

Scotia Asset Management L.P.
40 King Street West, 52nd Floor
Toronto, Ontario
Canada M5H 1H1



IRC REPORT TO UNITHOLDERS
December 31, 2012

Dear Unitholder:

The members of the independent review committee (“IRC”) of the mutual funds managed by Scotia Asset Management L.P. (“Scotia Asset Management” or the “Manager”) are pleased to provide you with our annual report to unitholders. The information contained in this report covers the period beginning January 1, 2012 and ending December 31, 2012.

Securities regulators in Canada have given IRCs a mandate to review conflict of interest matters identified and referred to them by mutual fund managers, such as Scotia Asset Management. Once identified, a mutual fund manager must present its conflict of interest matters to the IRC for either approval or recommendation, depending on the conflict of interest matter.

At least annually, the IRC reviews and assesses the adequacy and effectiveness of Scotia Asset Management’s policies and procedures relating to conflict of interest matters in respect of the funds listed in Schedule “A” attached (collectively, the “Funds” or individually, the “Fund”). The IRC also conducts a self-assessment of its independence, compensation and effectiveness.

The members of the IRC look forward to continuing to serve the best interests of the Funds’ unitholders and working effectively and openly with Scotia Asset Management.

“Robert S. Bell”

Robert S. Bell
Chair of the Independent Review Committee

The IRC serves as the independent review committee of the Funds which include the ScotiaFunds, the Scotia Private Pools and the Pinnacle Portfolios. Messrs. Robert S. Bell and D. Murray Paton were appointed to the IRC on May 1, 2007. Ms. Carol S. Perry was appointed to the IRC in November 2011. There were no changes in the composition or membership of the IRC for the period from January 1, 2012 to December 31, 2012 (the “Reporting Period”).

Members of the IRC	Residence	Length of Service on IRC
Robert S. Bell Chair of the IRC	Toronto, Ontario	5 years, 8 months
D. Murray Paton	Niagara-on-the-Lake, Ontario	5 years, 8 months
Carol S. Perry	Toronto, Ontario	1 year, 1 month

(a) Funds

As at December 31, 2012, the percentage of units of each class of each Fund beneficially owned, directly or indirectly, in aggregate, by all members of the IRC did not exceed 10 per cent.

(b) Manager

As at December 31, 2012, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of Scotia Asset Management.

(c) Service Providers

As at December 31, 2012, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of any service provider to the Funds or Scotia Asset Management, other than The Bank of Nova Scotia. As at December 31, 2012, the percentage of units of each class or series of voting or equity securities of The Bank of Nova Scotia beneficially owned, directly or indirectly, in aggregate, by all members of the IRC did not exceed 0.1 per cent.

Compensation and Indemnities

The aggregate compensation paid by the Funds to the IRC for the Reporting Period was \$144,500. This amount was allocated amongst the Funds.

No indemnities were paid to the IRC by the Manager of the Funds during the Reporting Period.

At least annually, the IRC reviews its compensation, giving consideration to the following:

1. the best interests of the Funds;
2. industry best practices, including industry averages and surveys on IRC compensation;
3. the number, nature and complexity of the mutual funds for which the IRC acts; and
4. the nature and extent of the workload of each member of the IRC, including the commitment of time and energy that is expected from each member.

Conflict of Interest Matters

During 2012, the IRC considered conflict of interest matters that Scotia Asset Management referred to it for its recommendation or, where applicable, its approval pursuant to its charter and in accordance with the requirements of the Canadian securities regulators for independent review committees of publicly offered mutual funds set forth in NI 81-107. The IRC considers conflict of interest matters referred to it and makes recommendations to Scotia Asset Management on whether or not the IRC believes the proposed actions of Scotia Asset Management will achieve a fair and reasonable result for the applicable Funds. Where appropriate, the IRC gives Scotia Asset Management standing instructions which enable Scotia Asset Management to act in a particular conflict of interest matter on a continuing basis provided Scotia Asset Management complies with its policies and procedures established to address that conflict of interest matter and reports periodically to the IRC on the matter.

The IRC is not aware of any instance in which Scotia Asset Management acted in a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation. Scotia Asset Management has an obligation to notify the IRC of all such instances.

The IRC is not aware of any instance in which Scotia Asset Management acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its approval, recommendation or standing instruction. Scotia Asset Management also has an obligation to notify the IRC of all such instances.

Approvals

As permitted by Canadian securities legislation, including NI 81-107 and exemptive relief granted by the Canadian securities regulators, during the Reporting Period, the IRC provided approval for the Funds, subject to terms and conditions, to:

1. invest in or hold securities of related issuers, including securities issued by The Bank of Nova Scotia;
2. invest in securities of an issuer where a related party, including Scotia Capital Inc., acts as an underwriter during the distribution of the securities or at any time during the 60-day period following the completion of the distribution of such securities;
3. purchase securities from a related party where the related party is acting as principal;
4. purchase securities from, or sell securities to, another investment fund managed by Scotia Asset Management (referred to as “inter-fund trades”);
5. with respect to the Scotia Mortgage Income Fund, purchase mortgages from an affiliate of Scotia Asset Management or to purchase mortgages on a property where certain senior officers and directors of Scotia Asset Management have an interest as mortgagor;
6. purchase and redeem units of a Fund in specie from or to an account managed by Scotia Asset Management; and

7. invest in equity securities of The Williams Companies, Inc., a non-reporting issuer in Canada, during the 60-day period following the period of distribution of the issuer's securities pursuant to a private placement offering, notwithstanding that Scotia Capital Inc. acts as an underwriter in the private placement

Recommendations

During the Reporting Period, Scotia Asset Management received positive recommendations from the IRC with respect to the following conflict of interest matters:

1. Error correction in respect of net asset value or other trade errors;
2. Dual employment of employees;
3. Valuation of portfolio assets of the Funds;
4. Allocation of costs and expenses to the Funds;
5. Creation of new mutual funds and/or classes of securities of Funds;
6. Personal trading by employees;
7. Selection, monitoring and oversight of the Funds' portfolio advisors;
8. Redemption of Fund securities or seed capital;
9. Investing in securities of related mutual funds;
10. Outsourcing certain services and activities to related parties;
11. Transactions by large unitholders of the Funds;
12. Proxy voting; and
13. Soft dollar arrangements

Schedule “A”
The Funds

TRUST FUNDS

ScotiaFunds®

Cash Equivalent Funds

Scotia T-Bill Fund (Series A units)
Scotia Premium T-Bill Fund (Series A units)
Scotia Money Market Fund (Series A, Series I, Premium Series, Series M and Advisor Series units)
Scotia U.S. \$ Money Market Fund (Series A units)

Income Funds

Scotia Short Term Bond Fund (Series M units)
Scotia Private Short-Mid Government Bond Pool (Series I and Series M units)
Scotia Mortgage Income Fund (Series A, Series F and Series I units)
Scotia Bond Fund (Series A and Series I units)
Scotia Canadian Income Fund (Series A, Series F, Series I, Series M and Advisor Series units)
Scotia Private Canadian Corporate Bond Pool (Series I and Series M units)
Scotia U.S. \$ Bond Fund (Series A and Series F units)
Scotia Global Bond Fund (Series A, Series F and Series I units)

Balanced Funds

Scotia Private Advantaged Income Pool (Series M units)
Scotia Diversified Monthly Income Fund (Series A, Series F and Advisor Series units)
Scotia Income Advantage Fund (Series A units)
Scotia Canadian Balanced Fund (Series A and Series F units)
Scotia Canadian Dividend Income Fund (Series A and Series I units)
Scotia Canadian Tactical Asset Allocation Fund (Series A, Series F and Advisor Series units)
Scotia Global Balanced Fund (Series A and Series I units)
Scotia U.S. \$ Balanced Fund (Series A units)

Equity Funds

Canadian and U.S. Equity Funds

Scotia Private Canadian Preferred Share Pool (Series I and Series M units)
Scotia Canadian Dividend Fund (Series A, Series F, Series I, Series M and Advisor Series units)
Scotia Canadian Blue Chip Fund (Series A, Series F and Series I units)
Scotia Private Canadian Equity Pool (Series I and Series M units)
Scotia Canadian Growth Fund (Series A, Series F, Series I and Advisor Series units)
Scotia Canadian Small Cap Fund (Series A, Series F, Series I and Series M units)
Scotia Resource Fund (Series A, Series F and Series I units)
Scotia Private North American Equity Pool (Series M units)
Scotia Private Cyclical Opportunities Pool (Series M units)¹

¹ terminated Nov 27, 2012

Scotia Private Real Estate Income Pool (Series I and Series M units)²
Scotia U.S. Dividend Fund (Series A and Series I units)²
Scotia Private U.S. Dividend Pool (Series I and Series M units)
Scotia Private U.S. Equity Pool (Series I and Series M units)
Scotia U.S. Blue Chip Fund (Series A, Series F and Series I units)
Scotia U.S. Opportunities Fund (Series A, Series F and Series I units)³

International Equity Funds

Scotia Private International Core Equity Pool (Series I and Series M units)
Scotia International Value Fund (Series A, Series F, Series I and Advisor Series units)
Scotia European Fund (Series A, Series F and Series I units)
Scotia Pacific Rim Fund (Series A, Series F and Series I units)
Scotia Latin American Fund (Series A, Series F and Series I units)

Global Equity Funds

Scotia Global Dividend Fund (Series A and Series I units)
Scotia Global Growth Fund (Series A, Series F, Series I and Advisor Series units)
Scotia Global Small Cap Fund (Series A, Series F and Series I units)
Scotia Global Opportunities Fund (Series A, Series F, Series I and Advisor Series units)
Scotia Global Climate Change Fund (Series A, Series F, Series I and Advisor Series units)

Index Funds

Scotia Canadian Bond Index Fund (Series A, Series F and Series I units)
Scotia Canadian Index Fund (Series A, Series F and Series I units)
Scotia U.S. Index Fund (Series A, Series F and Series I units)
Scotia CanAm[®] Index Fund (Series A and Series F units)
Scotia Nasdaq Index Fund (Series A and Series F units)
Scotia International Index Fund (Series A, Series F and Series I units)

Scotia Portfolios

Scotia Selected[®] Portfolios

Scotia Selected Income Portfolio (Series A units)²
Scotia Selected Income & Modest Growth Portfolio (Series A, Series F and Advisor Series units)
Scotia Selected Balanced Income & Growth Portfolio (Series A, Series F and Advisor Series units)
Scotia Selected Moderate Growth Portfolio (Series A, Series F and Advisor Series units)
Scotia Selected Aggressive Growth Portfolio (Series A, Series F and Advisor Series units)

Scotia Partners Portfolios[®]

Scotia Partners Diversified Income Portfolio (Series A units)
Scotia Partners Income & Modest Growth Portfolio (Series A and Series F units)
Scotia Partners Balanced Income & Growth Portfolio (Series A and Series F units)
Scotia Partners Moderate Growth Portfolio (Series A and Series F units)
Scotia Partners Aggressive Growth Portfolio (Series A and Series F units)

Scotia Vision[®] Portfolios

Scotia Vision Conservative 2010 Portfolio (Series A units)
Scotia Vision Aggressive 2010 Portfolio (Series A units)

² launched Nov 20, 2012

³ formerly Scotia U.S. Value Fund-name changed Nov 19, 2012

Scotia Vision Conservative 2015 Portfolio (Series A units)
Scotia Vision Aggressive 2015 Portfolio (Series A units)
Scotia Vision Conservative 2020 Portfolio (Series A units)
Scotia Vision Aggressive 2020 Portfolio (Series A units)
Scotia Vision Conservative 2030 Portfolio (Series A units)
Scotia Vision Aggressive 2030 Portfolio (Series A units)

Scotia Private Pools

Money Market Fund

Scotia Private Short Term Income Pool

Bond Funds

Scotia Private Income Pool (Series I Units available)
Scotia Private High Yield Income Pool (Series I and Series M available)
Scotia Private American Core-Plus Bond Pool (Series I Units available)

Balanced Fund

Scotia Private Strategic Balanced Pool

Canadian Equity Funds

Scotia Private Canadian Value Pool (Series I Units available)
Scotia Private Canadian Mid Cap Pool (Series I Units available)
Scotia Private Canadian Growth Pool (Series I Units available)
Scotia Private Canadian Small Cap Pool (Series I Units available)

Foreign Equity Funds

Scotia Private U.S. Value Pool (Series I Units available)
Scotia Private U.S. Large Cap Growth Pool (Series I Units available)
Scotia Private U.S. Mid Cap Value Pool (Series I and Series M Units available)
Scotia Private U.S. Mid Cap Growth Pool (Series I and Series M Units available)
Scotia Private International Equity Pool (Series I Units available)
Scotia Private International Small to Mid Cap Value Pool (Series I Units available)
Scotia Private Emerging Markets Pool (Series I and Series M Units available)
Scotia Private Global Equity Pool (Series I Units available)
Scotia Private Global Real Estate Pool (Series I Units available)

Scotia INNOVA Portfolios

Scotia INNOVA Income Portfolio (Series T units available)
Scotia INNOVA Balanced Income Portfolio (Series T units available)
Scotia INNOVA Balanced Growth Portfolio (Series T units available)
Scotia INNOVA Growth Portfolio
Scotia INNOVA Maximum Growth Portfolio

Pinnacle Portfolios

Pinnacle Balanced Income Portfolio
Pinnacle Conservative Balanced Growth Portfolio
Pinnacle Balanced Growth Portfolio
Pinnacle Conservative Growth Portfolio
Pinnacle Growth Portfolio

SCOTIA CORPORATE CLASS FUNDS

Series A shares⁴

Scotia Conservative Government Bond Capital Yield Class
Scotia Canadian Dividend Class
Scotia Global Dividend Class
Scotia INNOVA Income Portfolio Class
Scotia INNOVA Balanced Income Portfolio Class
Scotia INNOVA Balanced Growth Portfolio Class
Scotia INNOVA Growth Portfolio Class
Scotia INNOVA Maximum Growth Portfolio Class

Series M shares⁴

Scotia Short Term Yield Class
Scotia Conservative Government Bond Capital Yield Class
Scotia Canadian Corporate Bond Capital Yield Class
Scotia Canadian Dividend Class
Scotia Private Canadian Equity Class
Scotia Private U.S. Dividend Class
Scotia Private U.S. Equity Class

Series A shares⁵

Scotia Fixed Income Blend Class
Scotia Canadian Equity Blend Class
Scotia U.S. Equity Blend Class
Scotia International Equity Blend Class

SCOTIA LP FUNDS

Series I units⁶

Scotia Canadian Income LP
Scotia Conservative Government Bond LP
Scotia Canadian Corporate Bond LP

⁴ May 18, 2012 SP and AIF

⁵ November 19, 2012 SP and AIF

⁶ May 18, 2012 SP and AIF