

SCOTIA CARIBBEAN INCOME FUND INC.

Financial Statements

March 31, 2016

SCOTIA CARIBBEAN INCOME FUND INC.

Table of Contents	Page
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Comprehensive Income	3
Statement of Changes in Net Assets Attributable to Holders of Investment Shares	4
Statement of Cash Flows	5
Notes to Financial Statements	6-28



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Independent Auditors' Report to the Board of Directors

We have audited the accompanying financial statements of Scotia Caribbean Income Fund Inc. (the "Fund"), which comprise the statement of financial position as at March 31, 2016, the statements of comprehensive income, changes in net assets attributable to holders of investment shares and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

June 29, 2016

SCOTIA CARIBBEAN INCOME FUND INC.

Statement of Financial Position

March 31, 2016

(Expressed in United States Dollars)

	Notes	2016	2015
Assets			
Cash and cash equivalents	4	\$ 10,253,911	6,946,402
Financial assets at fair value through profit or loss	5,16	83,072,401	75,527,247
Securities purchased under resale agreements	6,16	18,575,918	7,976,327
Other receivables	7	109,557	306,787
Total Assets		<u>112,011,787</u>	<u>90,756,763</u>
Equity			
Share capital	8	<u>1,000</u>	<u>1,000</u>
		1,000	1,000
Liabilities			
Balance due to brokers	9	1,686,367	-
Due to related parties	10	378,407	305,215
Accrued payables	11	105,774	97,813
Total Liabilities (excluding net assets attributable to holders of investment shares)		<u>2,170,548</u>	<u>403,028</u>
Net assets attributable to holders of investment shares	12	<u>\$ 109,840,239</u>	<u>90,352,735</u>

Authorised for issue by the Board of Directors and signed on its behalf by:


 _____ Director


 _____ Director

The notes on pages 6 to 28 are an integral part of these financial statements.

SCOTIA CARIBBEAN INCOME FUND INC.

Statement of Comprehensive Income

For the year ended March 31, 2016

(Expressed in United States Dollars)

	Notes	2016	2015
Interest income		\$ 4,398,328	3,400,939
Dividend income		63,451	27,157
Other income		25,087	6,032
Net realized gain/(loss) on financial assets through profit or loss		63,074	(127,630)
Net change in unrealized (loss)/gain in financial assets at fair value through profit or loss		<u>(1,034,471)</u>	<u>1,656,594</u>
Total revenue		<u>3,515,469</u>	<u>4,963,092</u>
Fund manager fees	10,13	(1,533,648)	(1,178,391)
Administrator fees	13	(552,840)	(408,354)
Custodian fees	13	(33,594)	(30,380)
Audit fees		(21,134)	(14,597)
Other expenses		(40,634)	(36,802)
Legal fees		<u>(6,815)</u>	<u>(80)</u>
Total operating expenses		<u>(2,188,665)</u>	<u>(1,668,604)</u>
Operating profit before finance costs		<u>1,326,804</u>	<u>3,294,488</u>
Dividends to holders of investment shares		<u>(2,305,394)</u>	<u>(1,777,473)</u>
Total finance costs		<u>(2,305,394)</u>	<u>(1,777,473)</u>
(Decrease)/increase in net assets attributable to holders of investment shares before income tax		(978,590)	1,517,015
Income tax expense	14	<u>-</u>	<u>-</u>
(Decrease)/increase in net assets attributable to holders of investment shares after income tax		<u>\$ (978,590)</u>	<u>1,517,015</u>

The notes on pages 6 to 28 are an integral part of these financial statements.

SCOTIA CARIBBEAN INCOME FUND INC.

Statement of Changes in Net Assets Attributable to Holders of Investment Shares

For the year ended March 31, 2016

(Expressed in United States Dollars)

	2016	2015
Balance as at April 1	\$ 90,352,735	76,790,477
(Decrease)/increase in net assets attributable to holders of investment shares	<u>(978,590)</u>	<u>1,517,015</u>
	89,374,145	78,307,492
Subscriptions of investment shares	29,039,588	28,780,149
Reinvestment of investment shares	2,030,875	1,594,963
Redemption of investment shares	<u>(10,604,369)</u>	<u>(18,329,869)</u>
Total subscriptions, reinvestments and redemptions by holders of investment shares during the year	<u>20,466,094</u>	<u>12,045,243</u>
Balance as at March 31	<u>\$ 109,840,239</u>	<u>90,352,735</u>

The notes on pages 6 to 28 are an integral part of these financial statements.

SCOTIA CARIBBEAN INCOME FUND INC.

Statement of Cash Flows

For the year ended March 31, 2016

(Expressed in United States Dollars)

	2016	2015
Cash flows from operating activities		
(Decrease)/increase in net assets attributable to holders of investment shares after income tax	\$ (978,590)	1,517,015
Adjustments for:		
Dividends paid to holders of investment shares	2,305,394	1,777,473
Net unrealized (gain)/loss on financial assets at fair value through profit or loss	(63,074)	127,630
Net change in unrealized loss/(gain) in financial assets at fair value through profit or loss	<u>1,034,471</u>	<u>(1,656,594)</u>
	2,298,201	1,765,524
Interest received, net	881,320	503,308
Proceeds from sale of investments	64,189,637	26,951,630
Purchase of investments	(84,187,099)	(44,512,291)
Decrease/(increase) in other receivables	197,230	(271,879)
Increase in due to related parties	73,192	35,393
Increase in balance due to brokers	1,686,367	-
Increase/(decrease) in accrued payables	<u>7,961</u>	<u>(36,074)</u>
Net cash used in operating activities	<u>(14,853,191)</u>	<u>(15,564,389)</u>
Cash flows from financing activities		
Proceeds from issued shares in the Fund	29,039,588	28,780,149
Proceeds from reinvested shares in the Fund	2,030,875	1,594,963
Payments on redemption of investment shares	(10,604,369)	(18,329,869)
Dividends paid to holders of investment shares	<u>(2,305,394)</u>	<u>(1,777,473)</u>
Net cash from financing activities	<u>18,160,700</u>	<u>10,267,770</u>
Net increase/(decrease) in cash and cash equivalents	3,307,509	(5,296,619)
Cash and cash equivalents at beginning of year	<u>6,946,402</u>	<u>12,243,021</u>
Cash and cash equivalents at end of year	<u>\$ 10,253,911</u>	<u>6,946,402</u>

The notes on pages 6 to 28 are an integral part of these financial statements.

SCOTIA CARIBBEAN INCOME INC.

Notes to the Financial Statements

March 31, 2016

(Expressed in United States Dollars)

1. Reporting Entity

Scotia Caribbean Income Fund Inc. (the “Fund”) was incorporated on March 29, 2006 in Saint Lucia. The Fund is also licensed under the Saint Lucia International Mutual Fund Act as a public international mutual fund. On November 27, 2006 and on January 11, 2007; the Fund was registered under the Companies Act of Jamaica and Trinidad and Tobago, respectively. The Fund is registered under the Trinidad and Tobago Securities & Exchange Commission (SEC) as a reporting issuer. On September 7, 2009, the Fund was registered under the Companies Law of the Cayman Islands and on September 17, 2009, the Fund was registered under the Mutual Funds Law of the Cayman Islands.

The registered office of the Fund is located at 20 Micoud Street, Castries, Saint Lucia.

The Fund’s investment objective is to provide a regular stream of income and modest capital gains by investing primarily in US dollar denominated fixed income securities issued or guaranteed by governments or government sponsored agencies of a country in the Caribbean region, as well as money market and longer term fixed income securities issued by non-government issuers in accordance with the Investment Policy below. The Fund may also invest in other income generating securities, which may include dividend paying shares.

The investment activities of the Fund are managed by Scotia Asset Management (St. Lucia) Inc. (the “Fund Manager”). The custodian activities are performed by State Street Bank and Trust Company Ltd (the “Custodian”), which is an independent entity and is not a related party to the Fund Administrator or the Fund Manager. The Fund administrator is ADCO Inc. (the “Fund Administrator”), a company incorporated in Saint Lucia. The Fund Administrator has appointed State Street Cayman Trust Company Ltd., a trust company duly organised under the laws of the Cayman Islands as Fund Sub-Administrator. The Fund has no employees.

2. Basis of Preparation

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board.

The financial statements were authorised for issue by the Directors on June 29, 2016.

(b) *Basis of measurement*

The financial statements are prepared on a fair value basis in respect of financial assets and financial liabilities that are measured at fair value through profit or loss. Other financial assets and financial liabilities are stated at amortised cost or redemption amount.

(c) *Functional currency*

The financial statements are presented in United States Dollar (“US\$”), which is the functional currency of the Fund. All financial information presented in US\$ has been rounded to the nearest dollar.

(d) *Use of estimates and judgements*

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and liabilities, income and expenses.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

2. Basis of Preparation (Cont'd)

(d) *Use of estimates and judgements (Cont'd)*

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are readily apparent from other sources. Actual amounts could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant assumptions and judgements applied in these financial statements giving rise to a risk of material adjustment in the next financial year.

(e) *Involvement with unconsolidated listed structured entities*

The Fund has concluded that listed open-ended investment funds in which it invests, but that it does not consolidate, meet the definition of structured entities because:

- the voting rights in the funds are not dominant rights in deciding who controls them because they relate to administrative tasks only;
- each fund's activities are restricted by its prospectus; and
- the funds have narrow and well-defined objectives to provide investment opportunities to investors.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) *Foreign currency transactions*

Transactions in foreign currencies are translated to the Fund's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

'Functional currency' is the currency of the primary economic environment in which the Fund operates. If indicators of the primary economic environment are mixed, then management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The majority of the Fund's investments and transactions are denominated in United States dollars. Accordingly, management has determined that the functional currency of the Fund is United States dollars.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (Cont'd)

(b) *Financial assets and financial liabilities:*

(i) Recognition and initial measurement

Financial assets and liabilities at fair value through profit or loss are recognised initially on the trade date at which the Fund becomes party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they are originated.

Financial assets and liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss. Financial assets and liabilities not at fair value through profit or loss are measured initially at fair value, plus transaction costs that are directly attributable to their acquisition or issue.

(ii) Classification

The Fund has classified financial assets and liabilities into the following categories:

Financial assets at fair value through profit or loss:

- Designated as at fair value through profit or loss – debt securities and equity investments.

Financial assets at amortised cost:

- Loans and receivables – cash and cash equivalents, other receivables and securities purchased under resale agreements.

Financial liabilities measured at cost:

- Other liabilities – due to related parties and accrued payables.

(iii) Amortised cost measurement

- The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the amount recognized and the maturity amount, minus any reduction for impairment.

(iv) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures the fair value of an instrument using the quoted prices in an 'active' market for that instrument. A market is regarded as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market at a mid-price, because this price provides a reasonable approximation of the exit price.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (Cont'd)

(b) Financial assets and financial liabilities (Cont'd)

(iv) Fair value measurement (Cont'd)

If there is no quoted price in an active market then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period which the change has occurred.

The fair values of cash and cash equivalents, other receivables, due to related parties and accrued payables are assumed to approximate to their carrying values, due to their short-term nature. The fair value of resale agreements is assumed to approximate their carrying value as they are subject to repricing in the short-term at market rate.

All changes in fair value are recognised in profit or loss.

(v) Identification and measurement of impairment

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is 'impaired' if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of the amount due on terms that the Fund would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or adverse changes in the payment status of the borrowers.

- Calculation of recoverable amount:

The recoverable amount of the Fund's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (Cont'd)

(b) Financial assets and financial liabilities (Cont'd)

(v) Identification and measurement of impairment (Cont'd)

- Reversals of impairment:

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

(vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset. The Fund uses the weighted average method to determine realised gains and losses on derecognition.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the statement of comprehensive income. Any interest in such transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all of the risks and rewards include sale and repurchase transactions.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(vii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (Cont'd)

(b) *Financial assets and financial liabilities (Cont'd)*

(viii) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments, other than cash collateral provided in respect of derivatives, securities sold and securities borrowing transactions.

Securities purchased under resale agreements.

When the Fund purchases a financial asset and simultaneously enters into an agreement to resell the same or substantially similar asset at a fixed price on a future date (reverse sale and repurchase agreement), the arrangement is accounted for as a loan and receivable, and recognised in the statement of financial position as a receivable from a reverse sale and repurchase agreement, and the underlying asset is not recognised in the Fund's financial statements.

Securities borrowed by the Fund are not recognised in the statement of financial position. If the Fund subsequently sells the borrowed securities, then the arrangement is accounted for as a short sold position, recognised in the statement of financial position as a financial liability at FVTPL, classified as held-for-trading and measured at FVTPL.

Reverse repos are accounted for as short-term collateralised lending and are classified as loans and receivables and measured at amortised cost.

Investment Shares

The investment shares are classified as financial liabilities and are measured at the present value of the redemption amounts.

(c) *Interest income*

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument. When calculating the effective interest rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Interest received or receivable, and interest paid or payable, are recognised in the statement of comprehensive income as interest income and interest expense, respectively.

(d) *Dividend income*

Dividend income is recognised in profit or loss on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (Cont'd)

(d) *Dividend income (Cont'd)*

For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVTPL is recognised in profit or loss in a separate line item.

(e) *Expenses*

All expenses, including management fees and custodian fees, are recognised in the statement of comprehensive income on the accrual basis.

(f) *Accrued payables*

Accrued payables are stated at cost.

(g) *Dividends to holders of investment shares*

The Fund may distribute up to 100% of its net earned income (comprehensive income excluding the net change in fair value of financial assets at fair value through profit or loss and dividend income) during the calendar quarter for which the distribution will be made, by the last business day of each calendar quarter, subject to any relevant factors which may mitigate against that level of distribution being made.

Under the Caricom Tax Treaty, dividends paid by the Fund to shareholders who are resident in another Caricom member state which has incorporated the provisions of the Caricom Tax Treaty into its domestic law, will only be liable to income tax in the Caricom member state where the fund is resident (Saint Lucia), and such liability is at the rate of zero per cent (0%).

Dividends payable to holders of investment shares are recognized in the statement of comprehensive income as finance costs.

(h) *Net gain from financial instruments at fair value through profit or loss*

Net gain from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income.

(i) *Shares*

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has two types of shares in issue: investment shares and governance shares. The rights and obligations of different shares are explained in note 8 and 11. All investment shares are redeemable shares issued by the Fund and provide the investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at the redemption date. In accordance with IAS 32 such instruments give rise to a financial liability for the present value of the redemption amount.

(j) *New standards, amendments and interpretations issued but not yet effective*

A number of new standards and amendments to standards are effective for annual periods beginning after April 1, 2015 and earlier application is permitted; however, the Fund has not early applied the following new or amended standards in preparing these financial statements. The two new standards potentially relevant to the Fund are discussed below. The Fund does not plan to adopt these standards early.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (Cont'd)

(j) *New standards, amendments and interpretations issued but not yet effective (Cont'd)*

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.

The Fund is assessing the impact that the standard will have on its 2019 financial statements.

- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) is effective for annual reporting periods beginning on or after January 1, 2016. These amendments, *inter alia*, clarify that an investment entity may provide investment-related services to third parties – even if those activities are substantial to the entity – as long as the entity continues to meet the definition of an investment entity.

Based on the initial assessment, these amendments are not expected to have a material impact on the Fund. This is because the Fund does not have any subsidiaries.

4. Cash and Cash Equivalents

	2016	2015
Cash at bank	\$ 1,751,160	1,942,385
Short-term investments	<u>8,502,751</u>	<u>5,004,017</u>
Total	<u>\$ 10,253,911</u>	<u>6,946,402</u>

During the year the Fund earned interest amounting to \$5,341,022 (2015 - \$4,027,347) which is gross of amortization of \$942,693 (2015 - \$626,408).

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

5. Financial Assets at Fair Value Through Profit or Loss

The Fund's portfolio of investments at fair value through profit or loss is comprised of:

		2016	2015
AES Panama SRL - 6.35%	2016 \$	-	1,402,400
Banco de Costa Rica - 4.88%	2018	776,100	781,950
Banco de Costa Rica - 5.25%	2018	506,250	509,375
Bank of Jamaica - 5.00%	2017	-	4,500,000
Cacao Jep Ltd - 10.25%	2019	3,463,219	1,632,324
Dominican Republic - 9.04%	2018	231,711	353,715
Dominican Republic - 7.50%	2021	868,000	894,000
Dominican Republic - 5.88%	2024	1,025,000	1,047,500
Dominican Republic - 6.60%	2024	530,000	543,750
Dominican Republic - 5.50%	2025	2,992,500	1,027,500
Government of Aruba - 6.55%	2018	1,646,250	550,000
Government of Aruba - 4.63%	2023	4,728,500	3,038,563
Government of Barbados - 7.80%	2019	667,628	692,088
Government of Barbados - 7.00%	2022	1,584,937	795,388
Government of Bermuda - 5.60%	2020	1,961,232	1,970,168
Government of Bermuda - 4.85%	2024	2,097,600	2,102,500
Government of Bolivia - 4.88%	2022	-	1,492,500
Government of Bolivia - 5.95%	2023	-	1,033,750
Government of Cayman Islands - 5.95%	2019	2,981,440	3,041,335
Government of Costa Rica - 9.99%	2020	24,275	25,475
Government of Jamaica - 9.00%	2015	-	2,305,115
Government of Jamaica - 10.63%	2017	7,687,539	3,495,285
Government of Jamaica - 8.00%	2019	6,024,750	2,811,375
Government of Jamaica - 5.25%	2020	1,039,252	-
Government of Jamaica - 11.63%	2022	195,252	-
Government of Jamaica - 7.63%	2025	7,252,115	3,954,930
Government of Mexico - 5.95%	2019	557,500	570,625
Government of Mexico - 8.00%	2022	64,125	65,813
Instituto Costarricense de Electricidad - 6.95%	2021	2,060,625	2,212,875
Jamaica Public Service - 11.00%	2021	195,124	205,303
National Road Operating and Construction Company - 9.38%	2024	2,088,747	834,341
Panama Bonos Del Tesoro - 5.63%	2022	2,186,540	2,240,360
PBS Medium Term Bond - 7.75%	2020	1,008,253	-
Petroleos De Venezuela - 5.00%	2015	-	650,850
Petrobras Global Finance Company - 3.50%	2017	590,520	-
Petroleum Company Brazil - 3.88%	2016	-	980,880
Petroleum Company Trinidad and Tobago - 9.75%	2019	4,035,506	4,307,666
Petroleum Company Trinidad and Tobago - 6.00%	2022	101,698	129,688
Republic of Bahamas - 5.75%	2024	2,055,000	-
Republic of Brazil - 8.00%	2018	235,889	360,000
Balance carried forward		\$ 63,463,077	52,559,387

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

5. Financial Assets at Fair Value Through Profit or Loss (Cont'd)

The Fund's portfolio of investments at fair value through profit or loss is comprised of (Cont'd):

		2016	2015
Balance brought forward	\$	63,463,077	52,559,387
Republic of Chile - 3.88%	2020	-	1,093,750
Republic of Chile - 2.25%	2022	-	497,500
Republic of Colombia - 8.70%	2016	-	665,425
Republic of Colombia - 11.75%	2020	1,970,250	2,081,250
Republic of El Salvador - 7.38%	2019	1,194,000	2,987,700
Republic of Guatemala - 5.75%	2022	876,000	881,000
Republic of Panama - 9.38%	2023	333,125	342,500
Republic of Paraguay - 4.63%	2023	1,516,875	1,545,000
Republic of Trinidad and Tobago - 9.75%	2020	2,073,838	2,192,320
Republic of Trinidad and Tobago - 4.38%	2024	2,299,000	2,351,250
Sagicor Finance Ltd - 7.50%	2016	-	1,128,875
Sagicor Finance Ltd - 8.88%	2022	5,062,306	-
		<u>78,788,471</u>	<u>68,325,957</u>
Accrued interest		1,198,330	1,134,549
Total Debt securities	\$	<u>79,986,801</u>	<u>69,460,506</u>

Mutual funds		2016	2015
Blackrock Global Funds	\$	-	3,005,623
MFS Meridian Funds		<u>3,085,600</u>	<u>3,061,118</u>
	\$	<u>3,085,600</u>	<u>6,066,741</u>
Total securities		83,072,401	75,527,247

6. Securities Purchased Under Resale Agreements

		2016	2015
Securities purchased under resale agreements	\$	18,500,000	7,898,000
Accrued interest		<u>75,918</u>	<u>78,327</u>
	\$	<u>18,575,918</u>	<u>7,976,327</u>

The fair value of underlying securities used to collateralize securities purchased under resale agreements is \$19,369,000 (2015 - \$8,501,000).

At March 31, 2016 \$7,011,401 (2015 - \$3,005,562) of securities purchased under resale agreements are to be matured within 90 days and \$11,564,517 (2015 - \$4,970,765) to be matured between 91 to 365 days.

7. Other Receivables

Other receivables are stated at cost, less impairment losses. Other receivables include a receivable for fund shares sold in the amount of \$109,557 (2015 - \$306,787).

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

8. Share Capital

Authorised, issued and fully paid

	2016	2015
Governance shares of no par value (units)	<u>100</u>	<u>100</u>
	2016	2015
100 Governance Shares	\$ <u>1,000</u>	<u>1,000</u>

The rights and obligations of governance shares are as follows:

The Governance Shares:

- (i) rank pari passu as between and among themselves;
- (ii) have full voting rights, with one vote for each such share;
- (iii) do not have any ownership participation; and
- (iv) apart from their voting rights, have no economic rights or entitlements save for the right on a winding up to the repayment of the capital paid thereon after all the investment shares have been repaid in full.

9. Balance due to brokers

The balance due to brokers represent amounts payable and are purchase transactions awaiting settlement for securities purchased but not yet settled as at the reporting date. At the year end, the balance due to brokers was \$1,686,367 (2015 - \$nil)

10. Related Party Transactions

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

A party is related to the Fund, if:

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

10. Related Party Transactions (Cont'd)

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies (Cont'd):
 - (vi) The entity is controlled, or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Due to related parties:

	2016	2015
Due to Fund Manager – Scotia Asset Management (St. Lucia) Inc.	\$ <u>378,407</u>	<u>305,215</u>

The Fund has appointed the Fund Manager, a company registered in Saint Lucia as an International Business Company on April 21, 2009 and licensed as a Fund Manager in Saint Lucia, to provide investment advisory and fund management services. The Fund Manager appointed Scotia Asset Management (Jamaica) Limited, a company duly incorporated under the law of Jamaica and a dealer licensed by the Financial Services Commission in Jamaica, to implement the investment strategy and the administrative services. Investment management fees paid to the Fund Manager during the year was \$1,533,648 (2015 - \$1,178,391).

Included within cash and cash equivalents are amounts held with The Bank of Nova Scotia Jamaica Limited of \$8,502,751 (2015 - \$5,004,017), a company related by common control.

At March 31, 2016, all governance shares in the Fund were held by Scotia Investments Jamaica Limited.

11. Accrued Payables

Accrued payables are stated at amortised cost. Accrued payables include a payable for fund shares repurchased in the amount of \$11,558 (2015 - \$10,088).

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

*(Expressed in United States Dollars)***12. Net Assets Attributable to Holders of Investment Shares**

- (a) The analysis of movements in the number of investment shares and net assets attributable to holders of investment shares during the year was as follows:

	2016	2015
<i>Authorised investment shares</i>		
Investment shares of no par value (units)	<u>100,000,000</u>	<u>100,000,000</u>
<i>Issued and fully paid</i>		
Number of Investment Shares		
Balance at April 1	\$ 24,654,960	21,369,099
Subscriptions during the year	7,945,299	7,856,857
Reinvestment during the year	559,289	436,923
Redemptions during the year	<u>(2,909,213)</u>	<u>(5,007,919)</u>
Balance at March 31	<u>30,250,335</u>	<u>24,654,960</u>
Balance as at April 1	\$ 90,352,735	76,790,477
Increase/(decrease) in net assets attributable to holders of investments shares	(978,590)	1,517,015
Subscriptions of investment shares during the year	29,039,588	28,780,149
Reinvestment of investment shares during the year	2,030,875	1,594,963
Redemption of investment shares during the year	<u>(10,604,369)</u>	<u>(18,329,869)</u>
Balance as at March 31	<u>109,840,239</u>	<u>90,352,735</u>
Net asset value per investment share	<u>\$ 3.63</u>	<u>3.66</u>

The rights and obligations of investment shares are as follows:

The Investment Shares:

- (i) rank pari passu as between and among themselves for all purposes;
- (ii) together collectively comprise a 100% ownership participation;
- (iii) are redeemable by the Fund; and
- (iv) are non-voting and carry no voting rights on any matters, save and except that the investment shares shall carry one vote per investment share on any resolution for the following matters:
 - (a) the appointment of an investment manager of the Fund which is not Scotia Investments Jamaica Limited or a direct or indirect subsidiary of Scotia Investments Jamaica Limited, and;
 - (b) the appointment of any administrator or custodian of the Fund or the Fund's assets which is a related party to the investment manager of the Fund.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

12. Net Assets Attributable to Holders of Investment Shares (Cont'd)

(b) Reconciliation of net asset value of Fund to the net asset value per Investment Share:

	2016	2015
Net assets value of Fund	\$ 109,840,239	90,352,735
Less: Governance shares	<u>(1,000)</u>	<u>(1,000)</u>
	<u>\$ 109,839,239</u>	<u>90,351,735</u>
Investment shares in issue at March 31	<u>30,250,335</u>	<u>24,654,960</u>
Net asset value per investment share	<u>\$ 3.63</u>	<u>3.66</u>

13. Administration, Management and Custodian fees

Administrator fees

The Fund Administrator shall be paid an annual fee of \$15,000 for services rendered in accordance with the terms of the Fund Administration Agreement, out of the assets of the Fund. During the year the Fund Administrator was paid fees of \$12,820 (2015 - \$12,942).

The Fund Sub Administrator shall be paid a minimum annual fee of \$22,035 for services rendered in accordance with the terms of the Fund Sub Administration Agreement, out of the assets of the Fund, any other expenses are paid at cost as incurred. Sub administrator fees incurred during the year amounted to \$61,035 (2015 - \$43,041). These fees accrue daily and are paid quarterly in arrears.

The Fund Distributor(s) is/are entitled to receive an annual trailer fee of at an annual rate of 0.375% of the NAV of the Fund that is calculated and accrues daily and payable monthly in arrears based on the daily average net assets under management. A sub-distributor may be paid by its distributor out of this trailer fee. Trailer fees are included within administrator fees in the statement of comprehensive income. During the year trailer fees paid to the distributor amounted to \$381,433 (2015 - \$300,146).

Other administrator fees, which include transfer agent and other administrator fees amounted to \$97,552 (2015 - \$52,225). Total administrator fees included in the statement of comprehensive income amounted to \$552,840 (2015 - \$408,354).

Fund manager fees

The Fund Manager is entitled to receive an annual fee of at an annual rate of 1.60% of the NAV of the Fund that is calculated and accrues daily and payable quarterly in arrears based on the daily NAV of the Fund. These amounts are payable out of the assets of the Fund. The Fund management fees incurred during the year amounted to \$1,533,648 (2015 - \$1,178,391).

Custodian fees

The Custodian shall be paid a fee of up to 0.60% per annum of the Net Asset Value of the Fund calculated in accordance with the Custodian Agreement. The Custodian is also entitled to be reimbursed by the Fund for all its out of pocket disbursements (excluding its normal overhead costs) wholly and exclusively incurred in the performance of its duties for the Fund, during the year the Custodian was paid a fee of \$33,594 (2015 - \$30,380).

A fee for auditing services will also be payable out of the assets of the Fund.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

*(Expressed in United States Dollars)***14. Income Tax Expense***(a) Incidence of Taxation:*

The Fund is liable to income tax in Saint Lucia on its taxable income at the rate of 1%.

A substantial part of the assets of the Fund comprises interest-bearing securities issued by Caricom member states, which have exempted such interest from income tax in the issuing state. Under the Taxation Agreement among Member States of the Caribbean Community for the Avoidance of Double taxation (the "Caricom Tax Treaty"), interest paid by an issuer of debt in one member state to a debt-holder in another member state is only taxable in the state in which it arises, and therefore interest on those securities will not be subject to tax in Saint Lucia.

(b) Income tax expense

	2016	2015
Income tax expense	\$ <u>-</u>	<u>-</u>
Reconciliation of applicable tax charge to effective tax charge:		
Profit (Loss) before income tax expense	\$ <u>(978,590)</u>	<u>1,517,015</u>
Income tax at domestic rate of 1% (2015 – 1%)	\$ (9,786)	15,170
Less: Tax effect of exempt income	(22,026)	(16,113)
Unrealised fair value (gains)/losses	10,345	(16,566)
Adjustment for current year tax losses	<u>21,467</u>	<u>17,509</u>
Income tax expense	<u>\$ -</u>	<u>-</u>

At the end of the year, the Fund had income tax losses of \$10,397,192 (2015: \$8,250,430) to carry forward against future tax liabilities. These losses, which have not been confirmed or agreed by the Inland Revenue Department, will expire as follows if not utilised:

<u>Income year</u>	<u>Expiry year</u>	<u>Losses arising</u>	<u>Incurred/ (utilised)</u>	<u>Losses available</u>
		\$	\$	\$
2010	2016	568,792	(568,792)	-
2011	2017	1,288,929	-	1,288,929
2012	2018	1,578,954	-	2,867,883
2013	2019	1,767,734	-	4,635,617
2014	2020	1,863,866	-	6,499,483
2015	2021	1,750,947	-	8,250,430
2016	2022	2,146,762	-	10,397,192

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The deferred tax asset has not been recognised since it is uncertain that taxable profits will be available against which the deferred tax asset can be utilised.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

15. Involvement with unconsolidated listed investment entities

The table below describes the types of structured entities that the Fund does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Fund
Investment Funds	To manage assets on behalf of third party investors and generate fees for the investment manager. These vehicles are financed through the issue of units to investors.	Investment in units issued by the funds

The table below sets out interests held by the Fund in unconsolidated listed structured entities. The maximum exposure to loss is the carrying amount of the financial assets held.

31 March 2016	Number of investee funds	Total net assets	Carrying amount included in financial assets at fair value through profit or loss
Investment in listed open-ended Funds			
MFS Meridian – Research Bond Fund	1	655,293,891	\$3,085,600
Total			\$3,085,600

31 March 2015	Number of investee funds	Total net assets	Carrying amount included in financial assets at fair value through profit or loss
Investment in listed open-ended Funds			
BlackRock Fixed Income Global Opportunities Fund ¹	1	\$3,779,625,069	\$3,005,623
MFS Meridian – Research Bond Fund	1	\$669,953,279	\$3,061,118
Total			\$6,066,741

¹The total net assets of the investment fund was obtained from the investment fund's January 31, 2016 audited financial statements.

During the year, the Fund did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support.

16. Financial Risk Management

By their nature, the Fund's activities are principally related to the use of financial instruments. Therefore, this will involve analysis, evaluation and management of some degree of risk or combination of risks. Taking these risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Fund's aim is therefore to achieve an appropriate balance between risks and return and minimise potential adverse effects on the Fund's financial performance.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

16. Financial Risk Management (Cont'd)

Risk Management Framework

The Fund manages risk through a framework of risk principles, organisational structures and risk measurement and monitoring processes that are closely aligned with the activities of its business units. The Fund's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The Fund regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Centralised credit risk management and market and operational risk management departments execute the risk management functions, under the guidance of policies approved by the Board of Directors. The Committee has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors. The Committee meets at least once a month to review risks, evaluate performance and provide strategic direction. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk faced by the Fund from its use of financial instruments are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and other price risk.

The Fund has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally on the Fund's investment activities. The Fund structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

The Fund limits its exposure to credit risk by investing mainly in securities with counterparties that have high credit quality when considered in the context of the Caribbean region.

The Fund has documented investment policies; these facilitate the management of credit risk on investment securities and resale agreements. The Fund's exposure and the credit ratings of its counterparties are continually monitored.

(i) Analysis of credit quality

The maximum exposure to credit risk on debt securities, before collateral held or other credit enhancements is as follows:

	2016	2015
S & P Rating		
AAA to A-	10.26%	22.15%
BBB+ to B-	72.60%	74.55%
CCC+ to C-	0.00%	0.00%
Not rated	17.14%	3.30%
Total	<u>100.00%</u>	<u>100.00%</u>

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

16. Financial Risk Management (Cont'd)

(a) Credit risk (Cont'd)

	2016	2015
Investments		
Financial assets at fair value through profit or loss	\$ 83,072,401	75,527,247
Securities purchased under resale agreements	<u>18,575,918</u>	<u>7,976,327</u>
Total Investments	<u>\$ 101,648,319</u>	<u>83,503,574</u>

Most of the Fund's financial assets are concentrated in the Caribbean region as follows:

	Rating	2016	Rating	2015
AES Panema SRL	---	-	BB-	1,426,213
Banco de Costa Rica	NR	1,301,767	Baa2	1,310,742
Bank of Jamaica	---	-	B	4,571,507
Black Rock Global Funds	NR	-	NR	3,005,623
CACAO JEP Ltd	NR	3,466,849	NR	1,634,062
Dominican Republic	BB-	5,736,819	BB-	3,938,384
Government of Aruba	BBB+	6,418,857	BBB+	3,606,413
Government of Barbados	B	2,277,976	B	1,504,746
Government of Bermuda	A+	4,093,411	A+	4,107,246
Government of Bolivia	---	-	BB	2,563,571
Government of Cayman Islands	NR	3,037,316	Aa3	3,097,211
Government of Costa Rica	BB-	24,608	---	-
Government of Jamaica	B	22,668,053	B	12,933,015
Government of Mexico	BBB+	622,695	BBB+	637,507
Instituto Costarricense de Electricidad	NR	2,117,789	Ba1	2,270,039
Jamaica Public Service	NR	199,877	NR	210,056
MFS Meridian Funds	NR	3,085,600	---	3,061,118
National Road Operating and Construction Company	B	2,162,405	B-	864,194
Panama Bonos del Tesoro	BBB	2,207,165	BBB	2,260,985
PBS Medium Term Bond	NR	1,027,840	---	-
Petrobas Global Finance BV	B+	593,728	BBB-	987,769
Petroleum Company Trinidad and Tobago	BB	4,189,926	BBB	4,486,653
Republic of Bahamas	BBB-	2,078,958	---	-
Petrolas De Venezuela	---	-	NR	665,587
Republic of Brazil	BB	239,642	BBB-	365,630
Republic of Chile	---	-	AA-	1,601,997
Republic of Colombia	BBB	1,987,875	BBB	2,771,181
Republic of Costa Rica	---	-	BB	25,808
Republic of El Salvador	B+	1,223,500	B+	3,055,550
Republic of Guatemala	BB	890,694	BB	895,694
Republic of Panama	BBB	338,008	BBB	347,383
Republic of Paraguay	BB	1,529,594	BB	1,557,719
Republic of Trinidad and Tobago	A	4,432,183	A	4,602,915
Sagicor Finance Ltd	B	5,119,266	BB-	1,160,729
		<u>\$ 83,072,401</u>		<u>75,527,247</u>

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

16. Financial Risk Management (Cont'd)

(a) Credit risk (Cont'd)

(ii) Offsetting financial assets and financial liabilities

The Fund's securities purchased under resale agreement are not covered by master agreements with netting terms similar to those of ISDA master netting agreements.

None of the financial assets and financial liabilities is offset in the statement of financial position. The disclosures set out in note 6 include financial assets that are not subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

The similar agreements primarily include global master repurchase agreements. Similar financial instruments include sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing agreements.

The Fund gives collateral in the form of cash and marketable securities in respect of the following transactions:

- Securities purchased under resale agreements

(b) Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Fund manages liquidity risk by ensuring, as far as possible, that it has adequate liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The residual contractual maturities of the Fund's financial liabilities are within one to three months.

(c) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Fund is exposed to market risk as the financial instruments subject to this risk represent a significant portion of its investments.

The Fund's strategy on the management of market risk is driven by the Fund's investment objective. The Fund's objective is to provide a regular stream of income and modest capital gains over time. The Fund's market risk is managed by the Investment Manager in accordance with policies and procedures approved by the Board.

(i) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund has no significant exposure to foreign currency risk as all financial assets and liabilities are in United States dollars.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

*(Expressed in United States Dollars)***16. Financial Risk Management (Cont'd)**

(c) Market risk (Cont'd)

(ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Floating rate instruments expose the Fund to cash flow interest risk, whereas fixed interest rate instruments expose the Fund to fair value interest risk.

All financial liabilities are non-interest bearing.

The following table summarises the Fund's exposure to interest rate risk to earnings. It includes the Fund's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity date.

2016	Less than 1 month	1-3 months	3 months - 1 year	Over 1 year	Non-Rate Sensitive	Total
<u>Assets</u>						
Cash and cash equivalents	\$ 9,253,840	1,000,071	-	-	-	10,253,911
Financial assets at fair value through profit or loss	-	-	593,728	79,393,073	3,085,600	83,072,401
Securities purchased under resale agreements	-	7,011,401	11,564,517	-	-	18,575,918
Other receivables	-	-	-	-	109,557	109,557
Total assets	\$ 9,253,840	8,011,472	12,158,245	79,393,073	3,195,157	112,011,787
2015	Less than 1 month	1-3 months	3 months - 1 year	Over 1 year	Non-Rate Sensitive	Total
<u>Assets</u>						
Cash and cash equivalents	\$ 6,946,402	-	-	-	-	6,946,402
Financial assets at fair value through profit or loss	-	2,373,778	2,325,662	64,761,066	6,066,741	75,527,247
Securities purchased under resale agreements	2,002,736	1,002,826	4,970,765	-	-	7,976,327
Other receivables	-	-	-	-	306,787	306,787
Total assets	\$ 8,949,138	3,376,604	7,296,427	64,761,066	6,373,528	90,756,763

Sensitivity analysis

The Fund is susceptible to interest rate risk arising from the exposure to debt securities. As at March 31, 2016, should interest rates have lowered or risen by 100 basis points with all other variables remaining constant, the decrease or increase, respectively, in net assets attributable to the holder of redeemable shares for the year ended would amount to an immaterial change arising from the decrease or increase, respectively, in interest receivable due to the Fund's exposure to debt securities. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

16. Financial Risk Management (Cont'd)

(c) Market risk (cont'd):

(iii) Other price risk:

Other price risk is the risk that the value of the instrument 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 instruments traded in the market. As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect profit or loss.

The Fund's exposure to price risk is represented by the total carrying value of investments on the statement of financial position of \$83,072,401 (2015 - \$75,527,247).

Sensitivity analysis

A 5% increase/decrease in prices at March 31, 2016, would have increased/decreased the surplus for the year and the net assets available to holders of fund units by \$4,153,620 (2015 - \$3,776,362).

17. Fair Value Disclosure

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in determining the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instrument; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

*(Expressed in United States Dollars)***17. Fair Value Disclosure (Cont'd)**

The determination of what constitutes “observable” requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following tables analyse within the fair value hierarchy the Fund’s financial assets and liabilities (by class) measured at fair value:

Financial instruments measured at fair value**At March 31, 2016**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
Financial assets at fair value through profit or loss				
Government Issues	\$ -	59,807,354	-	59,807,354
Government Bonds	-	20,179,447	-	20,179,447
Mutual Funds	-	3,085,600	-	3,085,600
Total financial assets at fair value through profit or loss	\$ -	<u>83,072,401</u>	-	<u>83,072,401</u>

At March 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
Financial assets at fair value through profit or loss				
Government Issues	\$ -	54,354,462	-	54,354,462
Government Bonds	-	15,106,044	-	15,106,044
Mutual Funds	-	6,066,741	-	6,066,741
Total financial assets at fair value through profit or loss	\$ -	<u>75,527,247</u>	-	<u>75,527,247</u>

SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2016

(Expressed in United States Dollars)

17. Fair Value Disclosure (Cont'd)

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, would include active listed equities, most exchange traded derivatives, many US government bills and certain non-US sovereign obligations. The Fund does not adjust the quoted price for these instruments.

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are classified as Level 2, unless the measurement of its fair value requires the use of significant unobservable input, in which case it is reclassified as Level 3. For the year ended March 31, 2016, there were no securities transferred between Level 1 or 2.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs would be classified within Level 2. These include most investment-grade corporate bonds, investments in other funds where redemption is not restricted, certain non-US sovereign obligations, thinly traded listed equities and some over-the-counter derivatives.

As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

For the year ended March 31, 2016, the Fund did not have any Level 3 securities. There were no securities transferred in or out of Level 3.

Financial instruments not measured at fair value

The financial instruments not measured at fair value through profit or loss are short term financial assets and financial liabilities whose carrying amounts approximate fair value. These financial instruments are classified within Level 2 of the fair value hierarchy.