SCOTIA CARIBBEAN INCOME FUND INC.
(formerly Scotia DBG Caribbean Income Fund Inc.)

Financial Statements

March 31, 2012

SCOTIA CARIBBEAN INCOME FUND INC.
(formerly Scotia DBG Caribbean Income Fund Inc.)

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To the Members of
SCOTIA CARIBBEAN INCOME FUND INC.
(formerly Scotia DBG Caribbean Income Fund Inc.)

We have audited the accompanying financial statements of Scotia Caribbean Income Fund Inc. (the Fund) (formerly Scotia DBG Caribbean Income Fund Inc.), which comprise the statement of financial position as at March 31, 2012, and the statements of comprehensive income, changes in net assets 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

June 19, 2012

SCOTIA CARIBBEAN INCOME FUND INC.
(formerly Scotia DBG Caribbean Income Fund Inc.)

Statement of Financial Position

March 31, 2012

(Expressed in United States Dollars)

	Notes	2012	2011
Assets			
Cash		$ 32,546	55,265
Interest receivable		840,474	752,621
Receivable for fund shares sold		21,560	211,664
Financial assets at fair value through profit or loss	4	62,898,575	50,900,295
Prepaid expenses		9,464	-
Total Assets		63,802,619	51,919,845
Liabilities			
Due to related parties	5	225,026	167,456
Accrued payables		112,890	47,861
Payable for fund shares repurchased		25,431	15,801
Total Liabilities		363,347	231,118
Net Assets		$ 63,439,272	51,688,727

Represented by:

Net assets attributable to holders of investment shares		$ 63,438,272	51,687,727
Governance shares	6	1,000	1,000
		$ 63,439,272	51,688,727

Approved by:

Director

Director

The notes on pages 6 to 22 are an integral part of these financial statements.

SCOTIA CARIBBEAN INCOME FUND INC.
(formerly Scotia DBG Caribbean Income Fund Inc.)

Statement of Comprehensive Income

For the year ended March 31, 2012

(Expressed in United States Dollars)

	Notes		2012	2011
Interest income		$	2,935,433	1,996,090
Net realised gain on financial assets through profit or loss			347,383	181,899
Net change in fair value of financial assets at fair value through profit or loss			43,746	630,272
Net investment income			3,326,562	2,808,261
Investment management fees	5,7		(863,105)	(496,500)
Administrator fees	7		(359,279)	(227,544)
Custodian fees	7		(28,591)	(24,112)
Audit fees			(10,054)	(10,027)
Other expenses			(3,083)	-
Legal fees			(150)	(2,900)
Total operating expenses			(1,264,262)	(761,083)
Operating profit before finance costs			2,062,300	2,047,178
Dividends to holders of investment shares			(1,250,169)	(936,586)
Total finance costs			(1,250,169)	(936,586)
Comprehensive income before income tax			812,131	1,110,592
Income tax	8		-	-
Net comprehensive income for the year		$	812,131	1,110,592

The notes on pages 6 to 22 are an integral part of these financial statements.

SCOTIA CARIBBEAN INCOME FUND INC.

(formerly Scotia DBG Caribbean Income Fund Inc.)

Statement of Changes in Net Assets Attributable to Holders of Investment Shares
For the year ended March 31, 2012

(Expressed in United States Dollars)

		2012	2011
Balance as at April 1	$	51,687,727	21,099,992
Net comprehensive income for the year		812,131	1,110,592
Subscriptions		16,383,839	31,082,439
Reinvestment		1,101,940	822,890
Redemption		(6,547,365)	(2,428,186)
Balance as at March 31	$	63,438,272	51,687,727

The notes on pages 6 to 22 are an integral part of these financial statements.

SCOTIA CARIBBEAN INCOME FUND INC.
(formerly Scotia DBG Caribbean Income Fund Inc.)

Statement of Cash Flows

For the year ended March 31, 2012

(Expressed in United States Dollars)

		2012	2011
Cash flows from operating activities			
Net comprehensive income for the year	$	812,131	1,110,592
Adjustments for:			
Interest income		(2,935,433)	(1,996,090)
Dividends paid to holders of redeemable shares		1,250,169	936,586
Net realised gain on financial assets at fair value through profit or loss		(347,383)	(181,899)
Net change in fair value of financial assets at fair value through profit or loss		(43,746)	(630,272)
		(1,264,262)	(761,083)
Increase in prepaid expenses		(9,464)	-
Increase in balance due to related parties		57,570	46,259
Increase in payable for fund shares repurchased		9,630	15,801
Increase/(decrease) in accrued payables		65,029	(20,926)
Net cash used in operating activities		(1,141,497)	(719,949)
Cash flows from investing activities			
Interest received		3,179,498	1,762,089
Proceeds from sale of investments		159,518,429	140,087,839
Purchase of investments		(171,457,498)	(169,430,455)
Net cash used in investing activities		(8,759,571)	(27,580,527)
Cash flows from financing activities			
Proceeds from issued shares in the Fund		16,573,943	30,896,812
Proceeds from reinvested shares in the Fund		1,101,940	822,890
Redemption paid		(6,547,365)	(2,428,186)
Dividends paid to holders of redeemable shares		(1,250,169)	(936,586)
Net cash from financing activities		9,878,349	28,354,930
Net change in cash and cash equivalents		(22,719)	54,454
Cash and cash equivalents at beginning of year		55,265	811
Cash and cash equivalents at end of year	$	32,546	55,265

The notes on pages 6 to 22 are an integral part of these financial statements.

1. Reporting Entity

Scotia Caribbean Income Fund Inc. (formerly Scotia DBG 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 registered under the Companies Law of the Cayman Islands and on September 17, 2009, the Fund 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.

On March 22, 2011 the Fund changed its name to Scotia Caribbean Income Fund Inc.

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. (formerly Scotia DBG Fund Managers Inc.) 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 19, 2012.

(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.

2. Basis of Preparation (Cont'd)

(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. 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.

3. Significant Accounting Policies

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

(a) Investments:

Investments are initially recognized at fair value and are designated as financial assets at fair value through profit or loss. Subsequent to initial recognition, investments are measured at fair value with changes in these fair values being recognised in the statement of comprehensive income as unrealised gains/losses on investments. The fair values of the securities are based on their bid prices quoted by brokers as at the reporting date.

(b) Derecognition:

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. The Fund uses the weighted average method to determine realised gains and losses on derecognition. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(c) 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.

3. Significant Accounting Policies (Cont'd)

(d) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(e) Interest income

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

(f) Expenses

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

(g) Accrued payables

Accrued payables are stated at cost.

(h) Dividends

The Fund intends to distribute up to 75% 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%).

(i) Impairment

The carrying amounts of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

(i) 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.

3. Significant Accounting Policies (Cont'd)

(i) Impairment (Cont'd)

(i) Calculation of recoverable amount (Cont'd):

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.

(ii) Reversals of impairment:

An impairment loss in respect of receivables is reversed if the subsequent increase in recoverable amounts can be related objectively to an event occurring after the impairment loss was recognised.

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.

(j) 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 6. 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.

(k) Standards and amendments to existing standards effective January 1, 2011 that are adopted by the Fund.

- The amendment to IAS 24, 'Related party disclosures', clarifies the definitions of a related party. The new definition clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related-party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Fund.

3. Significant Accounting Policies (Cont'd)

Standards and amendments to existing standards effective January 1, 2011 that are adopted by the Fund (Cont'd)

- IFRS 7 (amendment) 'Financial instruments: Disclosures'. This amendment was part of the IASB"s annual improvement project published in May 2010. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Adoption of this amendment did not have a significant impact on the Fund's financial statements.

There were no other standards, interpretations or amendments to existing standards that are effective, that would be expected to have a significant impact on the Fund.

"Improvements to IFRS" were issued in May 2010 and contain several amendments to IFRS, which the IASB considers non-urgent but necessary. "Improvements to IFRS" comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2011. No material changes to accounting policies are expected as a result of these amendments.

(l) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted.

The following new standards, amendments to standards and interpretations which are in issue, are not yet effective, and have therefore not been applied in preparing these financial statements.

- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after January 1, 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Fund's financial position or performance, as it is expected that the Fund will continue to classify its financial assets and financial liabilities (both long and short) as being at fair value through profit or loss.
- IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after January 1, 2013. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied, where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires

3. Significant Accounting Policies (Cont'd)

(l) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted (Cont'd)

valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The Fund has yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2012.

There were no other standards, interpretations or amendments to existing standards that are not effective for the financial year beginning January 1, 2011 that would be expected to have a significant impact on the Fund.

(Expressed in United States Dollars)

4. Financial Assets at Fair Value Through Profit or Loss

The Fund's portfolio of investments at fair value is comprised of:

	Maturity date	2012	2011
Air Jamaica Limited – 9.38% Amortised Notes	2015	$ 2,316,470	3,007,234
Commonwealth of Bahamas – 6.95%	2029	1,702,615	1,531,610
Government of Aruba - 6.80%	2014	485,680	490,350
Government of Barbados – 6.75%	2014	700,000	980,000
Government of Barbados – 7.00%	2022	1,330,170	1,330,170
Government of Barbados – 7.25%	2021	3,372,845	2,299,990
Government of Barbados – 7.80%	2019	100,000	100,000
Government of Bermuda – 5.60%	2020	2,889,410	2,691,243
Government of Cayman Islands – 5.95%	2019	2,329,555	2,237,670
Government of Colombia – 8.38%	2027	1,506,750	178,340
Government of Colombia – 8.70%	2016	745,895	376,420
Government of Jamaica – 10.63% Corporate	2017	1,581,180	3,457,720
Government of Jamaica – 8.00%	2019	-	4,407,690
Government of Jamaica – 9.25%	2025	122,850	-
Government of Jamaica – 9.00% Global Bonds	2015	3,497,830	4,975,500
Government of Jamaica – 11.75% Global Bonds	2011	-	138,370
Petroleum Company Trinidad and Tobago – 6%	2022	181,125	194,541
Petroleum Company Trinidad and Tobago – 9.75%	2019	3,423,497	2,643,218
Republic of Costa Rica – 10.00%	2020	1,074,000	1,088,000
Republic of El Salvador – 7.38%	2019	815,100	820,800
Republic of Panama – 9.38%	2023	347,500	-
Republic of Trinidad and Tobago – 9.75%	2020	4,324,470	4,201,790
Sagicor Finance Ltd – 7.5% Corporate Bonds	2016	309,000	312,639
Jamaica Public Service – 11.00%	2021	3,187,373	-
National Road Operating and Construction Company – 9.38%	2024	1,696,260	-
Reverse Repurchase Agreement – Scotia Investments Jamaica Limited.	2012	24,859,000	13,437,000
		$ 62,898,575	50,900,295

5. Related Party Transactions

A party is related to the Fund, if:

(i) directly, or indirectly through one or more intermediaries, the party:

- (a) controls, is controlled by, or is under common control with, the Fund (this includes parents, subsidiaries and fellow subsidiaries);
- (b) has an interest in the entity that gives it significant influence over the Fund; or
- (c) has joint control over the Fund;

(ii) the party is an associate of the Fund;

(iii) the party is a joint venture in which the Fund is a venturer;

(iv) the party is a member of the key management personnel of the Fund or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Fund resides with, directly or indirectly, any individual referred to in (iv) or (v).

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:

		2012	**2011**
Due to Fund Manager – Scotia Asset Management (St. Lucia) Inc. (formally Scotia DBG Fund Managers Inc.)	$	225,026	167,456

The Fund has appointed Scotia Asset Management (St. Lucia) Inc. (formerly Scotia DBG Fund Managers Inc.) (“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 $863,105 (2010 - $496,500).

(Expressed in United States Dollars)

6. Share Capital

(a) Authorised and issued

		2012	2011
Authorised			
100,000,000 investment shares of no par value			
100 governance shares of no par value			
Issued			
Investment Shares			
Balance at April 1		14,668,116	6,225,594
Subscriptions		4,580,776	8,902,732
Reinvestment		309,345	235,918
Redemptions		(1,834,406)	(696,128)
Balance at March 31		17,723,831	14,668,116
100 Governance Shares	$	1,000	1,000

The rights and obligations of different 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.

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.

(Expressed in United States Dollars)

6. **Share Capital** (Cont'd)

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

		2012	2011
Net assets value of Fund	$	63,439,272	51,688,727
Less: Governance shares		(1,000)	(1,000)
	$	63,438,272	51,687,727
Investment shares in issue at March 31		17,723,831	14,668,116
Net asset value per investment share	$	3.58	3.52

7. **Administration, Management and Custodian fees**

The Fund Administrator shall be paid an annual fee of US$15,000 for services rendered in accordance with the terms of the Fund Administration Agreement, out of the assets of the Fund. The Fund Sub Administrator shall be paid a minimum annual fee of US$22,035 for services rendered in accordance with the terms of the Fund Sub Administration Agreement, out of the assets of the Fund. These fees accrue daily and are paid quarterly in arrears.

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 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 quarterly 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.

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

(Expressed in United States Dollars)

8. Income Tax

(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

		2012	2011
Income tax expense	$	-	-
Reconciliation of applicable tax charge to effective tax charge:			
Profit before income tax expense	$	812,131	1,110,592
Income tax at domestic rate of 1% (2011 – 1%)	$	8,121	11,106
Less: Tax effect of exempt income		(23,473)	(17,692)
Unrealised fair value gains		(437)	(6,303)
Adjustment for current year tax losses		15,789	12,889
Income tax expense	$	-	-

At the end of the year, the Fund had income tax losses of $3,921,878 (2010 - $2,342,924) 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:

		Losses arising	Losses available
2015	$	485,203	485,203
2016	$	568,792	1,053,995
2017	$	1,288,929	2,342,924
2018	$	1,578,954	3,921,878

9. 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.

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.

(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.

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

	2012	**2011**
S & P Rating		
AAA to A-	26.36%	25.68%
BBB+ to B-	65.26%	74.32%
Not rated	8.38%	-
Total	100.00%	100.00%

(Expressed in United States Dollars)

9. Financial Risk Management (Cont'd)

(a) Credit risk (Cont'd)

		2012	2011
Investments	$	62,898,575	50,900,295

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

	Rating range		2012	Rating range		2011
Government of Jamaica	B-	$	30,060,860	B-	$	26,416,280
Government of Aruba	A-		485,680	A-		490,350
Government of Bermuda	AA-		2,889,410	AA		2,691,243
Commonwealth of Bahamas	BBB		1,702,615	BBB+		1,531,610
Government of Cayman Islands	Aa3		2,329,555	Aa3		2,237,670
Republic of Costa Rica	BB+		1,074,000	BB+		1,088,000
Republic of Columbia	BBB-		2,252,645	BBB-		554,760
Republic of El Salvador	BB-		815,100	BB-		820,800
Republic of Trinidad and Tobago	A		4,324,470	A		4,201,790
Republic of Panama	BBB-		347,500	-----		-
Government of Barbados	BBB-		5,503,015	BBB-		4,710,160
Petroleum Company Trinidad and Tobago – 6%	BBB		181,125	BBB		194,541
Petroleum Company Trinidad and Tobago – 9.75%	BBB		3,423,497	BBB		2,643,218
Sagicor Finance Ltd – 7.5% Corporate Bonds	BB+		309,000	BB+		312,639
Air Jamaica Limited – 9.375% Amortised Notes	B-		2,316,470	B-		3,007,234
National Road Operating and Construction Company – 9.38%	B-		1,696,260	-----		-
Jamaica Public Service – 11.00%	NR		3,187,373	-----		-
		$	62,898,575		$	50,900,295

9. Financial Risk Management (Cont'd)

(b) Liquidity risk:

Liquidity risk is the risk that the Fund is unable to meet its payment obligations associated with its financial liabilities when they fall due.

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 the 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 exposure to foreign currency risk as all financial assets and liabilities are in United States dollars.

(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.

(Expressed in United States Dollars)

9. Financial Risk Management (Cont'd)

(c) Market risk (cont'd):

(ii) Interest rate risk (cont'd):

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.

	Within 3 months	3-6 months	1-5 years	Over 5 years	Total
2012	$ 19,859,000	5,000,000	8,054,875	29,984,700	62,898,575
2011	$ 12,400,370	1,175,000	9,829,504	27,495,421	50,900,295

(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 US$62,898,575 (2011: US$50,900,295).

Sensitivity analysis

A 5% increase/decrease in prices at March 31, 2012, would have increased/decreased the surplus for the year and the net assets available to holders of fund units by US$1,901,979 (2011: US$1,873,165).

10. Fair Value Disclosure

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making 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) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(Expressed in United States Dollars)

10. Fair Value Disclosure (Cont'd)

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.

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:

At March 31, 2012

		Level 1	Level 2	Level 3	Total Balance
Financial assets at fair value through profit or loss					
Government Issues	$	-	26,925,850	-	26,925,850
Government Bonds		-	11,113,725	-	11,113,725
Repurchase Agreements		-	24,859,000	-	24,859,000
Total financial assets at fair value through profit or loss	$	-	62,898,575	-	62,898,575

At March 31, 2011

		Level 1	Level 2	Level 3	Total Balance
Financial assets at fair value through profit or loss					
Government Issues	$	-	31,305,663	-	31,305,663
Government Bonds		-	6,157,632	-	6,157,632
Repurchase Agreements		-	13,437,000	-	13,437,000
Total financial assets at fair value through profit or loss	$	-	50,900,295	-	50,900,295

10. 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, 2012, 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, 2012, the Fund did not have any Level 3 securities. There were no securities transferred in or out of Level 3.