



IRC REPORT TO UNITHOLDERS  
December 31, 2007

Dear Unitholder:

The members of the independent review committee (“IRC”) of ScotiaFunds are pleased to provide you with the first annual report to unitholders. The ScotiaFunds’ IRC was formed on May 1, 2007 and became fully operational by November 1, 2007, in accordance with the requirements of National Instrument 81-107. The information contained in this report covers the period beginning November 1, 2007 and ending December 31, 2007.

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 Securities Inc. (“SSI”). 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. The role of the IRC is to determine whether the manager’s proposed course of action with respect to a conflict of interest matter achieves a fair and reasonable result for the mutual fund(s).

At least annually, the IRC will review and assess the adequacy and effectiveness of SSI’s policies and procedures relating to conflict of interest matters in respect of the ScotiaFunds. The IRC will also conduct a self-assessment of its independence, compensation and effectiveness.

The members of the IRC look forward to continuing to serve the best interests of ScotiaFunds’ unitholders and working effectively and openly with SSI.

*“Eric Kirzner”*

Eric Kirzner  
Chair of the Independent Review Committee

December 31, 2007

<b>Members of the IRC</b>	<b>Residence</b>
Eric Kirzner Chair of the IRC	Toronto, Ontario
Murray Paton	Oakville, Ontario
Rob Bell	Toronto, Ontario

All of the members listed above were appointed to the IRC on May 1, 2007. There have been no changes in the composition of the IRC since its inception on May 1, 2007. The IRC also serves as the independent review committee of the Pinnacle Program Funds and Pinnacle Portfolios (collectively, "Pinnacle Funds"), which are mutual funds offered by ScotiaMcLeod, a division of Scotia Capital Inc., an affiliate of SSI.

### **Holdings of Securities**

#### **(a) Funds**

As at December 31, 2007, the percentage of units of each class of the ScotiaFunds included in this report 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, 2007, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of SSI.

#### **(c) Service Providers**

As at December 31, 2007, 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 ScotiaFunds and the Pinnacle Funds to the IRC for the period from inception of the IRC on May 1, 2007 to December 31, 2007 (the "Period"), was \$88,000. This amount was allocated amongst the ScotiaFunds and Pinnacle Funds in a manner considered by SSI and ScotiaMcLeod to be fair and reasonable to the ScotiaFunds and Pinnacle Funds.

The initial compensation of the IRC was set by SSI. As at the date of this report, each member of the IRC receives an annual retainer of \$20,000 (\$30,000 for the Chair) and \$1,000 for each meeting of the IRC that the member attends (\$1,500 for meetings lasting longer than two hours), plus expenses for each meeting. At least annually, the IRC will review compensation, giving consideration to the following:

1. the best interests of the ScotiaFunds;
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.

No indemnities were paid to the IRC by the ScotiaFunds or SSI during the Period.

### **Conflict of Interest Matters**

Except as set forth below, the IRC is not aware of any instances in which SSI acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its approval or recommendation. SSI has an obligation to notify the IRC of any such instances.

### Policies and Standing Instructions

SSI has policies and procedures in place to address each of the actions listed in this report. For each of these actions, SSI received standing instructions from the IRC. The standing instructions require SSI to comply with its policy and procedures and report periodically to the IRC.

### Approvals Relied Upon

In accordance with the requirements of NI 81-102, NI 81-107 and exemptive relief granted by the Canadian securities regulatory authorities, during the period beginning November 1, 2007 and ending December 31, 2007 (the "Reporting Period") the IRC provided approval for the ScotiaFunds 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 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 debt 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 SSI or an affiliate of SSI (referred to as "inter-fund trades"); and
5. with respect to the Scotia Mortgage Income Fund, purchase mortgages from a related party.

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As a condition of IRC approval and as a requirement under securities legislation, SSI must file a report with the securities regulators containing the particulars of each investment made by the ScotiaFunds in reliance upon the IRC's approval to invest in or hold securities of related issuers and to invest in securities of an issuer where a related party acted as an underwriter. These reports must be filed no later than the time that the applicable ScotiaFund files its annual financial statements. SSI has informed the IRC that it filed these reports later than the required timeframe. This oversight occurred because the filing obligation is new and because there was a transition of responsibility for such reports among personnel within SSI. The IRC is of the view that SSI has taken appropriate steps to rectify this oversight, including promptly filing the reports with the securities regulators once the issue was identified, and modifying its procedures to facilitate timely filing of these reports in the future. The IRC is not aware of any other instance in which SSI acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its approval.

#### Recommendations Relied Upon

During the Reporting Period, SSI received positive recommendations with respect to the conflict of interest matters addressed by the following policies:

1. Error Correction Policy (in respect of a Fund's net asset value)
2. Dual Employment Policy
3. Fund Valuation (including fair valuation) Policy
4. Cost and Expense Allocation Policy
5. New Funds Policy
6. Personal Trading Policy
7. Portfolio Advisor Selection, Monitoring and Oversight Policy
8. Redemption of Fund Securities Policy
9. Acquisition of Securities of a Related Fund Policy
10. Outsourcing to Related Parties Policy

The IRC is not aware of any instance in which SSI acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its recommendation. SSI has an obligation to notify the IRC of any such instance.

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Negative Recommendations

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

**ScotiaFunds Included in this Report****Cash Equivalent Funds**

Scotia T-Bill Fund  
Scotia Premium T-Bill Fund  
Scotia Money Market Fund  
Scotia U.S. \$ Money Market Fund

**Income Funds**

Scotia Mortgage Income Fund  
Scotia Canadian Income Fund  
Scotia Cassels Short-Mid Government Bond Fund  
Scotia Cassels Canadian Corporate Bond Fund  
Scotia U.S. \$ Bond Fund  
Scotia Global Bond Fund

**Balanced Funds**

Scotia Diversified Monthly Income Fund  
Scotia Canadian Balanced Fund  
Scotia Cassels Advantaged Income Fund  
Scotia Canadian Tactical Asset Allocation Fund

**Equity Funds***Canadian Equity Funds*

Scotia Canadian Dividend Fund  
Scotia Cassels Canadian Equity Fund  
Scotia Canadian Blue Chip Fund  
Scotia Canadian Growth Fund  
Scotia Canadian Small Cap Fund  
Scotia Resource Fund

*U.S. Equity Funds*

Scotia Cassels North American Equity Fund  
Scotia Cassels U.S. Equity Fund  
Scotia U.S. Growth Fund  
Scotia U.S. Value Fund

*International Equity Funds*

Scotia International Value Fund  
Scotia Cassels International Equity Fund  
Scotia European Fund  
Scotia Pacific Rim Fund  
Scotia Latin American Fund

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*Global Equity Funds*

Scotia Global Growth Fund  
Scotia Global Small Cap Fund  
Scotia Global Opportunities Fund

**Index Funds**

Scotia Canadian Bond Index Fund  
Scotia Canadian Index Fund  
Scotia U.S. Index Fund  
Scotia CanAm® Index Fund  
Scotia Nasdaq Index Fund  
Scotia International Index Fund

**Scotia Portfolios***Scotia Selected® Portfolios*

Scotia Selected Income & Modest Growth Portfolio  
Scotia Selected Balanced Income & Growth Portfolio  
Scotia Selected Moderate Growth Portfolio  
Scotia Selected Aggressive Growth Portfolio

*Scotia Partners Portfolios®*

Scotia Partners™ Income & Modest Growth Portfolio  
Scotia Partners Balanced Income & Growth  
Scotia Partners Moderate Growth Portfolio  
Scotia Partners Aggressive Growth Portfolio

*Scotia Vision™ Portfolios*

Scotia Vision Conservative 2010 Portfolio  
Scotia Vision Aggressive 2010 Portfolio  
Scotia Vision Conservative 2015 Portfolio  
Scotia Vision Aggressive 2015 Portfolio  
Scotia Vision Conservative 2020 Portfolio  
Scotia Vision Aggressive 2020 Portfolio  
Scotia Vision Conservative 2030 Portfolio  
Scotia Vision Aggressive 2030 Portfolio