

Scotia U.S. \$ Bond Fund

Benchmark
Citi WGBI USD

Fund Category
Global Fixed Income

Morningstar Rating™
N/A

Investment Objective

The fund's objective is to provide a high level of interest income. It invests primarily in bonds and treasury bills that are denominated in U.S. dollars and are issued by Canadian federal, provincial and municipal governments, Canadian corporations and supranational entities, such as the World Bank. These securities are not considered foreign property under the Tax Act.

Reasons for Investing

- ▶ One of the few U.S. dollar denominated income funds in the Canadian marketplace.
- ▶ Great alternative for "snowbird" investors, offering regular U.S. dollar interest income at low to medium risk.
- ▶ Invests primarily in investment grade corporate and government securities.

Risk Rating



Time Horizon 3 years or more

Fund Essentials

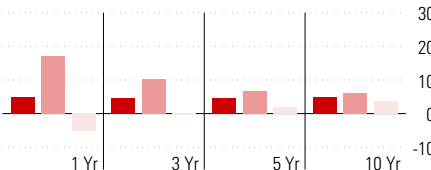
| | |
|--------------------------|---------------|
| Inception Date | November 1991 |
| Total Assets \$Mil | 26.32 |
| Min. Initial Inv.(\$) | 500 |
| Min. Additional Inv.(\$) | 50 |
| Income Distribution | Monthly |
| Capital Distribution | Annually |
| MER % | 1.81 |
| NAV \$ as of 10-31-2009 | 10.90 |

Class Options

| Class | Load Structure | Currency | Fund Code |
|-------|----------------|----------|-----------|
| A | No Load | USD | BNS359 |
| F | No Load | USD | BNS559 |

Management Company Scotia Asset Management
Telephone 800 268-9269
Web Site www.scotiafunds.com

Performance Analysis as of 10-31-2009



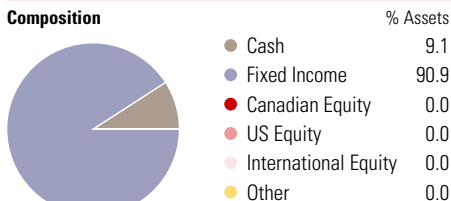
| Best/Worst Periods (%) | 1 Yr | 3 Yr | 5 Yr | 10 Yr |
|------------------------|------|------|-------|-------|
| Avg. | 4.9 | 4.7 | 4.7 | 4.9 |
| Best | 17.2 | 10.3 | 6.6 | 6.0 |
| Worst | -5.3 | -0.3 | 2.0 | 3.7 |
| No. of Periods | 204 | 180 | 156 | 96 |
| % Positive | 84.8 | 98.9 | 100.0 | 100.0 |

| Trailing Returns (%) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr | 3 Yr | 5 Yr | 10 Yr |
|----------------------|-------|-------|-------|------|------|------|------|-------|
| Fund | 0.1 | 2.3 | 4.0 | 9.2 | 5.6 | 5.2 | 3.5 | 4.9 |
| Benchmark | 0.1 | 4.4 | 9.9 | 16.3 | 8.9 | 9.1 | 6.0 | 6.7 |
| Quartile | — | — | — | — | — | — | — | — |

| Calendar Year Returns (%) | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | YTD |
|---------------------------|------|------|------|------|------|------|------|------|------|------|-----|
| Fund | -2.7 | 9.5 | 7.6 | 10.7 | 2.3 | 1.7 | 0.4 | 1.9 | 6.9 | 6.0 | 2.7 |
| Benchmark | -4.3 | 1.6 | -1.0 | 19.5 | 14.9 | 10.3 | -6.9 | 6.1 | 10.9 | 10.9 | 4.7 |
| Quartile | — | — | — | — | — | — | — | — | — | — | — |

| Distributions (\$/unit) | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | YTD |
|-------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Total | 0.46 | 0.51 | 0.42 | 0.42 | 0.38 | 0.37 | 0.39 | 0.39 | 0.39 | 0.36 | 0.29 |
| Income | 0.46 | 0.51 | 0.39 | 0.42 | 0.38 | 0.37 | 0.39 | 0.39 | 0.39 | 0.36 | 0.29 |
| Capital Gains | — | — | 0.03 | — | — | — | — | — | — | — | — |

Portfolio Analysis as of 09-30-2009



| Fixed Income Style | Credit Quality | % |
|--------------------|----------------|------|
| High | High | 65.9 |
| Med | Medium | 24.9 |
| Low | Low | 0.0 |
| | NR/NA | 9.2 |

| Geographic Allocation | % Assets |
|-----------------------|----------|
| Canada | 79.7 |
| United States | 16.8 |
| Luxembourg | 3.5 |

| Fixed Income Breakdown | % Bond |
|-------------------------------|--------|
| Government Bonds | 64.9 |
| Corporate Bonds | 26.0 |
| Other Bonds | 0.0 |
| Mortgage Backed Securities | 0.0 |
| ST Investments (Cash & Other) | 9.1 |
| Asset Backed Securities | 0.0 |

| Top Holdings | % Assets |
|--|----------|
| New Brunswick Prov Cda 7.625% 15-02-2013 | 11.6 |
| BC (Prov Of) 4.3% 30-05-2013 | 10.4 |
| Ontario Prov Cda 4.75% 19-01-2016 | 9.5 |
| Saskatchewan Prov Cda 7.375% 15-07-2013 | 8.7 |
| Quebec Prov Cda 4.6% 26-05-2015 | 7.6 |
| Manitoba Prov Cda 4.9% 06-12-2016 | 5.5 |
| Nova Scotia Prov Cda 5.125% 26-01-2017 | 4.4 |
| European Invnt Bk 2.875% 15-03-2013 | 3.5 |
| Citigroup 6.5% 18-01-2011 | 3.5 |
| Deere 6.95% 25-04-2014 | 2.9 |
| Pc Finl Partnership 5% 15-11-2014 | 2.6 |
| Wal Mart Stores 3.2% 15-05-2014 | 2.6 |
| Inter Amern Dev Bk 3.5% 15-03-2013 | 2.6 |
| US Treasury Note 3.25% 31-05-2016 | 2.6 |
| General Elec Cap 7.375% 19-01-2010 | 2.6 |

| Top Holdings Cont'd | % Assets |
|---|-----------|
| Export Dev Cda 3.13% 24-04-2014 | 2.6 |
| Encana 5.9% 01-12-2017 | 2.6 |
| Export Dev't Corp. C/P (Us) 102909 (ST) | 2.2 |
| Canadian Pac Ry 6.5% 15-05-2018 | 2.1 |
| Export Dev Cda 1.75% 24-09-2012 | 2.0 |
| Husky Engy 5.9% 15-06-2014 | 1.9 |
| Telus Corporation 8% 01-06-2011 | 1.7 |
| Export Dev't Corp. C/P (Us) 18-11-2009 | 1.5 |
| Export Dev't Corp. C/P (Us) 021710 (ST) | 1.2 |
| Export Dev't Corp. C/P (Us) 17-11-2009 | 1.0 |
| Total Number of Portfolio Holdings | 27 |
| Total Number of Stock Holdings | 0 |
| Total Number of Bond Holdings | 20 |
| Total Number of Other Holdings | 7 |
| Total Number of Underlying Holdings | 27 |

Scotia U.S. \$ Bond Fund

Portfolio Advisor Overview

Manager Bio



Shane Stuck
Manager Since 2007-4-1
Scotia Asset Management

Shane is a member of the fixed income team, having joined Scotia Asset Management in the spring of 2007. He brings extensive experience in global and U.S. bond markets as well as international currency markets, which is complemented by a specialty in fixed income derivatives.

Shane's career has evolved from a strong macro analytic perspective nurtured in the Bank of Canada's open markets operations. His money management skills were honed at an international insurance company and further developed in New York, where he managed U.S. Treasuries and non-U.S. dollar bonds for Munich Re.

Additional Information

You can find additional information about each fund in its annual information form, its most recently filed annual and interim financial statements, and its most recently filed annual and interim management reports of fund performance.

You can get a copy of these documents, at no charge, by calling 1 800 268-9269 for English or 1 800 387-5004 for French, or from your dealer or broker. You can also download these documents from our website at www.scotiafunds.com, or from SEDAR at www.sedar.com.

Portfolio Advisor Quarterly Commentary as of 09-30-2009

The return for Scotia U.S. \$ Bond Fund was 3.22% over the quarter versus the benchmark Merrill Lynch Corporate & Quasi Government, Canadian Issuers, 1-10 years Index return of 4.95% (both fund and index returns are in U.S. dollars).

During the quarter, the main driver of the fund's underperformance relative to the index was the structural difference in credit quality between the fund and the index, as the fund continues to hold higher quality corporate bonds. While the fund maintained an overweight position in corporate bonds relative to its benchmark, the narrowing of credit spreads for corporate bonds was much more pronounced in the lower end of

quality spectrum, leading to the fund's underperformance versus its benchmark.

In the portfolio advisor's opinion, despite the minor recovery, the litany of risks in the U.S. economy remains expansive, including commercial real estate valuations, the residential housing market and state and local government finances. Against this background, the portfolio advisor expects interest rates to remain in a narrow range, with the short end of the yield curve anchored by the U.S. Federal Reserve's near zero interest rate policy. This environment of heightened economic risk also underpins the portfolio advisor's conservative approach to credit risk.

Disclosure

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IMPORTANT MUTUAL FUND INFORMATION

ScotiaFunds are managed by Scotia Asset Management LP, a corporate entity separate from, although wholly-owned by, The Bank of Nova Scotia.

Fund prices are provided for information purposes only. All information pertains to Class A units of the fund unless stated otherwise.

Units of the fund are only available for sale to residents of Canada, unless the laws of a foreign jurisdiction permit sales to its residents. Please contact your financial advisor for more details. The contents of this document should not be considered an offer to sell to, or a solicitation to buy mutual fund units from, any person in a jurisdiction where such offer or solicitation is considered unlawful.

Important information about the fund is contained in the Simplified Prospectus, which should be read carefully before investing. Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. The performance data provided assumes reinvestment of distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. There can be no assurances that the fund will be able to maintain its net asset value per unit at a constant amount or that the full amount of your investment will be returned to you. Mutual funds are not covered by the Canada Deposit Insurance Corporation (CDIC) or by any other government deposit insurer. Past performance may not be repeated.

Scotia Asset Management LP, as Manager of the ScotiaFunds, may compensate its staff and any appointed sub-distributor by regular payments based on the net asset value (NAV) of units held by investors. For further details, please refer to the Simplified Prospectus.