104,063,175)	151,605
						108,909
						<b>108,909</b>

## Forward Currency Contracts - 0.0%

Counterparty	Purchased		Sold		Credit Rating	Contract Rate	Maturity Date	Unrealized Gain (\$)
	Currency	Notional Value (\$)	Currency	Notional Value (\$)				
BNY Mellon	USD	1,088	CAD	(1,338)	A1	0.813148	7/7/2021	11
BNY Mellon	USD	253,000	CAD	(304,796)	A1	0.830062	7/7/2021	8,823
BNY Mellon	USD	1,130,000	CAD	(1,389,663)	A1	0.813147	7/7/2021	11,087
BNY Mellon	USD	74,000	CAD	(89,164)	A1	0.829929	7/7/2021	2,566
<b>Unrealized Gains</b>								22,487
<b>Total Forward Currency Contracts</b>								<b>22,487</b>

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

Schedule of Derivative Instruments (Unaudited) – As at June 30, 2021

## Swaps - (0.2%)

Security Name		Currency	Notional Value (\$)	Average Cost (\$)	Fair Value (\$)
BP CDS, Canadian Natural Resources Ltd, P1%, 06/20/2025	Credit Default Swap	USD	2,811,000	(20,221)	(64,235)
BP CDS, Ford Motor Credit Company LLC, P 5%, 06/20/2022	Credit Default Swap	USD	696,000	(30,993)	(34,534)
BP CDS, Ford Motor Credit Company LLC, P 5%, 06/20/2022	Credit Default Swap	USD	515,000	(28,154)	(25,553)
BP CDS, Ford Motor Credit Company LLC, P 5%, 12/20/2022	Credit Default Swap	USD	533,000	(37,871)	(38,326)
BP CDS, Ford Motor Credit Company LLC, P 5%, 06/20/2023	Credit Default Swap	USD	545,000	(43,875)	(51,110)
BP CDS, Bank Of Montreal, R 1%, 12/20/2021	Credit Default Swap	USD	3,519,000	13,172	19,067
BP CDS, National Bank Of Canada, R 1%, 12/20/2021	Credit Default Swap	USD	1,760,000	5,485	8,670
BP CDS, Royal Bank Of Canada, R 1%, 12/20/2021	Credit Default Swap	USD	5,279,000	21,417	26,862
BP CDS, Canadian Natural Resources Ltd, P1%, 06/20/2025	Credit Default Swap	USD	1,035,000	16,744	23,651
BP CDS, The Bank Of Nova Scotia, R 1%, 06/20/2022	Credit Default Swap	USD	8,250,000	64,270	50,676
BP CDS, The Bank Of Nova Scotia, R 1%, 06/20/2022	Credit Default Swap	USD	10,000,000	77,239	61,425
BP CDS, Markit CDX.NA.IG.S33-5Y 100, 12/20/2024	Credit Default Swap	USD	275	(9)	(7)
BP CDS, Markit CDX.NA.HYS.S35-5Y 100, 06/20/2026	Credit Default Swap	USD	2,000,000	(240,928)	(253,850)
BP CDS, Markit CDX.NA.IG.S33-5Y 100, 06/20/2026	Credit Default Swap	USD	5,000,000	(157,596)	(157,931)
IRS R, CAD P0.205, 12/24/2021	Interest Rate Swap	CAD	30,000,000	-	349
IRS P, CDOR 3M R1.418, 02/24/2028	Interest Rate Swap	CAD	3,000,000	-	(37,016)
TRS, P CDO 1M, 07/05/2021	Total Return Swaps	CAD	2,970,093	-	(16,936)
				<b>(361,320)</b>	<b>(488,798)</b>
<b>Total Derivatives Instruments at Fair Value</b>				<b>\$ (369,853)</b>	<b>\$ (759,796)</b>

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## FUND SPECIFIC NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

### THE FUND (NOTE 1)

The investment objective of Arrow EC Income Advantage Alternative Fund, formerly the East Coast Investment Grade Income Fund (the "Fund") is to generate income and preserve capital by investing in a diversified portfolio of primarily North American investment grade corporate bonds. To achieve the investment objective, the Fund will invest primarily in investment grade debt securities of North American corporate and government issuers that are rated BBB- or higher by a recognized rating agency. The Fund may also include non-investment grade debt securities and may invest in other asset classes if warranted by financial conditions.

The Fund will invest primarily in debt securities denominated in Canadian dollars, U.S. dollars and Euros. The Fund may also invest in derivative contracts, which may include interest rate and currency swaps, total return swaps, futures, forwards, options, credit default swaps and other credit related derivative products.

The Fund may use warrants and derivatives such as options, forwards, futures and swaps for hedging and non-hedging purposes. Such derivatives may be used to hedge against losses from changes in the prices of the Fund's investments and from exposure to interest rate changes, credit spreads and foreign currencies as well as market risk. Specifically, the Fund will use interest rate swaps and futures to hedge against interest rate changes. Derivatives may also be used to hedge general credit risk and/or to obtain exposure to individual securities and markets instead of buying securities directly. If used for non-hedging purposes, the derivatives acquired will be consistent with the investment objectives of the Fund and securities law.

The Fund will use leverage. The leverage will be created through the use of cash borrowings, short sales and derivative contracts. The Fund's aggregate exposure is calculated as the sum of the following, and must not exceed 300% of its net asset value: (i) the aggregate market value of the Fund's outstanding indebtedness under any borrowing arrangements; (ii) the aggregate market value of all securities sold short; and (iii) the aggregate notional amount of the Fund's specified derivatives positions, minus the aggregate notional amount of the specified derivative positions that are hedging transactions.

### REDEEMABLE UNITS (Note 1)

During the periods ended June 30, 2021 and 2020, the number of units issued, redeemed and outstanding was as follows:

For the period ended June 30, 2021

	Redeemable units outstanding at beginning of period	Redeemable units issued	Redeemable units issued on reinvestment of distributions	Redeemable units redeemed	Redeemable units issued and outstanding at end of period
Series A	223,470	615,593	-	(125,628)	713,435
Series AD	709,665	3,115,621	6,666	(73,461)	3,758,491
Series F	1,285,153	2,140,560	-	(315,818)	3,109,895
Series FD	10,157,400	10,011,216	85,033	(1,143,989)	19,109,660
Series I	854,659	568	-	(854,557)	670
Series U	15,234	8,595	156	-	23,985
Series G	4,889	108,487	11	-	113,387
Series R	531,331	396,702	2,358	(115,372)	815,019
Series ETF	-	750,000	-	-	750,000

For the period ended June 30, 2020

	Redeemable units outstanding at beginning of period	Redeemable units issued	Redeemable units issued on reinvestment of distributions	Redeemable units redeemed	Redeemable units issued and outstanding at end of period
Series A	-	100	-	-	100
Series AD	-	100	-	-	100
Series F	-	100	-	-	100
Series FD**	13,073,167	-	-	(865,915)	12,207,252
Series I	-	100	-	-	100
Series U	-	100	-	-	100
Series G	-	100	-	-	100
Series R	-	100	-	-	100
Series ETF	-	-	-	-	-

\*\* Units were re-designated as FD on June 26, 2020



# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## FUND SPECIFIC NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

### OFFSETTING OF FINANCIAL INSTRUMENTS (Note 2)

The following tables show the net impact on the Fund's Statements of Financial Position as at June 30, 2021 and December 31, 2020 if all rights to offset were exercised.

As at June 30, 2021	Gross amounts \$	Financial instruments eligible for offset \$	Net amounts presented in the Statement of Financial Position \$	Related amounts not offset in the Statement of Financial Position		Net amount \$
				Financial instruments \$	Collateral \$	
<b>Financial assets:</b>						
Bank of America	155,169	-	155,169	(155,169)	-	-
Goldman Sachs	23,651	-	23,651	(23,651)	-	-
BNY Mellon	22,487	-	22,487	-	-	22,487
Credit Suisse	166,700	-	166,700	(38,326)	-	128,374
TD Securities	24,077	-	24,077	(24,077)	-	-
Scotia Capital	-	-	-	-	-	-
	392,084	-	392,084	(241,223)	-	150,861
<b>Financial liabilities:</b>						
Bank of America	(808,877)	-	(808,877)	155,169	653,708	-
Goldman Sachs	(175,432)	-	(175,432)	23,651	151,781	-
BNY Mellon	-	-	-	-	-	-
Credit Suisse	(38,326)	-	(38,326)	38,326	-	-
TD Securities	(112,309)	-	(112,309)	24,077	88,232	-
Scotia Capital	(16,936)	-	(16,936)	-	16,936	-
	(1,151,880)	-	(1,151,880)	241,223	910,657	-

As at December 31, 2020	Gross amounts \$	Financial instruments eligible for offset \$	Net amounts presented in the Statement of Financial Position \$	Related amounts not offset in the Statement of Financial Position		Net amount \$
				Financial instruments \$	Collateral \$	
<b>Financial assets:</b>						
Bank of America	3,610	-	3,610	(3,610)	-	-
Goldman Sachs	57,033	-	57,033	(57,033)	-	-
BNY Mellon	-	-	-	-	-	-
Credit Suisse	102,194	-	102,194	(44,489)	-	57,705
	162,837	-	162,837	(105,132)	-	57,705
<b>Financial liabilities:</b>						
Bank of America	(677,373)	-	(677,373)	3,610	673,763	-
Goldman Sachs	(349,013)	-	(349,013)	57,033	291,980	-
BNY Mellon	(1,848)	-	(1,848)	-	1,848	-
Credit Suisse	(44,489)	-	(44,489)	44,489	-	-
	(1,072,723)	-	(1,072,723)	105,132	967,591	-

### SECURITIES LENDING TRANSACTIONS (Note 2)

The Fund has entered into a securities lending program which is administered by Bank of New York Mellon, in its capacity as Lending Agent. The table below summarizes the aggregate securities on loan and the collateral received by the Fund as at June 30, 2021 and December 31, 2020 and the income earned for the periods ended June 30, 2021 and 2020.

As at	June 30, 2021 \$	December 31, 2020 \$
Market value of securities on loan	-	-
Market value of collateral received	-	-

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## FUND SPECIFIC NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

For the periods ended	June 30, 2021	June 30, 2020
	\$	\$
Gross securities lending income	-	-
Withholding taxes	-	-
Amount earned by lending agent	-	-
Securities lending income net*	-	-

\* net of withholding tax

### FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Note 4)

A general discussion of financial risk management for the Fund appears as Note 4: Financial Instruments – Risk Management.

#### Credit Risk

The Fund was invested in fixed income securities, preferred securities and derivative instruments, if applicable, with the following credit ratings, as per the tables below as at June 30, 2021 and December 31, 2020.

Credit Rating*	Percentage of Total Long Debt Securities	
	June 30, 2021	December 31, 2020
	%	%
AAA	3.5	0.8
AA	0.2	2.5
A	19.3	31.1
BBB	67.8	58.2
Below BBB	9.2	7.4
Total	100.0	100.0

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

#### Liquidity Risk

From time to time, the Fund may use margin borrowings in one or more of its brokerage or cash accounts. Below is a summary of the minimum and maximum net margin borrowing used during the periods ended June 30, 2021 and December 31, 2020.

	June 30, 2021	December 31, 2020
	\$	\$
Minimum borrowing	30,844,756	2,086,728
Maximum borrowing	186,703,552	44,662,291

#### Leverage Risk

The Fund may use leverage. Below is a summary of the lowest and highest aggregate amount of leverage exercised by the Fund during the periods ended June 30, 2021 and December 31, 2020.

	June 30, 2021		December 31, 2020	
	\$	% of net assets	\$	% of net assets
Lowest aggregate leverage	176,587,765	109.0	236,060,873	203.0
Highest aggregate leverage	307,184,960	123.0	303,545,991	247.0

#### Market Risk

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

Below is a summary of the Fund's direct exposure to currency risk as at June 30, 2021 and December 31, 2020 in Canadian dollar terms. Amounts shown are based on the carrying value of monetary and non-monetary assets and liabilities of the Fund net of currency contracts and short positions, as applicable.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## FUND SPECIFIC NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

The table 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 each of the other currencies, with all other variables held constant. In practice, the actual results may differ from this analysis and the difference may be material.

June 30, 2021						
Currency	Financial Instruments			% of net assets attributable to holders of redeemable units	Impact on net assets attributable to holders of redeemable units	
	Currency exposure, net of shorts	Currency contracts *	Net currency exposure			
	\$	\$	\$	%		\$
Euro Currency	(9)	-	(9)	(0.0)		(1)
United States Dollar	23,505,418	1,807,448	25,312,866	8.9		2,531,287
<b>Total</b>	<b>23,505,409</b>	<b>1,807,448</b>	<b>25,312,857</b>	<b>8.9</b>		<b>2,531,286</b>

December 31, 2020						
Currency	Financial Instruments			% of net assets attributable to holders of redeemable units	Impact on net assets attributable to holders of redeemable units	
	Currency exposure, net of shorts	Currency contracts *	Net currency exposure			
	\$	\$	\$	%		\$
United States Dollar	15,794,695	118,061	15,912,756	11.9		1,591,276
<b>Total</b>	<b>15,794,695</b>	<b>118,061</b>	<b>15,912,756</b>	<b>11.9</b>		<b>1,591,276</b>

\* As described in Note 1, the Fund hedges against changes in the U.S. dollar relative to the Canadian dollar for the Series U and G units through the use of forward contracts. The realized and unrealized gains and losses from such currency hedges are allocated only to Series U and G units. At June 30, 2021 and December 31, 2020, the Fund utilized the above forward contracts to cover substantially all of the net asset value related to these U.S. dollars denominated series of units at June 30, 2021 and December 31, 2020.

### (b) Interest Rate Risk

The table below is a summary of the Fund's direct exposure to interest rate risk as at June 30, 2021 and December 31, 2020, by the remaining term to maturity of the Fund's portfolio, net of short positions, if applicable, excluding underlying funds, preferred shares, cash and overdrafts. The table also illustrates the potential impact to the Fund's net assets attributable to holders of redeemable units, had interest rates increased or decreased by 1% with all other variables remaining constant. In practice, the actual results may differ from this analysis and the difference may be material.

Term to Maturity	Long Exposure		Short Exposure	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Less than 1 year	\$ 137,324,880	\$ 77,160,726	\$ (2,994,000)	\$ (8,952,568)
1-3 years	125,475,406	122,606,347	(169,428,716)	(122,328,254)
3-5 years	83,543,354	67,214,956	(37,599,809)	(69,866,346)
Greater than 5 years	182,997,184	91,235,026	(115,202,115)	(40,998,416)
<b>Total</b>	<b>\$ 529,340,824</b>	<b>\$ 358,217,055</b>	<b>\$ (325,224,640)</b>	<b>\$ (242,145,584)</b>
Sensitivity:				
Total \$ sensitivity	+/- \$ 22,674,894	+/- \$ 14,328,327	+/- \$ (3,264,287)	+/- \$ (6,924,782)
% of net assets attributable to holders of redeemable units	8.0%	10.7%	-1.2%	-5.2%

### (c) Other Price Risk

The table below is a summary of the Fund's direct exposure to other price risk from equity securities, underlying funds and equity-based derivatives, as applicable. As at June 30, 2021 and December 31, 2020, if the Fund's relevant benchmark index, FTSE TMX Canada Universe Bond Index, had increased or decreased by 5% with all other variables constant the net assets attributable to holders of redeemable units of the Fund would have increased or decreased by:

Impact on Net Assets Attributable to Holders of Redeemable Units		
	June 30, 2021	December 31, 2020
	\$	\$
5% Increase	4,544,170	2,405,932
5% Decrease	(4,544,170)	(2,405,932)

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## FUND SPECIFIC NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

In practice, actual results may differ from this analysis and the difference may be material.

### Concentration Risk

The following is a summary of the Fund's concentration risk by market segment, as a percentage of net assets attributable to holders of redeemable units as at June 30, 2021 and December 31, 2020:

Market Segment	June 30, 2021		December 31, 2020	
	Long (%)	Short (%)	Long (%)	Short (%)
Equities	2.2	-	6.0	-
Corporate Bonds	162.5	(4.8)	267.5	(8.4)
Federal Bonds	4.9	(49.4)	0.6	(165.7)
Provincial Bonds	-	(2.2)	-	(2.6)
Derivatives	(0.2)	(0.1)	-	(0.7)
	169.4	(56.5)	274.1	(177.4)

### FAIR VALUE HIERARCHY (NOTE 5)

Below is a summary of the classification of the Fund's financial instruments within the fair value hierarchy for the periods ended June 30, 2021 and December 31, 2020:

June 30, 2021	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial assets</b>				
Equities	6,343,189	-	-	6,343,189
Fixed income	-	475,290,915	-	475,290,915
Derivatives	178,897	213,187	-	392,084
	<b>6,522,086</b>	<b>475,504,102</b>	-	<b>482,026,188</b>
<b>Financial liabilities</b>				
Fixed income sold short	-	(160,045,963)	-	(160,045,963)
Derivatives	(472,382)	(679,498)	-	(1,151,880)
	<b>(472,382)</b>	<b>(160,725,461)</b>	-	<b>(161,197,843)</b>
<b>Total</b>	<b>6,049,704</b>	<b>314,778,641</b>	-	<b>320,828,345</b>

December 31, 2020	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial assets</b>				
Equities	8,015,219	-	-	8,015,219
Fixed income	-	358,217,055	-	358,217,055
Derivatives	60,643	102,194	-	162,837
	<b>8,075,862</b>	<b>358,319,249</b>	-	<b>366,395,111</b>
<b>Financial liabilities</b>				
Fixed income sold short	-	(236,091,812)	-	(236,091,812)
Derivatives	(153,739)	(918,984)	-	(1,072,723)
	<b>(153,739)</b>	<b>(237,010,796)</b>	-	<b>(237,164,535)</b>
<b>Total</b>	<b>7,922,123</b>	<b>121,308,453</b>	-	<b>129,230,576</b>

### Transfer of assets between Level 1 and Level 2

Financial assets and liabilities transferred from Level 1 to Level 2 are the result of securities no longer being traded in an active market.

For the periods ended June 30, 2021 and December 31, 2020, there were no transfers of financial assets or liabilities from Level 1 to Level 2.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## FUND SPECIFIC NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

### Reconciliation of level 3 Financial Instruments.

Below is a summary of the movement in the Fund's Level 3 financial instruments for the periods ended June 30, 2021 and December 31, 2020.

	Equities	
	June 30, 2021	December 31, 2020
	\$	\$
<b>Beginning of Period</b>	-	-
Transfers out of Level 3	-	-
Net realized gains (losses)	-	-
Net changes in unrealized gains (losses)	-	-
<b>End of Period</b>	-	-

During the periods ended June 30, 2021 and December 31, 2020, there were no transfers from Level 3 to Level 2.

### MANAGEMENT FEES (Note 6)

The management fee rates are calculated as a % of the net asset value of the Fund as follows:

Series	% of Net Asset Value
A	1.45%
AD	1.45%
F	0.95%
FD**	0.95%
I	Negotiable
U	1.45%
G	0.95%
R	Negotiable
ETF	0.95%

\*\* Units were re-designated as FD on June 26, 2020. Previous, to June 26, 2020 the management fee rate was 1.25%

### RELATED PARTY TRANSACTIONS (Note 7)

The Manager of the Fund is Arrow Capital Management Inc. (the "Manager" or "Arrow"). As at June 30, 2021 and December 31, 2020 the Fund made investments in the following other funds managed by Arrow:

As at June 30, 2021			
Fund Invested In	Fair Value (\$)	% of net assets attributable to holders of redeemable units	
n/a	n/a	n/a	n/a

As at December 31, 2020			
Fund Invested In	Fair Value (\$)	% of net assets attributable to holders of redeemable units	
n/a	n/a	n/a	n/a

As at June 30, 2021 and December 31, 2020, the number of units owned by the Manager or Directors of the Manager for the Fund is as follows:

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## FUND SPECIFIC NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

As at June 30, 2021	Number of units	Amount (\$)	% of net assets attributable to holders of redeemable units
Series A	101	1,103	0.00%
Series AD	104	1,104	0.00%
Series F	194	2,134	0.00%
Series FD	5,267	48,738	0.02%
Series I	670	7,484	0.00%
Series U	207	2,711	0.00%
Series G	104	1,366	0.00%
Series R	103	1,052	0.00%
Series ETF	-	-	0.00%

As at December 31, 2020	Number of units	Amount (\$)	% of net assets attributable to holders of redeemable units
Series A	101	1,089	0.00%
Series AD	102	1,087	0.00%
Series F	101	1,090	0.00%
Series FD	5,133	47,898	0.04%
Series I	102	1,111	0.00%
Series U	102	1,377	0.00%
Series G	102	1,084	0.00%
Series R	101	1,038	0.00%
Series ETF	-	-	-

### COMMISSIONS (Note 2 and 8)

Total commissions paid to dealers and soft dollars for the periods ended June 30, 2021 and 2020 in connection with portfolio transactions are as follows:

	June 30, 2021	June 30, 2020
	\$	\$
Commissions	13,747	16,801
Soft Dollar *	-	-

\* A portion of brokerage commissions paid was used to cover research and market data services, termed soft dollar commissions. This amount has been estimated by the Manager of the Fund.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

### 1. THE FUND

Arrow EC Income Advantage Alternative Fund (the "Fund") was established as a closed-end investment trust under the laws of the Province of Ontario pursuant to a trust indenture dated April 26, 2012, as amended and restated from time to time. The Fund completed its initial public offering and commenced operations on May 18, 2012.

On June 12, 2020 the Unitholders of the Fund approved the conversion of the Fund from an exchange-traded investment trust trading under the symbol ECF.UN to an open-end alternative mutual fund (the "Conversion"). On June 26, 2020 (the "Conversion Date") the Conversion was completed and the Fund was de-listed from the Toronto Stock Exchange. Also in connection with the Conversion, the Fund changed its name to Arrow EC Income Advantage Alternative Fund (formerly East Coast Investment Grade Income Fund) and changed its investment objective and investment strategies. Following the Conversion, the Fund is permitted to have an unlimited number of series of units and may issue an unlimited number of units of each series. Each series of the Fund is intended for different investors. On the Conversion Date, the units of the Fund were re-designated as Series FD units on a one for one basis. Existing unitholders were permitted to redeem Series FD units or switch out of the Fund to a different mutual fund or series managed by Arrow without penalty or cost.

On June 25, 2021, the Fund established and listed Series ETF units on the Toronto Stock Exchange (the "TSX") under the symbol RATE.

The Fund is an alternative mutual fund as established by National Instrument 81-102 - Investment Funds ("NI 81-102"), meaning it is permitted to use strategies generally prohibited by conventional mutual funds, such as the ability to invest more than 10% of its net asset value in securities of a single issuer, the ability to borrow cash, to short sell beyond the limits prescribed for conventional mutual funds and to generally employ leverage. As a result of exemptive relief obtained by the Fund to utilize market-neutral strategies (the "Market-Neutral Strategy Relief"), the Fund may engage in short selling transactions with an aggregate market value of up to 100% of its net asset value (subject to a combined limit on short selling and cash borrowing of 100% of its net asset value), except where the Fund may utilize enhanced short selling strategies (the "Enhanced Short Selling Relief") that permit the Fund to short sell up to 300% of its NAV in government securities. The Fund has also obtained custodian relief to permit the Fund to have more than one custodian (the "Custodian Relief").

The number of issued and outstanding securities of each series is disclosed in the Statements of Financial Position and Changes in Net Assets Attributable to Redeemable Units. A description of each series of units offered by the Fund as of these financial statements is provided below.

Series	Inception Date	Description
Series A	June 26, 2020	Series A units are available to all investors on a front-end sales charge basis.
Series AD	June 26, 2020	Series AD units have the same characteristics as Series A, except that Series AD units intend to pay a fixed distribution amount per unit.
Series U	June 26, 2020	Series U units have the same characteristics as Series AD, except that Series U units are offered for purchase in U.S. dollars only. The Fund hedges against changes in the U.S. currency relative to the Canadian currency in respect of Series U units and in doing so attempts to eliminate the fluctuations between the Canadian and U.S. currencies.
Series F	June 26, 2020	Series F units are generally only available to investors who participate in a dealer sponsored fee-for-service or wrap program with their registered dealer and who are subject to an annual advisory or asset-based fee rather than commissions on each transaction. The Manager is able to reduce the management fee rate on Series F units because of lower costs and because investors who purchase Series F units will usually have entered into a separate agreement to pay account fees to their registered dealer for their individual investment programs.
Series FD	April 26, 2012	Series FD units have the same characteristics as Series F, except that Series FD units intend to pay a fixed distribution amount per unit.
Series G	June 26, 2020	Series G units have the same characteristics as Series FD, except that Series G units are offered for purchase in U.S. dollars only. The Fund hedges against changes in the U.S. currency relative to the Canadian currency in respect of Series G units and in doing so attempts to eliminate the fluctuations between the Canadian and U.S. currencies.
Series I	June 26, 2020	Series I are generally only available for certain institutional investors who make large investments in the Fund. The management fees for Series I units are paid directly by Series I unitholders and not the Fund.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

Series R	October 23, 2020	Series R are generally only available for certain eligible investors. The management fees for Series R units are negotiable.
Series ETF	June 25, 2021	Series ETF units will be issued and sold on a continuous basis and there is no maximum number of Series ETF units that may be issued. Series ETF units of the Fund can be bought in Canadian dollars only. Series ETF units are listed on the TSX under the ticker symbol RATE.

The Manager of the Fund is Arrow Capital Management Inc. (the "Manager"). East Coast Asset Management SEZC ("ECAM") is the sub-advisor for the Fund.

The Fund may offer an unlimited number of series of units and may issue an unlimited number of units of each series. Each series of the Fund is intended for different investors. In the future, the offering of any series of units of the Fund may be terminated or additional series of units may be offered.

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

The Statements of Financial Position for the Fund are as at June 30, 2021 and December 31, 2020, and the Statements of Comprehensive Income (Loss), Changes in Net Assets Attributable to Holders of Redeemable Units and Cash Flows are for the six month periods ended June 30, 2021 and 2020. In a period, a series is established or reinstated, 'period' represents the period from inception or reinstatement. Refer to the table above for the inception date of each series. The Schedule of Investment Portfolio for the Fund is as at June 30, 2021. Throughout this document, reference to the period or periods refers to the reporting period described above.

These financial statements were approved and authorized for issue by management on August 20, 2021.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### 2.1 Basis of Accounting

These unaudited interim financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These financial statements were prepared using the same accounting policies, critical accounting judgements and estimates as applied in the Fund's most recent audited annual financial statements for the year ended December 31, 2020 and should be read in conjunction with those annual financial statements. These financial statements are presented in Canadian dollars, which is the Fund's functional and presentation currency. These financial statements have been prepared on a going concern basis using the historical cost convention, except for financial assets and financial liabilities that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in its process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3: Significant Accounting Estimates and Judgments.

### 2.2 Financial Instruments

Financial instruments include financial assets and liabilities such as fixed income securities, equity securities, investment funds, exchange-traded funds and derivatives.

#### *Classification*

The Fund classifies and measures its financial instruments in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"). Investment classification is based on both the Fund's business model for managing those investments and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of investments is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess its assets' performance and to make decisions. The contractual cash flows of the Fund's debt securities are generally principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model objective. All investments, including derivatives, are measured at Fair Value Through Profit or Loss ("FVTPL").



# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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The Fund may sell securities short, in which a borrowed security is sold in anticipation of a decline in the market value of that security. Short sales are held for trading and are consequently classified as financial liabilities at FVTPL. Derivatives include warrants, swaps, options, futures and forward currency contracts. Derivative contracts that have a negative fair value are classified as FVTPL.

The Fund's redeemable unit entitlements include a contractual obligation to distribute any net income and net realized capital gains at least annually in cash (at the request of the unitholder) and therefore meet the contractual obligation requirement under IAS 32, *Financial Instruments: Presentation* to be classified as financial liabilities in these financial statements. The Fund's obligation for net assets attributable to holders of redeemable units are presented at the redemption amount, which approximates its fair value.

All other financial assets and liabilities are measured at amortized cost, which approximates fair value. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the effective rate of interest.

Financial assets and liabilities are offset and the net amounts are presented in the Statements of Financial Position when, and only when, the Fund has a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously. In the normal course of business, the Fund enters into various master netting agreements or similar agreements that may not meet the criteria for offsetting in the Statements of Financial Position, but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or termination of contracts. See Note 2.4 Offsetting of Financial Instruments for more details on offsetting done by the Fund, if applicable.

### *Recognition and Measurement*

Regular purchases and sales of investments are recognized in the Statements of Financial Position on the trade date – the date on which the Fund commits to purchase or sell the investment. Transaction costs are expensed as incurred in the Statements of Comprehensive Income (Loss) in 'Commissions and other portfolio transaction costs'. Financial assets and liabilities are measured at fair market value as presented below. Financial assets are derecognized when the right to receive cash flows from the instrument has expired or the Fund has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation is discharged, cancelled and expires. Financial instruments at FVTPL are subsequently measured at FVTPL with changes in fair value recognized in the Statements of Comprehensive Income (Loss) in 'Net change in unrealized appreciation (depreciation) in value of derivative instruments'.

### **2.3 Fair Value Measurements of Financial Instruments**

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. Fair value of financial assets and liabilities traded in active markets (such as publically traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and liabilities 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. Unlisted securities are valued based on price quotations from recognized investment dealers, or failing that, their fair value is determined by the Manager on the basis of the latest reported information available. Unlisted warrants, if any, are valued using recognized methods such as the Black-Scholes option valuation model. The model factors in the time value of money and the volatility inputs significant to such valuation. Fixed income securities, debentures, and other debt instruments are valued at the quotation received from independent security pricing services or recognized investment dealers using mid-market pricing. Short-term debt instruments are carried at amortized cost, which approximates fair value. Commodities, if any, held by the Fund are valued based on the quoted price provided by an independent pricing source. Restricted securities purchased by the Fund are fair valued in a manner that the Manager determines to represent their fair value.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. These valuation models may be based, in part, on assumptions that are not supported by observable inputs such as market conditions existing at each reporting date. Valuation techniques include, but are not limited to, the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same and other techniques commonly used by market participants which make the maximum use of observable inputs. These values are independently assessed by the Manager to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for these securities may be materially different from the values that would have been used had a ready market for the investment existed. The fair values of securities where no market price exists are affected by the perceived credit risks of the issuer, predictability of cash flows and the length of time to maturity.

IFRS 13, *Fair value measurement*, requires the use and disclosure of a fair value hierarchy that categories into three levels the inputs to valuation techniques used to measure fair value of financial instruments.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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Changes in valuation methodology may result in transfers in and out of a level. The Fund's policy is to recognize these transfers as of the date of the event or circumstance giving rise to the transfer. The three level fair value hierarchy, transfers between levels and a reconciliation of level 3 financial instruments, as applicable are disclosed in the Fund Specific Notes to the Financial Statements.

The Manager is responsible for performing the fair value measurements included in the financial statements of the Fund, including level 3 measurements. The Manager obtains pricing from a third party pricing vendor, which is monitored and reviewed daily. At each financial reporting date, the Manager reviews and approves all level 3 fair value measurements. The manager also has a Valuation Committee which includes members of the finance, investment and compliance teams. The committee meets quarterly to perform detailed reviews of the valuations of investments held by the Fund.

### **2.4 Income Recognition**

Gains and losses arising from changes in fair value of non-derivative financial assets are shown in the Statements of Comprehensive Income (Loss) as 'Net change in unrealized appreciation (depreciation) in value of non-derivative investments' and as 'Net realized gain (loss) on non-derivative investments' when the positions are sold. Gains and losses are calculated using average cost, excluding commission and other transaction costs. Average cost does not include amortization of premiums or discounts on fixed income securities.

Gains and losses arising from changes in fair value of securities sold short, are shown in the Statements of Comprehensive Income (Loss) as 'Net change in unrealized appreciation (depreciation) in value of non-derivative investments' and as 'Net realized gain (loss) on non-derivative investments' when positions are closed out and are calculated with reference to the average proceeds of the related securities, where applicable.

Gains and losses arising from changes in fair value of derivatives are recognized in the Statements of Comprehensive Income (Loss) as 'Net change in unrealized appreciation (depreciation) in value of derivative investments' and as 'Net realized gain (loss) on derivative investments' when positions are closed out or have expired, where applicable.

Interest for distribution purposes is recognized on the Statements of Comprehensive Income (Loss) and represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds which are amortized on a straight-line basis.

Dividend income and dividend expense on short sales are recognized on the Statements of Comprehensive Income (Loss) on the ex-dividend date.

#### *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. Option contracts are valued at the last traded price taken from the exchange. Option contracts are valued each valuation day according to the gain or loss that would be realized if the contracts were closed out. All unrealized gains (losses) arising from option contracts are recorded as part of 'Net change in unrealized appreciation (depreciation) in value of derivative investments' in the Statements of Comprehensive Income (Loss) until the contracts are closed out or expire, at which time the gains (losses) are realized and reflected in the Statements of Comprehensive Income (Loss) within 'Net realized gain (loss) on derivative investments'.

#### *Forward Currency Contracts*

The Fund may enter into forward currency contracts for purposes of minimizing currency exposure or to establish an exposure to a particular currency. Foreign currency forward contracts are valued on each valuation day based on the difference between the contract rate and the current forward rate at the close of the measurement date, applied to the contract's notional amount and adjusted for counterparty risk. All unrealized gains (losses) arising from foreign currency forward contracts are recorded as part of 'Net change in unrealized appreciation (depreciation) in value of derivative investments' in the Statements of Comprehensive Income (Loss) and 'Unrealized gain (loss) on futures and foreign currency forward contracts' in the Statements of Financial Position until the contracts are closed out or expire, at which time the gains (losses) are realized and reported in 'Net realized gain (loss) on derivative investments' in the Statements of Comprehensive Income (Loss).

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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### *Futures Contracts*

The Fund may purchase or sell exchange traded futures contracts. Futures contracts are contractual obligations to buy or sell derivative instruments or commodities on a future date at a specified price established in an organized market. Futures contracts are valued on each valuation day using the closing price posted on the relevant public exchange. Cash and cash equivalents are held as margin against futures contracts which are reflected in the Statements of Financial Position in 'Margin deposits'. All unrealized gains (losses) arising from futures contracts are recorded as part of 'Net change in unrealized appreciation (depreciation) in value of derivative investments' in the Statements of Comprehensive Income (Loss) and 'Unrealized gain (loss) on futures and forward currency contracts' in the Statement of Financial Position. When futures contracts are closed out or expire the gain or loss is realized and reported as 'Net realized gain (loss) on derivative investments' in the Statements of Comprehensive Income (Loss).

### *Credit Default Swaps*

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 in 'Unrealized gain (loss) on swaps and swaptions'. Credit default swaps 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' in the Statements of Comprehensive Income (Loss). Premiums paid or received from credit default swap agreements are included in 'Interest expense on derivatives'. When credit default swap agreements expire or are closed out, gains or losses are included in 'Net realized gain (loss) on investments and derivatives' in the Statements of Comprehensive Income (Loss).

### *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 fair value of interest rate swaps is determined using indicative closing market values obtained from third-party broker-dealers. The broker-dealers determine the fair value using valuation methods that are based on assumptions that are supported by observable market inputs, including the interest rates for that day. Any income received or expense incurred is recorded as 'Interest expense on derivatives' in the Statements of Comprehensive Income (Loss). The unrealized gain or loss on interest rate swaps is reflected in the Statements of Comprehensive Income (Loss) as 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives'. When the interest rate swaps are closed out, any gains (losses) are recorded as Net realized gain (loss) on investments and derivatives' in the Statements of Comprehensive Income (Loss).

### *Total Return Swaps*

A total return swap is an agreement between the Fund and a counterparty where single or multiple cash flows are exchanged based on the price of an underlying reference asset and based on a fixed or variable rate. Over the term of the contract, the Fund will pay to the counterparty a periodic stream of payment based on fixed or variable rate. Such periodic payments paid are accrued daily and are included in the Statements of Comprehensive Income in 'Interest expense'. At the maturity date, a net cash flow is exchanged where the total return is equivalent to the return of the underlying reference asset less a rate, if any. As a receiver, the Fund would receive payments based on any net positive total return and would owe payments in the event of a net negative total return.

The unrealized gain or loss on total return swaps is reflected in the Statements of Comprehensive Income as part of 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives'. When the total return swaps are closed out, any gains or (losses) are recorded in 'Net realized gain (loss) on investments and derivatives' in the Statements of Comprehensive Income (Loss).

### *Short Selling*

When the Fund sells a security short, it will borrow that security from a broker to complete the sale. As the Fund borrows a security from the broker, the Fund is required to maintain a margin account with the broker containing cash or liquid securities. The cash held on margin in respect of short sale activity, if any, is included in 'Margin deposits' in the Statements of Financial Position. The maximum loss on securities sold short can be unlimited. The Fund will

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

---

incur a loss as a result of a short sale if the price of the borrowed security increases between the date of the short sale and the date on which the Fund closed out its short position by buying that security. The Fund will realize a gain if the security declines in price between these dates. The gain or loss that would be realized if the position was to be closed out on the valuation date is reflected in the Statements of Comprehensive Income (Loss) as part of 'Net change in unrealized appreciation (depreciation) in value of-derivative investments' and in the Statements of Financial Position in "Unrealized gain (loss) on futures contracts - short". When the short position is closed out, gains and losses are realized and included in 'Net realized gain (loss) on derivative investments' in the Statements of Comprehensive Income (Loss).

### *Offsetting of Financial Instruments*

The disclosures set out in the Offsetting of Financial Instruments tables in the Fund Specific Notes to the Financial Statements, where applicable, include foreign currency forward contracts and assets and liabilities that are subject to an enforceable master netting agreement. Transactions with individual Counterparties are governed by separate master netting agreements. Each agreement allows for net settlement of certain open contracts where the Fund and their respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. However, each party to the master netting agreement will have the option to settle all open contracts on a net basis in the event of default of the other party.

International Swaps and Derivatives Association Inc. Master Agreements ("ISDA Master Agreements") govern OTC financial derivative transactions entered into by the Fund and select counterparties. The ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default and termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements.

The Fund may be subject to various master agreements or netting arrangements with select counterparties. These master agreements reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Since different types of transactions have different mechanics and are sometimes traded out of different legal entities of a particular counterparty organization, each type of transaction may be covered by a different master agreement resulting in the need for multiple agreements with a single counterparty. As the master agreements are specific to unique operations of different asset types, they allow the Fund to close out and net their total exposure to a counterparty in the event of a default with respect to the transactions governed under a single agreement with a counterparty.

## **2.5 Cash and Cash Equivalents**

Cash and cash equivalents are reported at amortized cost which closely approximates their fair value due to their nature of being highly liquid and having short terms to maturity. Bank overdraft positions are presented under current liabilities as 'Bank overdraft' in the Statements of Financial Position, as applicable.

## **2.6 Margin Deposits**

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

## **2.7 Margin Loans**

Margin loans represent cash amounts borrowed under a margin agreement with the Fund's prime broker. 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. Amounts owing are payable upon demand (if applicable), and are shown in the Statements of Financial Position as 'Margin loans'.

## **2.8 Foreign Exchange Translation**

Foreign currency amounts denominated in foreign currencies are converted into the functional currency as follows: fair values of investments, foreign currency contracts and other assets and liabilities at the closing rate of exchange prevailing on each business day; income and expenses, purchases and sales and settlements of investments at the rates of exchange applicable on the respective dates of such transactions. Foreign exchange gains (losses) relating to cash are presented as 'Net realized and unrealized foreign currency gain (loss)' and those relating to other financial assets and liabilities are presented within 'Net realized gain (loss) on non-derivative investments', 'Net realized gain (loss) on derivative investments', 'Net change in unrealized appreciation (depreciation) in value of non-derivative investments' and 'Net change in unrealized appreciation (depreciation) in value of derivative investments' in the Statements of Comprehensive Income (Loss).

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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### 2.9 Net Asset Value

Net asset value (“NAV”) per unit of each series of the Fund is calculated at the end of each day on which the Toronto Stock Exchange is open for business by dividing the total NAV for each series of the Fund by the number of units of that series outstanding. For a general description of the rights and obligations related to units of the Fund see Note 1.

The NAV of each series is computed by calculating the value of that series’ proportionate share of the Fund’s assets less that series’ proportionate share of the Fund’s common liabilities and less series specific liabilities. Expenses directly attributable to a series are charged to that series. Other income, expenses, gains and losses, are allocated to each series of the Fund proportionately based upon the relative total NAV of each series.

As at June 30, 2021 and December 31, 2020, there were no differences between the NAV used for transactions with unitholders as calculated under Part 14 of National Instrument 81-106 Investment Funds for Continuous Disclosure and the net assets attributable to holder redeemable units used for reporting purposes under IFRS.

### 2.10 Series ETF Units and Unit Transactions

The Manager, on behalf of the Series ETF, has entered into a designated broker agreement with one or more designated brokers pursuant to which the designated broker has agreed to perform certain duties relating to the Series ETF including, without limitation: (i) to subscribe for a sufficient number of units to satisfy the TSX’s original listing requirements; (ii) to subscribe for units on an ongoing basis in connection with any rebalancing event, as applicable, and when cash redemptions of units occur; and (iii) to post a liquid two-way market for the trading of units on the TSX. In accordance with the designated broker agreement, Arrow may from time to time require the designated broker to subscribe for units of the Series ETF for cash.

The number of units issued for subscription orders (the “Prescribed Number of Units”) is determined by Arrow. On any trading day, a designated broker may place a subscription or redemption order for an integral multiple of the Prescribed Number of Units of Series ETF based on the NAV per unit determined on the applicable trading day. A trading day is each day on which the TSX is open for business.

Generally, all orders to purchase Series ETF units must be placed by a designated broker or a dealer. The Fund reserves the right to reject any subscription order placed by a designated broker or dealer in connection with the issuance of Series ETF units. No fees will be payable Series ETF to a designated broker or a dealer in connection with the issuance of units. On the issuance of units, an amount may be charged to a designated broker or a dealer to offset the expenses incurred in issuing units.

For each Prescribed number of Series ETF units issued, a dealer must deliver payment consisting of (1) cash in an amount equal to the aggregate net asset value per unit of the Prescribed Number of Series ETF units next determined following the receipt of the subscription order; (ii) a group of securities or assets representing the constituents of, and their weightings in, the Fund (“Basket of Securities”) or a combination of a Basket of Securities and cash, as determined by us, in an amount sufficient so that the value of the securities and cash received is equal to the aggregate net asset value per unit of the Prescribed Number of ETF Series Units next determined following the receipt of the subscription order; or (iii) securities other than Baskets of Securities or a combination of securities other than Baskets of Securities and cash, as determined by us, in an amount sufficient so that the value of the securities and cash received is equal to the aggregate NAV per unit of the Prescribed Number of Units next determined following the receipt of the subscription order.

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

Increase (decrease) in net assets attributable to holders of redeemable units per units disclosed in the Statements of Comprehensive Income (Loss) is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units from operations of each series of the Fund by the weighted average number of units outstanding in that series during the period.

### 2.12 Commissions and Other Portfolio Costs

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities, are included in ‘Commissions and other portfolio transaction costs’ in the Statements of Comprehensive Income (Loss).

### 2.13 Securities Lending, Repurchase and Reverse Repurchase Agreements

The Fund is permitted to enter into securities lending, repurchase and reverse repurchase transactions. These transactions involve the temporary exchange of securities for collateral with a commitment to redeliver the same securities at a future date. The loaned assets of each Fund are not permitted to exceed 50% of the aggregate net asset value of the Fund.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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The value of cash or securities collateral held as collateral must be at least 102% of the fair value of the securities loaned, sold or repurchased. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income earned from these transactions is included in the Statements of Comprehensive Income (Loss) in 'Securities lending income' when earned. Income earned from these transactions is included in the Statements of Comprehensive Income (Loss) in 'Securities lending income' when earned. Additional disclosures are in the Fund Specific Notes.

### 2.14 Withholding Tax

The Fund may, from time to time, incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown separately in the Statements of Comprehensive Income (Loss).

### 2.15 Harmonized Sales Tax

Certain provinces including Ontario, Prince Edward Island, Nova Scotia, New Brunswick and Newfoundland and Labrador (each a Participating Tax Jurisdiction) have harmonized their provincial sales tax ("PST") with the federal goods and services tax ("GST"). The Harmonized Sales Tax ("HST") combines the federal GST rate of 5% with the PST rate of the participating province. The province of Quebec also applies the Quebec sales tax ("QST") of 9.975%. The Provincial HST liability or refund is calculated using the residency of unitholders and the value of their interest in the Fund as at specific times, rather than the physical location of the Fund. The effective sales tax rate charged to each series of the Fund is based on the unitholders' proportionate investments by province, using each province's HST rate, GST rate in the case of non-participating provinces and/or QST rate. All amounts are presented as 'Harmonized sales tax' in the Statements of Comprehensive Income (Loss).

### 2.16 Due from and to Brokers

Amounts due from and to brokers represent receivables for investments sold and payables for investments purchased that have been contracted for but not yet settled or delivered on the Statements of Financial Position date, respectively. The due from brokers balance is held for collection. These amounts are recognized initially at fair value and subsequently measured at amortized cost. Amounts due from brokers are presented in "Receivable for investments sold" and amounts due to brokers are presented in "Payable for investments purchased" in the Statements of Financial Position.

### 2.17 Comparative Disclosure

Certain comparative figures in the Statements of Financial Position, Statements of Comprehensive Income (Loss) and risk tables in the Fund Specific Notes to the Financial Statements have been restated to conform to current period presentation.

### 2.18 Mergers

The Fund applies the acquisition method of accounting for Fund mergers. Under this method, one of the Funds in each merger is identified as the acquiring Fund, and is referred to as the Continuing Fund, and the other Funds involved in the merger are referred to as the Terminating Funds. This identification is based on the comparison of the relative net asset values of the Funds as well as consideration of the continuation of such aspects of the Continuing Fund as: investment advisors; investment objectives and practices; type of portfolio securities; and management fees and expenses. Fund mergers are detailed in Note 11.

## 3. SIGNIFICANT 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.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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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: Financial Instruments – Fair Value Measurement 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 in order to determine the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Fund's business model, the manner in which all financial instruments are managed and performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate measurement and presentation of the Fund's financial statements.

#### *Assessment as Investment Entity*

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. The Fund meets the definition of investment entity as it obtains funds from one or more investors for the purpose of providing those investors with professional investment management services and commit to their investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both. The Fund measures and evaluates the performance of substantially all of its investments on a fair value basis.

## 4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Fund is exposed to a variety of financial instruments risks: credit risk, liquidity risk, leverage and short selling risk, market risk (including currency risk, interest rate risk and other price risk), concentration risk and capital risk management. The level of risk to which the Fund is exposed to depends on the investment objective and the type of investments the Fund holds. The value of investments within a portfolio can fluctuate daily as a result of changes in prevailing interest rates, economic and market conditions and company specific news related to investments held by the Fund. The Manager of the Fund may minimize potential adverse effects of these risks on the Fund's performance by, but not limited to, regular monitoring of the Fund's positions and market events, diversification of the investment portfolio by asset type, country, sector, term to maturity within the constraints of the stated objectives, and through the usage of derivatives to hedge certain risk exposures.

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument, such as fixed income securities, preferred shares and derivatives, will fail to discharge an obligation or commitment that it has entered into with the Fund. The fair value as presented in the Schedule of Investments and Statement of Financial Position includes consideration of the creditworthiness of the issuer, and accordingly represents the maximum credit risk exposure to the Fund.

A summary of the Fund's exposure to interest rate risk by the remaining term to maturity of the Fund's portfolio, excluding, preferred shares, cash and overdrafts, as applicable is presented in the Fund Specific Notes to the Financial Statements.

The Fund may also be exposed to credit risk to the extent that the Fund's custodian may not be able to settle trades for cash. All transactions in listed securities and derivatives are settled or paid upon delivery using approved brokers with an approved credit rating. The risk of default with the counterparty is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is only made on a purchase once the securities have been received by the broker.

Canadian securities regulations require that the Funds employ a custodian that meets certain capital requirements. These regulations state that, among other things, a fund's custodian be either a bank listed in Schedule I, II, or III of the Bank Act (Canada), or a company incorporated in Canada affiliated with a bank with shareholders' equity of not less than \$10,000,000. CIBC Mellon Trust Company, which is the custodian for the Fund, meets all of the Canadian Securities Administrators' requirements to act as the custodian.

The Manager has appointed prime brokers, including CIBC World Markets Inc., Scotia Capital Inc., Bank of Montreal and TD Securities Inc. for the Fund. The Fund's brokerage agreements require cash collateral to be maintained in respect of swaps and futures transactions entered into. The counterparties for the Fund's swaps are Bank of America., Goldman Sachs & Co LLC. and Credit Suisse International. The prime broker to the Fund's futures contracts is Bank of America. Cash collateral has been provided to the counterparties in accordance with terms of derivative transaction agreements and is presented as 'Margin deposits' in the Statements of Financial Position.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

---

The prime broker accounts may provide less segregation of the Funds' assets than would be the case with a more conventional custody arrangement. As a result, the Fund's assets could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time if the prime broker experiences financial difficulty. In such case, the Fund may experience losses due to insufficient assets at the prime broker to satisfy the claims of its creditors and adverse market movements while its positions cannot be traded.

The Fund may enter into securities lending transactions with counterparties and it may also be exposed to credit risk from the counterparties to the derivative instruments it may use. Credit risk associated with these transactions is considered minimal as all counterparties have approved credit rating and the market value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned as at the end of each trading day.

### **Liquidity Risk**

Liquidity risk arises when a Fund encounters difficulty in meeting its financial obligations as they come due. The Fund is exposed to liquidity risk due to potential weekly cash redemptions of redeemable securities. Generally, the Fund retains sufficient cash and cash equivalent positions to maintain adequate liquidity. However, liquidity risk also involves the ability to sell an asset for cash easily and at a fair price. Some securities may be illiquid due to legal restrictions on their resale, the nature of the investment, or simply a lack of interested buyers for a particular security or security type. Certain securities may become less liquid due to changes in market conditions, such as interest rate changes or market volatility, which could impair the ability of a Fund to sell such securities quickly or at a fair price. Difficulty in selling securities could result in a loss or a lower return for a Fund.

### **Leverage and Short Selling Risk**

When the Fund makes investments in derivatives, borrows cash for investment purposes, or uses physical short sales on equities or other portfolio assets, leverage may be introduced into the Fund. Leverage occurs when the Fund's notional exposure to underlying assets is greater than the amount invested. It is an investment technique that magnifies gains and losses. Consequently, any adverse change in the value or level of the underlying asset, rate or index may amplify losses compared to those that would have been incurred if the underlying asset had been directly held by the Fund and may result in losses greater than the amount invested in the derivative itself. Leverage may increase volatility, may impair the Fund's liquidity and may cause the Fund to liquidate positions at unfavorable times.

The Fund exercises leverage through participating in short selling transactions, which expose the Fund to short selling risk.

Short selling risk is the risk of loss related to short selling transactions. There is no assurance that securities will decline in value during the year of the short sale and make a profit for the Funds and securities sold short may instead appreciate in value, resulting in a loss to the Funds. The Funds may experience difficulties repurchasing and returning the borrowed securities if a liquid market for the securities does not exist. The lender may also recall the borrowed securities at any time. The lender may go bankrupt and the Funds may lose the collateral they have deposited with the lender. The Funds mitigate such risk by depositing collateral only with regulated financial institutions or dealers.

The Fund may borrow cash up to a maximum of 50% of the Fund's net asset value and may sell securities short, whereby the aggregate market value of securities sold short will be limited to 100% of each Fund's net asset value, except the Fund is permitted to short sell up to 300% of its NAV in "government securities". The combined use of short selling and cash borrowing by each of the Fund is subject to an overall limit of 100% of each Fund's net asset value, except where the Fund is permitted to short sell up to 300% of its NAV in "government securities".

The Fund is required to provide the derivative counterparty or clearing corporation with an initial cash margin/collateral on the transaction. On each valuation date, the value of the derivative instrument is compared to the cash margin/collateral balance. Should the derivative arrangement move against it, the Fund will be required to provide additional cash variation margin/collateral. The Fund is required to have sufficient liquid assets to satisfy such calls. In the event it fails to do so, the counterparty may have a right to terminate such derivatives arrangements.

To minimize the risk to the Fund the Manager has implemented a series of controls when engaging in these short sale transactions. Further, the Funds will not deposit collateral with a dealer in Canada unless the dealer is a member of IIROC and a dealer outside of Canada unless the dealer (a) is a member of a stock exchange that requires the dealer to be subjected to a regulatory audit; and (b) has a net worth in excess of \$50 million.

### **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 conditions. Several factors can influence market trends, such as economic developments, changes in interest rates, political changes and catastrophic events. All investments are exposed to this risk. Market risk can be further sub-divided into 3 categories: currency risk, interest rate risk and price risk.



# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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### a) **Currency Risk**

The Fund may invest in monetary and non-monetary assets and liabilities denominated in currencies other than their functional currency. Currency risk is the risk that the value of foreign instruments will fluctuate due to changes in the foreign exchange rates of those currencies in relation to the Fund's functional currency. The Fund may enter into currency forward contracts, currency futures contracts and/or foreign currency option contracts for hedging purposes to reduce their foreign currency risk exposure.

The Currency Risk Tables included in the Fund Specific Notes to the Financial Statements indicate currencies to which the Fund has significant exposure in Canadian dollar terms, including the underlying principal amount of any derivative instruments, if applicable. Other financial assets and liabilities (including accrued interest and dividends receivable, and receivables/payables for investments sold/purchased) that are denominated in foreign currencies do not expose the Fund to significant currency risk.

### b) **Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or the fair values of interest-bearing financial instruments. The Fund's exposure to interest rate risk is concentrated in its investments in debt instruments (such as bonds and debentures) and interest rate sensitive derivative instruments. Prices of fixed income securities generally increase when interest rates decline and decrease when interest rates rise. Prices of longer-term fixed income securities will generally fluctuate more in response to interest rate changes than would shorter-term securities. Due to the nature of short-term fixed income securities with a remaining term-to-maturity of less than one year, these investments are not generally exposed to a significant risk that their value will fluctuate in response to changes in the prevailing levels of market interest rates. Cash and cash equivalents do not expose the Fund to significant amounts of interest rate risk.

A summary of the Fund's exposure to interest rate risk by the remaining term to maturity of the Fund's portfolio, excluding, preferred shares, cash and overdrafts, as applicable is presented in the Fund Specific Notes to the Financial Statements.

### c) **Other Price Risk**

Other price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or a market segment.

The Fund's most significant exposure to price risk arises from its investment in equity securities, underlying funds, options on equities, exchange-traded funds/notes and mutual funds and derivatives, as applicable. All investments present a risk of loss of capital. This risk is managed through a careful selection of investments and other financial instruments within the parameters of the investment strategies. The maximum risk resulting from these financial instruments is equivalent to their fair value, except for certain derivative contracts such as forwards, swaps, and futures contracts which is equal to their notional values. For written call (put) options, short sales and short futures contracts, as applicable, the possible losses can be unlimited.

The impact as of an increase or decrease of 5% in the Funds' relevant benchmark index, is presented in the Fund Specific Notes to the Financial Statements.

### **Concentration Risk**

Concentration risk arises as a result of the concentration of financial instruments within the same category, geographical location, asset type or industry sector, as applicable.

A summary of the Fund's concentration risk by carrying value as a percentage of net assets is presented in the Fund Specific Notes to the Financial Statements.

### **Capital Risk Management**

Units issued and outstanding are considered to be the capital of the Fund. The Fund does not have any specific capital requirements on the subscription and redemption of units, 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 3rd business day immediately following a Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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Prior to the conversion of the Fund, unitholders were entitled to annual and monthly redemptions of redeemable units. For annual redemptions, the redeeming unitholder received payment in respect of any units surrendered for redemption before the 15<sup>th</sup> business day of the month following the Annual Redemption Date while monthly redemptions were payable on demand at the holder's option or before the last business day of the following month.

### 5. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT

IFRS 13, *Fair Value Measurement*, requires the use and disclosure of a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value of financial instruments. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets and the lowest priority to unobservable inputs. The three level hierarchy based on inputs levels are defined as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Fair value is based on inputs other than unadjusted quoted prices included in level 1 that are observable for the assets or liabilities, either directly or indirectly; and

Level 3: Fair value is based on at least one significant non-observable input that is not supported by market data for the financial assets or liabilities.

Changes in valuation methodology may result in transfers in and out of a level. The Fund's policy is to recognize these transfers as of the date of the event or circumstance giving rise to the transfer. 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 three-level fair value hierarchy, transfers between levels and a reconciliation of level 3 financial instruments, as applicable are disclosed in the Fund Specific Notes to the Financial Statements.

### 6. MANAGEMENT FEES AND OTHER EXPENSES

#### Management Fees

The Manager is paid a management fee for managing the investment portfolio, providing investment analysis and recommendations, making investment decisions, making brokerage arrangements relating to the purchase and sale of the investment portfolio and making arrangements with registered dealers for the purchase and sale of securities of the Fund by investors. The management fee is calculated on each series of the Fund as a fixed annual percentage of the daily net asset value of the series and accrued each day the Net Asset Value of the Fund is calculated. The management fees are subject to HST (and any other applicable taxes). The Management fee is payable monthly.

The management fee rates are calculated as a % of the net asset value of the Fund and are disclosed in the Fund Specific Notes to the Financial Statements.

#### Performance Fees

The Fund will pay the Manager an annual performance fee (the "Performance Fee") on all series, except Series I, equal to 15% of the amount by which the Adjusted Net Asset Value per Unit at the end of the fiscal year exceeds the highest year end Adjusted Net Asset Value per Unit previously achieved. Prior to the Conversion Date the performance fee was calculated at a rate equal to 10%. For these purposes, "Adjusted Net Asset Value per Unit" of any series of units of the Fund means the Net Asset Value per Unit of that series at the end of a fiscal year without giving effect to the accrual of any performance fee, plus the aggregate amount of all distributions previously declared on a per unit basis in respect of such series of units.

Prior to the Conversion Date no Performance Fee was payable with respect to any fiscal year of the Fund unless the Adjusted Net Asset Value per Unit at the end of such fiscal year exceeded the Net Asset Value per Unit at the end of the preceding year (or on the date the units were first issued), plus the aggregate amount of all distributions previously declared on a per unit basis, by a minimum of 4% ("Hurdle Rate").

The Performance Fee for the Fund is calculated and accrued each day the Net Asset Value of the Fund is calculated and is subject to HST (and any other applicable taxes), but is only payable at the end of the fiscal year of the Fund based on the actual annual performance of the Fund. The Performance Fee is paid within 15 business days thereafter. If any units of the Fund are redeemed prior to the end of a fiscal year, an Interim Performance Fee (the "Interim Performance Fee") will be payable on the redemption date in respect of each such unit in the same manner as described above. This interim performance fee is paid by the fund quarterly.

For any partial fiscal year, including with respect to the Interim Performance Fee and the current transition year, the Hurdle Rate will be pro-rated.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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The Fund will not pay duplicate management, performance and administration fees on the portion of assets that are invested in units/shares of any Arrow underlying funds invested in by the Fund. During the year, the Fund may have received a management and/or administration fee rebate from the underlying fund Manager.

The Fund Sub-Advisor will be remunerated by the Manager out of the Management Fee and the Performance Fee.

### **Operation and Administration Fees**

The Fund pay for all expenses incurred in connection with its operation and administration, including applicable GST, HST and any applicable provincial sales tax. All expenses relating to the operation of the Fund will be charged to that particular series. Operating expenses include, but are not limited to, legal, audit, transfer agent, custodian, administration and trustee services, cost of financial reporting and Simplified Prospectus printing, regulatory filing fees, valuation services and other miscellaneous expenses specifically attributable to the Fund and any applicable taxes. The Manager may provide any of these services and is reimbursed all of its costs in providing these services to the Fund which may include but are not limited to personnel costs, office space, insurance and depreciation. The common expense will be allocated among the Fund and other investment funds managed by Arrow, as applicable.

The Fund will bear separately any expense item that can be attributed specifically to the Fund. Other fund costs include taxes (including, but not limited to GST/HST and income tax), interest and borrowing costs, commission costs, all fees and expenses of the Fund's Independent Review Committee (IRC), costs of complying with the regulatory requirement to produce Fund Facts, fees paid to external service providers associated with tax reclaims, refunds or the preparation of foreign tax reports on behalf of the Fund, new fees related to external services that were not commonly charged in the Canadian mutual fund industry and introduced after the date of the most recently filed simplified prospectus, and the costs of complying with any new regulatory requirements, including, without limitation, any new fees introduced after the date of the most recently filed simplified prospectus.

At the discretion of the Manager, certain fees may be absorbed by the Manager. The Manager waived operating expenses as noted in the Statements of Comprehensive Income (Loss), where applicable.

### **7. RELATED PARTY TRANSACTIONS**

The Manager earns management fees for acting as trustee and manager of the Fund and a fixed administration fee in return for paying certain operating expenses of the Fund as detailed in note 6 Management Fees and Other Expenses. The Manager may also be entitled to earn an annual performance fee based on the performance of the Fund as detailed in note 6. The management fees and performance fees, as applicable, are disclosed in separate lines in the Statements of Comprehensive Income (Loss).

#### **Related Party Unit Holdings**

The Fund may invest in units or shares of other funds managed by Arrow. A table of investments made by the Fund in other funds managed by Arrow is disclosed in the Fund Specific Notes to the Financial Statements and the Schedule of Investment Portfolio, if applicable. The Fund received approval from the Independent Review Committee for all such purchases.

Distributions received from related party funds are included in "Interest for distribution purposes", "Dividend income" or "Net realized gain (loss) on non-derivative investments".

The Manager of the Fund may, from time to time, make initial investments in certain series of the Fund to help establish a series of a Fund. The Manager or Directors of the Manager may also make investments in the Fund ("Related Parties"). The number of units owned by Related Parties are disclosed in the Fund Specific Notes to the Financial Statements.

#### **Inter-fund Trading**

Inter-fund trading occurs when a Fund purchases or sells a security of any issuer from or to another Fund managed by the Manager. These transactions are executed through market intermediaries and under prevailing market terms and conditions. During the periods ended June 30, 2021 and December 31, 2020, the Fund did not execute any inter-fund trades.

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

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### 8. BROKERAGE COMMISSIONS

Commissions and other portfolio transaction costs are costs incurred to acquire, issue or dispose of financial assets or liabilities. They include fees and commissions paid to agents, advisers, brokers and dealers. Commissions may be paid to brokerage firms which provide (or pay for) certain services, other than order execution, which may include investment research, analysis and reports, and databases or software in support of these services (referred to in the industry as soft dollar arrangements). These goods and services are paid for with a portion of brokerage commissions and assist the portfolio advisor and portfolio sub-advisors with their decision-making services to the Fund or relate directly to the execution of portfolio transaction on behalf of the Fund.

Total commissions paid to dealers in connection with portfolio transactions are disclosed in the Fund Specific Notes.

### 9. INDEPENDENT REVIEW COMMITTEE

In accordance with National Instrument 81-107, *Independent Review Committee for Investment Funds*, the Manager has established an IRC for the Funds. The mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest to which the Manager is subject when managing the Funds. The IRC reports annually to unitholders of the Funds on its activities, and the annual report is available on or after March 31 in each year. The Manager charges compensation paid to the IRC members and the costs of the ongoing administration of the IRC to the Funds. These amounts are recorded in the Statements of Comprehensive Income (Loss).

### 10. TAXATION

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly is subject to tax on its investment income, including the taxable portion of net realized capital gains that are not paid or payable to its unitholders. The Fund distributes sufficient amounts of its net investment income, including net realized capital gains, less the amount retained to enable the Fund to utilize any available tax losses or, if applicable, tax credits attributable to redemptions during the period by its unitholders such that no income tax (other than alternative minimum tax, if applicable) will be paid or payable by the Fund. Such net investment income, including net realized capital gains are taxable in the hands of the unitholders. Occasionally, the Fund may pay distributions in excess of the net income and net realized capital gains of the Fund. This excess distribution is called a return of capital and is non-taxable to the unitholder. However, a return of capital reduces the average cost of the unitholder's units for tax purposes, which may result in a capital gain to the unitholder to the extent the average cost becomes less than zero. Accordingly, the Fund does not record Canadian income taxes in their financial statements.

The Fund has a taxation year-ended of December 31. Non-capital losses are available to be carried forward for 20 years. Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. As at December 31, 2020, the Fund had \$206,870 of unused non-capital losses which expire no earlier than 2036 and \$ 3,208,070 unused allowable capital losses.

### 11. FUND MERGER

Effective June 25, 2021, after receiving unitholder approval, Exemplar Investment Grade Fund (the "Terminating Fund") merged into Arrow EC Income Advantage Alternative Fund (the "Continuing Fund"). Unitholders of the Terminating Fund received units of the Continuing Fund in exchange for their units of the Terminating Fund on a tax deferred basis. The merger was effected by transferring the net assets of the Terminating Fund in exchange for securities of the Fund at fair market value. The transaction has been accounted for as an acquisition of the Terminating Fund at fair market value. Following the merger, the terminating Fund was terminated. Arrow paid the expenses incurred to effect the merger.

Details relating to the transactions are as follows:

# ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

## GENERAL NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

For the periods ended June 30, 2021 and 2020

Terminated Fund	Series	Conversion Ratio	Continuing Fund	Series	Net Assets acquired by (Continuing Fund) \$	Units issued by the Continuing Fund
Exemplar Investment Grade Fund	A	0.9049	Arrow EC Income Advantage Alternative Fund	AD	18,913,155	1,783,149.649
Exemplar Investment Grade Fund	AI	0.7899	Arrow EC Income Advantage Alternative Fund	AD	4,575,567	431,388.616
Exemplar Investment Grade Fund	AN	0.9449	Arrow EC Income Advantage Alternative Fund	A	3,833,893	350,114.517
Exemplar Investment Grade Fund	F	1.0751	Arrow EC Income Advantage Alternative Fund	FD	66,397,266	7,176,996.579
Exemplar Investment Grade Fund	FI	0.9430	Arrow EC Income Advantage Alternative Fund	FD	6,069,583	656,071.800
Exemplar Investment Grade Fund	FN	0.9463	Arrow EC Income Advantage Alternative Fund	F	11,703,982	1,065,839.328
Exemplar Investment Grade Fund	U	0.9630	Arrow EC Income Advantage Alternative Fund	U	1,089	103.304
Exemplar Investment Grade Fund	G	0.9804	Arrow EC Income Advantage Alternative Fund	G	1,126,774	106,426.922
Exemplar Investment Grade Fund	I	0.9896	Arrow EC Income Advantage Alternative Fund	I	6,347	568.170
Exemplar Investment Grade Fund	ETF	1.0000	Arrow EC Income Advantage Alternative Fund	ETF	14,214,970	700,000.000
					126,842,626.00	

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

August 20, 2021

### TO THE UNITHOLDERS OF ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND (THE "FUND")

The accompanying unaudited financial statements have been prepared by Arrow Capital Management Inc., the Manager of Arrow EC Income Advantage Alternative 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 Notes 2 and 3 to the financial statements.

PricewaterhouseCoopers LLP is the external auditor of the Fund, appointed by the shareholders of the Fund. The auditor of the Fund has not reviewed these financial statements. Applicable securities laws require that if an external auditor has not reviewed the Fund's financial statements, this must be disclosed in an accompanying note.

"James L. McGovern"

"Robert W. Maxwell"

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

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

## LEGAL NOTICE

You can get additional copies of these Financial Statements at your request, and at no cost, by calling 1-877-327-6048, by emailing [arrowinquiries@arrow-capital.com](mailto:arrowinquiries@arrow-capital.com), or by asking your representative.

This document, and other information about the Fund, is available at [www.arrow-capital.com](http://www.arrow-capital.com), or at [www.Sedar.com](http://www.Sedar.com).

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