

SCOTIABANK CANADIAN GROWTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2015

SCOTIABANK CANADIAN GROWTH FUND

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DECEMBER 31, 2015

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Independent auditor's report

To the Board of Directors of Scotiabank Canadian Growth Fund

We have audited the accompanying financial statements of Scotiabank Canadian Growth Fund, which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive loss, changes in net assets attributable to holders of redeemable participating 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.

Auditor's 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 Scotiabank Canadian Growth Fund as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

March 30, 2016

SCOTIABANK CANADIAN GROWTH FUND

STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2015

(Expressed in United States dollars)

| | <u>2015</u> | <u>2014</u> |
|----------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,983,013 | \$ 1,875,423 |
| Financial assets at fair value through profit or loss (Cost: \$47,742,473; 2014: \$53,093,553) (Notes 3, 7 and 8) | 35,655,583 | 53,372,804 |
| Dividends receivable | 53,205 | 73,951 |
| Receivable for investments sold | 40,439 | - |
| Subscriptions receivable | 18,009 | 69,043 |
| Receivable from the Manager (Note 4) | 19,870 | 64,723 |
| Prepaid expenses and other assets | <u>6,015</u> | <u>6,000</u> |
| Total assets | <u>38,776,134</u> | <u>55,461,944</u> |
| LIABILITIES | | |
| Payable for investments purchased | 280,776 | 871,281 |
| Accrued expenses | 57,871 | 47,511 |
| Tax withholding liability | 13,145 | 18,488 |
| Redemptions payable | <u>-</u> | <u>11,264</u> |
| Liabilities (excluding net assets attributable to holders of redeemable participating shares) | <u>351,792</u> | <u>948,544</u> |
| Management shares | <u>768</u> | <u>768</u> |
| Net assets attributable to holders of redeemable participating shares (Notes 6 and 7) | <u>\$ 38,423,574</u> | <u>\$ 54,512,632</u> |
| Net asset value per redeemable participating share (Note 6) | | |
| Class A \$30,474,955/13,010,731 (2014: \$45,291,672/14,944,266 shares) | <u>\$ 2.34</u> | <u>\$ 3.03</u> |
| Class NU \$1,605,218/667,564 (2014: \$2,515,164/806,154 shares) | <u>\$ 2.40</u> | <u>\$ 3.12</u> |
| Class IU \$1,424,160/567,852 (2014: \$1,809,127/567,852 shares) | <u>\$ 2.51</u> | <u>\$ 3.19</u> |
| Class AC CDN1,713,888/459,709 (2014: CDN677,836/167,417 shares) | CDN <u>3.73</u> | CDN <u>4.05</u> |
| Class NC CDN1,342,894/388,288 (2014: CDN988,416/263,618 shares) | CDN <u>3.46</u> | CDN <u>3.75</u> |
| Class IC CDN3,775,989/1,048,959 (2014: CDN4,004,759/1,049,946 shares) | CDN <u>3.60</u> | CDN <u>3.81</u> |
| Class IJ JMC45,201/558 (2014: JMC54,879/558 shares) | JMC <u>80.97</u> | JMC <u>98.36</u> |

Approved for issuance on behalf of Scotiabank Canadian Growth Fund's Board of Directors by:

Sarah Hobbs

Sarah Hobbs
Director

Sloane Muldoon

Sloane Muldoon
Director

Date: March 23, 2016

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

SCOTIABANK CANADIAN GROWTH FUND

STATEMENT OF COMPREHENSIVE LOSS

YEAR ENDED DECEMBER 31, 2015

(Expressed in United States dollars)

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------------------------------------------------------------------------------------------|------------------------|-----------------------|
| Income | | |
| Dividend income | \$ 803,942 | \$ 833,923 |
| Other income | - | 449 |
| Net realized gain on financial assets at fair value through profit or loss and foreign currencies | 1,241,317 | 4,092,412 |
| Net change in unrealized depreciation on financial assets at fair value through profit or loss and foreign currencies | <u>(12,429,831)</u> | <u>(5,234,136)</u> |
| Total net loss | <u>(10,384,572)</u> | <u>(307,352)</u> |
| Expenses | | |
| Management fees (Note 4) | 889,520 | 1,033,012 |
| Custodian and administration fees | 100,268 | 81,125 |
| Other expenses | 60,683 | 72,996 |
| Professional fees | <u>23,903</u> | <u>34,402</u> |
| Total operating expenses | 1,074,374 | 1,221,535 |
| Less: expenses reimbursed (Note 4) | <u>(75,446)</u> | <u>(32,230)</u> |
| Net operating expenses | <u>998,928</u> | <u>1,189,305</u> |
| Operating loss | (11,383,500) | (1,496,657) |
| Withholding taxes on dividend income | <u>(199,961)</u> | <u>(208,215)</u> |
| Decrease in net assets from operations attributable to holders of redeemable participating shares | <u>\$ (11,583,461)</u> | <u>\$ (1,704,872)</u> |

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

SCOTIABANK CANADIAN GROWTH FUND

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE
TO HOLDERS OF REDEEMABLE PARTICIPATING SHARES**

YEAR ENDED DECEMBER 31, 2015

(Expressed in United States dollars)

| | <u>Share Capital</u> | <u>Share Premium</u> | <u>Decrease in net assets from operations attributable to redeemable participating shareholders</u> | <u>Total net assets attributable to redeemable participating shareholders (at redemption value)</u> |
|---------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Balance as at December 31, 2013 | \$ 151,417 | \$ 42,027,057 | \$ 9,386,499 | \$ 51,564,973 |
| Issue of redeemable participating shares | 39,294 | 12,833,683 | - | 12,872,977 |
| Redemption of redeemable participating shares | (25,416) | (8,195,030) | - | (8,220,446) |
| Decrease in net assets from operations attributable to holders of redeemable participating shares | <u>-</u> | <u>-</u> | <u>(1,704,872)</u> | <u>(1,704,872)</u> |
| Balance as at December 31, 2014 | \$ 165,295 | \$ 46,665,710 | \$ 7,681,627 | \$ 54,512,632 |
| Issue of redeemable participating shares | 26,438 | 7,743,790 | - | 7,770,228 |
| Redemption of redeemable participating shares | (43,000) | (12,232,825) | - | (12,275,825) |
| Decrease in net assets from operations attributable to holders of redeemable participating shares | <u>-</u> | <u>-</u> | <u>(11,583,461)</u> | <u>(11,583,461)</u> |
| Balance as at December 31, 2015 | \$ <u>148,733</u> | \$ <u>42,176,675</u> | \$ <u>(3,901,834)</u> | \$ <u>38,423,574</u> |

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

SCOTIABANK CANADIAN GROWTH FUND

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

(Expressed in United States dollars)

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------------------------------------------------|---------------------|---------------------|
| Cash flows from operating activities | | |
| Dividend received | \$ 619,384 | \$ 628,481 |
| Interest and other income received | - | 449 |
| Operating expenses paid | (1,064,029) | (1,281,154) |
| Operating expenses paid on behalf of Manager | (443,133) | (506,212) |
| Reimbursements received from Manager | 563,432 | 531,057 |
| Purchase of financial assets at fair value through profit or loss | (27,293,788) | (43,408,162) |
| Proceeds from sale of financial assets at fair value through profit or loss | 33,258,425 | 37,319,018 |
| Net realized loss on foreign currencies | (66,874) | 17,097 |
| | <u>5,573,417</u> | <u>(6,699,426)</u> |
| Net cash provided by/(used in) operating activities | | |
| | <u>5,573,417</u> | <u>(6,699,426)</u> |
| Cash flows from financing activities | | |
| Proceeds from subscriptions of redeemable participating shares | 7,821,262 | 12,852,551 |
| Payments for redemptions of redeemable participating shares | (12,287,089) | (8,254,598) |
| | <u>(4,465,827)</u> | <u>4,597,953</u> |
| Net cash (used in)/provided by financing activities | | |
| | <u>(4,465,827)</u> | <u>4,597,953</u> |
| Net change in cash and cash equivalents | 1,107,590 | (2,101,473) |
| Cash and cash equivalents at beginning of year | <u>1,875,423</u> | <u>3,976,896</u> |
| Cash and cash equivalents at end of year | <u>\$ 2,983,013</u> | <u>\$ 1,875,423</u> |
| Supplementary information on cash flows from operating activities | | |
| Tax withheld | <u>\$ 205,304</u> | <u>\$ 209,139</u> |

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

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

1. Incorporation and Principal Activities

Scotiabank Canadian Growth Fund (the “Company”) was incorporated in the Cayman Islands on June 23, 1994 and is registered under The Mutual Funds Law (revised) of the Cayman Islands. The Company is an open-ended investment company which may issue and redeem its shares at a price based on the underlying net asset value. The address of the registered office is Scotia Centre, 6 Cardinal Avenue, P.O. Box 501, Grand Cayman KY1-1106. The Company’s redeemable participating shares are listed on the Cayman Islands Stock Exchange, the Dutch Caribbean Stock Exchange, and are registered for distribution in Trinidad and Tobago, and in Jamaica.

The Company invests primarily in a diverse portfolio of equity securities of companies listed on Canadian stock exchanges that are likely to benefit from prevailing and anticipated economic conditions. The Company may also invest in Canadian Dollar denominated corporate paper and money market instruments. The Company may use or invest in derivative instruments subject to certain restrictions.

It is not the intention of the Company to pay dividends and any earnings and profits will be reinvested.

On July 23, 2007, Scotiabank & Trust (Cayman) Ltd. (the “Manager”) appointed State Street Cayman Trust Company, Ltd. as sub-administrator (the “Sub-Administrator”) and State Street Bank and Trust Company as custodian (the “Custodian”).

1832 Asset Management L.P. (formerly Scotia Cassels Investment Counsel Limited) acts as the Company’s Investment Advisor (the “Investment Advisor”). The Investment Advisor is a related party to the Manager.

2. Significant Accounting Policies

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

Basis of preparation:

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 8.

All references to net assets throughout this document refer to net assets attributable to holders of Redeemable Participating Shares unless otherwise stated. Net assets per share information as disclosed in the Statement of Financial Position for each class of participating shares disclosed in Note 6 has been determined as total assets less total liabilities (excluding net assets attributable to holders of Redeemable Participating Shares) divided by the number of outstanding shares of each class of Redeemable Participating Shares.

(a) Standards and amendments to existing standards effective January 1, 2015 that are adopted by the Company.

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

2. Significant Accounting Policies (continued)

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning January 1, 2015 that would be expected to have a material impact on the Company.

- (b) New standards, amendments and interpretations effective after January 1, 2015 and have not been early adopted.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

Valuation of financial assets at fair value through profit or loss: The Company's investments are considered trading securities and consequently categorized as financial assets or liabilities at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value, which is considered the cost basis of the financial assets. The Company records security transactions on a trade date basis, recognizing the cost or sales proceeds of financial assets sold or purchased on an average cost basis. Financial assets are valued on the valuation date at fair value, using data provided by one or more reputable third party pricing vendors which is in turn based upon (1) last traded price on the exchange upon which such financial assets are traded, (2) valuation models using observable market inputs, or (3) prices quoted by the principal market makers for non-exchange traded financial assets. Management evaluates the reliability of the pricing data received at each report date. All related realized gains and losses are recognized in the Statement of Comprehensive Loss as income or loss as they occur.

Functional and presentation currency: The United States Dollar ("USD") is the currency in which the Company measures its performance and reports its results, as well as the currency in which the Company receives the majority of its subscriptions from its investors (the "functional currency"). The Company has adopted USD as its presentation currency.

Accounting for investments and investment income: Security transactions are accounted for on a trade date basis. Realized gains and losses on sales of financial assets are calculated on an average cost basis. Interest is recognized in the Statement of Comprehensive Loss using the effective yield method and includes discount accreted over the remaining period to maturity of individual financial assets.

Redeemable participating shares and management shares: Redeemable participating shares (the "Redeemable Participating Shares") are redeemable at the shareholder's option and are classified as financial liabilities. Any distribution on such Redeemable Participating Shares is recognized in the Statement of Comprehensive Loss as finance costs. The Redeemable Participating Shares can be put back to the Company by the holder at any dealing day for cash equal to a proportionate share of the Company's net assets. The Redeemable Participating Shares are carried at the redemption amount that would be payable at the dealing day if the shareholder exercised its right to put the share back to the Company. Management shares (the "Management Shares") are not redeemable, and do not participate in the net income or dividends of the Company as per the Company's articles of association.

Dividend income: Dividends are recorded as income on the ex-dividend date and are included on the Statement of Comprehensive Loss. Withholding taxes on dividend income are shown as a separate item in the Statement of Comprehensive Loss.

Expenses: Expenses directly attributable to the Company are recorded on an accrual basis.

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

2. Significant Accounting Policies (continued)

Translation of foreign currency amounts: Assets and liabilities denominated in currencies other than the USD (“foreign currencies”) are translated at the rates prevailing on the date of valuation and exchange differences are reflected in the Statement of Comprehensive Loss in the period in which they arise. Transactions in foreign currencies are translated at prevailing exchange rates at the date of the transaction. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on financial assets from the fluctuations arising from changes in market prices of financial assets held. Such fluctuations are included with the net realized gain or loss and net change in unrealized appreciation (depreciation) on financial assets at fair value through profit or loss.

Cash and cash equivalents: For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash, fixed term deposits with original maturity of less than 90 days.

Forward foreign currency contracts: The Company may enter into forward foreign currency contracts as hedges against financial assets as well as for speculative purposes. All commitments are “marked to market” on each valuation day at the applicable foreign exchange rate and any resulting unrealized gain or loss is recorded on such date. Realized gains and losses are recorded at the time forward contracts are closed or by entering in to an offsetting contract.

Capital risk management: The capital of the Company is represented by the net assets attributable to holders of Redeemable Participating Shares. The amount of net assets attributable to holders of Redeemable Participating Shares can change significantly on a daily basis as the Company is subject to daily subscriptions and redemptions at the discretion of shareholders. The Company’s objective when managing capital is to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Company. In order to maintain or adjust the capital structure, the Company’s policy is to perform the following:

- Monitor the level of daily subscriptions and redemptions relative to the liquid assets and adjust the amount of distributions the Company pays to redeemable shareholders.
- Redeem and issue new shares in accordance with the constitutional documents of the Company, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Board of Directors and the Investment Advisor monitor capital on the basis of the value of net assets attributable to holders of Redeemable Participating Shares.

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

3. Financial Assets at Fair Value through Profit or Loss

At December 31, 2015 and 2014, the financial assets comprised the following securities:

| | <u>2015</u> | | <u>2014</u> | |
|----------|---------------|-------------------|---------------|-------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Equities | \$ 47,742,473 | \$ 35,655,583 | \$ 53,093,553 | \$ 53,372,804 |

At December 31, 2015, the portfolio consists of 49 positions (2014: 46 positions) with no one position or issuer accounting for more than 6.34% (2014: 7.02%) of the financial assets value. The majority of the Company's financial assets are denominated in Canadian dollars.

The investment portfolio of the Company comprise of a diverse portfolio of exchange traded equity securities as at December 31, 2015 and 2014. The following summarize the investment portfolio segregated by country of issuer:

| | <u>2015</u> | | <u>2014</u> | |
|--------------------------------------------------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| <u>Financial Assets at fair value</u> | <u>Fair Value</u> | <u>% of total portfolio</u> | <u>Fair Value</u> | <u>% of total portfolio</u> |
| Canada | \$ 23,762,067 | 66.64% | \$ 38,629,531 | 72.38% |
| Ireland | 1,623,012 | 4.55% | - | 0.00% |
| United States | 10,270,504 | 28.81% | 14,743,273 | 27.62% |
| Total financial assets at fair value through profit or loss | \$ 35,655,583 | 100.00% | \$ 53,372,804 | 100.00% |

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

3. Financial Assets at Fair Value through Profit or Loss (continued)

The investment portfolio of the Company comprises a diverse portfolio of exchange traded equity securities. The following is a summary of the financial assets segregated by the industry sector:

| <u>Financial assets at fair value</u> | <u>2015</u> | | <u>2014</u> | |
|-------------------------------------------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| | <u>Fair Value</u> | <u>% of total portfolio</u> | <u>Fair Value</u> | <u>% of total portfolio</u> |
| Consumer Discretionary | \$ 1,985,123 | 5.57% | \$ 2,621,307 | 4.91% |
| Consumer Staples | - | 0.00% | 595,801 | 1.12% |
| Energy | 4,111,792 | 11.53% | 7,992,414 | 14.97% |
| Financials | 6,136,477 | 17.21% | 13,415,552 | 25.14% |
| Health Care | 6,524,304 | 18.30% | 8,903,461 | 16.68% |
| Industrials | 9,905,633 | 27.78% | 11,191,067 | 20.97% |
| Information Technology | 5,230,979 | 14.67% | 5,457,208 | 10.22% |
| Materials | 1,193,319 | 3.35% | 2,860,585 | 5.36% |
| Telecommunication Services | <u>567,956</u> | <u>1.59%</u> | <u>335,409</u> | <u>0.63%</u> |
| Total financial assets at fair value through profit or loss | <u>\$ 35,655,583</u> | <u>100.00%</u> | <u>\$ 53,372,804</u> | <u>100.00%</u> |

At December 31, 2015 and 2014, there are no assets and liabilities subject to offsetting enforceable under a master netting arrangement.

4. Management Agreement

Under the terms of the management agreement dated November 1, 1999 (amended by agreement dated April 9, 2014), the Company appointed the Manager to manage the affairs and investments of the Company subject to the overall supervision and control of the Board of Directors of the Company.

The Manager has responsibility for the general administration of the Company, but has delegated the performance of most tasks to third parties.

The Manager is entitled to a fee (the “management fee”) at rates disclosed in the table below. The management fee paid by the Company is paid out of the assets of the Company and are accrued daily and paid quarterly in arrears. Out of this fee, the Manager is required to pay the fees of the Investment Advisor and any other person to whom functions are delegated by the Manager, along with all investment related direct expenses. The Manager may also pay trailing commissions to sub-distributors out of the management fee. The Manager may choose from time to time to absorb any portion of the annual management fees on any class of shares of the Company.

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

4. Management Agreement (continued)

The Manager is entitled to a management fee from the classes of Redeemable Investment Shares as listed below:

| <u>Class</u> | <u>Management fee per annum</u> |
|---------------------|----------------------------------------|
| A | 2.00% |
| NU | 2.45% |
| IU | NIL |
| AC | 2.00% |
| NC | 2.45% |
| IC | NIL |
| IJ | NIL |

No management fees are charged on Class IU shares. Instead, Class IU investors negotiate a separate fee that is paid directly to the Manager.

The Company also incurs certain operating expenses. Such expenses may include, but are not limited to, administrative costs, interest on borrowed funds, auditing expenses, legal expenses, insurance, licensing, accounting, fees and disbursement of transfer agents, registrars, custodians, sub-custodians and escrow agents and the annual registration fee payable in the Cayman Islands. The Manager may at its sole discretion choose to absorb any of these expenses, at any time.

For the year ended December 31, 2015, the Manager voluntarily applied an expense ratio cap of 2.25% for Class A shares (2014: 2.25%), 2.75% for Class NU shares (2014: 2.75%), 2.30% for Class AC shares (2014: 2.30%), and 2.75% for Class NC shares (2014: 2.75%). As a result of the expense ratio cap, total operating expenses reimbursed by the Manager for the year ending December 31, 2015 was \$75,446 (2014: \$32,230) which is recorded as expenses reimbursed in the Statement of Comprehensive Loss, of which \$19,870 was receivable as of December 31, 2015 and was subsequently paid to the Fund. The Manager may decide to change or cease the expense ratio cap at any time.

5. Other Related Party Transactions

For the year ended December 31, 2015, the Company paid on behalf of the Manager \$69,977 (2014: \$82,129) to the Portfolio Manager and \$373,156 (2014: \$424,083) to sub-distributors, which was reimbursed during the year.

Under the terms of the distributorship agreement dated June 24, 1994, the Manager, Scotiabank & Trust (Cayman) Ltd. (the "Distributor") is responsible for the distribution of Redeemable Participating Shares of the Company in accordance with the terms of the Prospectus. The Distributor is entitled to all initial subscription charges levied against subscribers. The subscription charge is levied solely at the discretion of the Manager at up to 5% of the total amount paid by the subscriber for share.

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

6. Share Capital

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------------------------------------------|----------------------|----------------------|
| Authorized: | | |
| 1,000 Management Shares of CDN1.00 par value each | CDN 1,000 | CDN 1,000 |
| 100,000,000 Redeemable Participating Shares of CDN0.01 par value each | <u>1,000,000</u> | <u>1,000,000</u> |
| | CDN <u>1,001,000</u> | CDN <u>1,001,000</u> |

Issued:

Total units issued or redeemed during the year and the corresponding share capital and share premium dollar amounts:

| | <u>2015</u> | | <u>2014</u> | |
|----------------------------------------|--------------|---------------|--------------|---------------|
| | <u>Units</u> | <u>\$</u> | <u>Units</u> | <u>\$</u> |
| Management Shares | | | | |
| Shares issued during the year | - | - | - | - |
| Shares redeemed during the year | - | - | - | - |
| Redeemable Participating Shares | | | | |
| Class A | | | | |
| Shares issued during the year | 1,788,286 | 5,007,820 | 2,949,680 | 9,493,188 |
| Shares redeemed during the year | (3,721,822) | (10,559,705) | (2,321,578) | (7,480,144) |
| Class NU | | | | |
| Shares issued during the year | 140,512 | 384,694 | 210,084 | 688,663 |
| Shares redeemed during the year | (279,102) | (810,717) | (143,263) | (477,435) |
| Class IU | | | | |
| Shares issued during the year | - | - | 111,705 | 375,777 |
| Shares redeemed during the year | - | - | (14,151) | (45,619) |
| Class AC* | | | | |
| Shares issued during the year | 502,260 | CDN 1,709,381 | 110,985 | CDN 415,613 |
| Shares redeemed during the year | (209,967) | (649,100) | (29,532) | (105,438) |
| Class NC* | | | | |
| Shares issued during the year | 158,323 | CDN 498,917 | 58,287 | CDN 199,165 |
| Shares redeemed during the year | (33,654) | (99,491) | (33,001) | (111,810) |
| Class IC* | | | | |
| Shares issued during the year | 54,433 | CDN 169,416 | 488,086 | CDN 1,700,080 |
| Shares redeemed during the year | (55,420) | (156,812) | - | - |
| Class IJ** | | | | |
| Shares issued during the year | - | JMC - | 558 | JMC 491 |
| Shares redeemed during the year | - | - | - | - |

* Classes AC, NC, and IC are offered in CDN

** Class IJ is offered in JMC

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

6. Share Capital (continued)

The Management Shares are held exclusively by the Manager, who holds all the voting power of the Company but is entitled only to a return of capital in the event of liquidation.

Shares that are redeemed within 90 days of purchase may be subject to a redemption fee up to 2% of the redemption amount. No redemption fees were levied during the year ended December 31, 2015 (2014: \$NIL).

Each of the classes are denominated in USD, except for Classes AC, NC and IC which are denominated in Canadian Dollars (“CDN”) and IJ which is denominated in Jamaican Dollars (“JMC”).

For the classes of shares denominated in currencies other than the functional currency of the Company, the Net Asset Values are calculated by converting the USD Net Asset Value per Share to the CDN or JMC equivalent using the then current rate of exchange.

Each of the classes of Redeemable Participating Shares are issued and redeemable daily at a price equal to the net asset value per share on the valuation day on which the notification is received, as long as it is received before the Company’s close of business. The net asset value per share for any valuation date is determined by dividing the value of the assets of the respective share class less its liabilities at the close of business on such valuation day by the number of Redeemable Participating Shares outstanding of the share class on that date.

The Redeemable Participating Shares confer no voting rights and no entitlement to receive notice of, or attend at, general meetings of the Company. The Redeemable Participating Shares carry the right to participate in dividends and all other distributions of the Company.

The Company’s capital is primarily represented by these Redeemable Participating Shares. In accordance with the objectives outlined in Note 1 and the risk management policies in Note 7, the Company endeavours to invest the subscriptions received from redeemable participating shareholders into appropriate investments while maintaining sufficient liquidity to meet redemptions, being augmented by disposal of listed securities where necessary.

7. Financial Risk Management

The Company’s investment activities expose it to various types of risk which are associated with the financial assets and markets in which it invests.

Price risk: All financial assets present a risk of loss of capital. The Investment Advisor moderates this risk through a careful selection of the financial assets within specified limits. The Company’s overall market positions are monitored on a daily basis by the Investment Advisor. The Company’s equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial assets. Maximum risk resulting from financial assets is determined by the fair value of the financial assets.

The Investment Advisor uses the S&P TSX Composite Index as a reference point in making investment decisions. However, the Investment Advisor does not manage the Company’s investment strategy to track S&P TSX Composite Index or any other index or external benchmark. The sensitivity analysis presented is based upon the investment_portfolio composition as at December 31, 2015 and 2014 and the historical correlation of the securities comprising the investment portfolio to the respective indices. The composition of the Company’s investment portfolio is expected to change over time. Accordingly, the sensitivity analysis prepared as of December 31, 2015 and 2015 is not necessarily indicative of the effect on the Company’s net assets attributable to holders of Redeemable Participating Shares by future movements in the level of S&P TSX Composite Index.

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

7. Financial Risk Management (continued)

Price risk (continued):

At December 31, 2015 and 2014, the Company's market risk is affected by two main components: changes in actual market prices, and foreign currency movements. If the S&P TSX Composite Index at December 31, 2015 had increased by 10% with all other variables held constant, this would have increased net assets attributable to holders of Redeemable Participating Shares by approximately \$4,182,400 (2014: \$5,689,541), ignoring the effects of any management fees. Conversely, if the S&P TSX Composite Index at December 31, 2015 had decreased by 10%, this would have decreased net assets attributable to holders of Redeemable Participating Shares by approximately \$4,182,400 (2014: \$5,689,541), ignoring the effects of any management fees.

The overall market exposures as at December 31, 2015 and 2014 are presented in Note 3.

Currency risk: The Company invests in financial assets denominated in currencies other than the functional currency. Consequently, the Company is exposed to risks that the exchange rate of the USD relative to other currencies may change in a manner which has an adverse effect on the reported value of the Company's assets which are denominated in currencies other than the USD. Approximately 72% of the Company's assets are denominated in CDN.

When an investor invests into a class which is denominated in a different currency to the functional currency of the Company, the currency risk of the investor will be different to the currency risk of the Company. Therefore, as the AC, NC, and IC Class is denominated in CDN and the IJ Class is denominated JMC, the NAV per Share of these classes is also subject to the USD/CDN rate and the USD/JMC rate, respectively.

If the CDN at December 31, 2015 had increased by 10% relative to the USD with all other variables held constant, the impact would have been an increase in net assets attributable to holders of Redeemable Participating Shares of approximately \$2,559,096 (2014: \$5,433,930), ignoring the effects of any management fees. Conversely, if the CDN at December 31, 2015 had decreased by 10% relative to the USD this would have decreased net assets attributable to holders of Redeemable Participating Shares by approximately \$2,559,096 (2014: \$5,433,930), ignoring the effects of any management fees.

Interest rate risk: The Company's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and results of operations and cash flows.

All of the Company's financial assets are in equities, therefore, the direct impact of changes in interest rates on the market values of the investments is significantly mitigated. Accordingly, the Investment Advisor considers that the Company's direct exposure to interest rate risk is not significant.

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

7. Financial Risk Management (continued)

Credit and concentration risk: Financial assets which potentially expose the Company to credit risk consist primarily of cash and cash equivalents. The extent of the Company's exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Company's Statement of Financial Position.

The Company mitigates this risk by holding cash balances only in highly reputable financial institutions.

Transactions of financial assets undertaken by the Company are cleared through and held in custody by a reputable custodian. The Company's cash is held by this same custodian. The clearing and depository operations for the Company's transactions of financial assets are mainly concentrated with one custodian. The Custodian is a member of a major securities exchange and at December 31, 2015 had a credit rating of AA- (2014: AA-). The Company is subject to credit risk and possible losses should the Custodian be unable to fulfill its obligations to the Company. At December 31, 2015 and 2014, substantially all cash and cash equivalents balances and financial assets at fair value through profit or loss are either held with or placed in custody with the Custodian.

Liquidity risk: Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial instrument quickly close to its fair value.

All liabilities are due on demand or within one year.

The Company is exposed to daily cash redemptions of Redeemable Participating Shares. It therefore invests predominantly in financial assets that are traded in an active market and can be readily disposed of; it is permitted to invest only a limited proportion of its financial assets in investments that are not actively traded in a secondary market.

Under certain circumstances the Directors of the Company have the ability to suspend the determination of the net assets attributable to holders of Redeemable Participating Shares, if it is considered in the best interest of the shareholder group as a whole. During the suspension of the net assets attributable to holders of Redeemable Participating Shares, the subscription and redemption of shares would also be suspended.

Fair values: At December 31, 2015 and 2014 investments are carried at fair value and the carrying amounts of all other assets and liabilities on the Statement of Financial Position approximated their fair values.

8. Fair Value Disclosure

IFRS 13 requires the Company to classify 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).

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

8. Fair Value Disclosure (continued)

Transfers between the levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

The level in the fair value hierarchy within which the fair value measurement is categorized 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 Investment Advisor. The Investment Advisor 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 analyze within the fair value hierarchy the Company’s financial assets (by class) measured at fair value:

At December 31, 2015

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total Balance</u> |
|-------------------------------------------------------------------|----------------|----------------|----------------|--------------------------|
| <u>Financial assets at fair value through profit and loss</u> | | | | |
| Corporate Equities | \$ 35,655,583 | \$ - | \$ - | \$ 35,655,583 |
| Total financial assets at fair value through profit or loss | \$ 35,655,583 | \$ - | \$ - | \$ 35,655,583 |

At December 31, 2014

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total Balance</u> |
|-------------------------------------------------------------------|----------------|----------------|----------------|--------------------------|
| <u>Financial assets at fair value through profit and loss</u> | | | | |
| Corporate Equities | \$ 53,372,804 | \$ - | \$ - | \$ 53,372,804 |
| Total financial assets at fair value through profit or loss | \$ 53,372,804 | \$ - | \$ - | \$ 53,372,804 |

In relation to the above table, further details of the country and industry classifications are disclosed in Note 3.

Financial assets at fair value through profit and loss (“investments”) whose values are based on quoted market prices in active markets, and therefore classified within Level 1, would include active listed equities and most exchange traded derivatives. The Company does not adjust the quoted price for these investments.

SCOTIABANK CANADIAN GROWTH FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

8. Fair Value Disclosure (continued)

Investments 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 commercial paper, U.S. treasury bills, investment-grade corporate bonds, investments in other funds where redemption is not restricted, certain non-U.S. 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.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments would include private equity, certain restricted investments in other funds, and certain corporate debt securities. As observable prices are not available for these investments, if any such investments were held, the Company would use valuation techniques to derive the fair value.

The Company does not hold any investments classified within Levels 2 and 3 as of December 31, 2015 and 2014.

There were no transfers between Levels during the years ended December 31, 2015 and 2014.

For other assets and liabilities carried at amortized cost, their carrying values are a reasonable approximation of fair value, and are classified as level 2. Redeemable investment share values are based on the amount payable on demand and are classified as level 2.

9. Taxation

The Company is not subject to any income, withholding or capital gains taxes in the Cayman Islands. Generally, the Company intends to conduct its affairs so as not to be liable to taxation in any other jurisdiction; however, it may invest in securities whose income is subject to non-refundable foreign withholding taxes.

10. Reclassification of Prior Year Presentation

Certain prior year balances on the Statement of Financial Position and Statement of Comprehensive Loss have been reclassified to conform with current year presentation. These reclassifications were done to further describe expenses incurred by the Company and had no effect on the results of the Company.

11. Subsequent Events

From January 1, 2016 to March 23, 2016, the Company received subscriptions of \$490,064 and redemptions of \$1,438,351.