

Management Report of Fund Performance (as at June 30, 2010)

This interim management report of fund performance contains financial highlights, but does not contain either interim or annual financial statements of the fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling toll-free 1 800 268-9269 (416 750-3863 in Toronto) for English, or 1 800 387-5004 for French or by asking your mutual fund representative. You can also write to us at 40 King Street West, P.O. Box 4085, Stn. A, Scotia Plaza, Toronto, Ontario M5Z 2X6, or download from www.scotiafunds.com or www.sedar.com.

You may also contact us using one of these methods to request a copy of the fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

In this document, we, us, our and the Manager refers to Scotia Asset Management L.P. ("SAM") and fund refers to the Scotia Canadian Bond Index Fund.

This report may contain forward-looking statements about the fund. Such statements are predictive in nature and depend upon or refer to future events or conditions and may include such words as "expects", "plans", "anticipates", "believes", "estimates" or other similar expressions. In addition, any statement regarding future performance, strategies, prospects, action or plans is also a forward-looking statement. Forward-looking statements are subject to known and unknown risks and uncertainties and other factors that may cause actual results, performance, events, activity and achievements to differ materially from those expressed or implied by such statements. Such factors include general economic, political and market conditions, interest and foreign exchange rates, regulatory or judicial proceedings, technological change and catastrophic events. You should consider these and other factors carefully before making any investment decisions and before relying on forward-looking statements. We have no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

Management Discussion of Fund Performance

Results of Operations

Over the review period, the fund's Class A units returned 3.68% compared to 4.23% for the DEX Universe Bond Index. In contrast to the index, the fund's return is after the deduction of fees and expenses. Any difference between the performance of Class A units and the performance of the other classes of the fund is solely the result of the different management fees charged to, and operating expenses recovered from, each class. Please see *Past Performance* for the performance returns of the fund's other classes.

Since the fund's objective is to track the results of the DEX Universe Bond Index, the fund's performance will generally follow that of the index.

Confidence that the global economy was entering a cyclical upswing was severely shaken in the second quarter of 2010, which was largely the result of rising anxiety about Europe's sovereign debt crisis. Reports of larger-than-expected deficits and debt rating downgrades shook investor confidence and precipitated a flow of funds into safe haven assets. The U.S. dollar gained in value and bond yields declined. However, despite all the volatility in financial markets, economic reports during this reporting period generally came in on the strong side and forecasts for global growth were revised higher by the International Monetary Fund.

The DEX Universe Bond Index's – and, therefore, the fund's – positive return over the reporting period was largely the result of a drop in interest rates, with both government and corporate fixed income instruments making a positive contribution to the index's returns.

The top contributors to the index's performance on a sector basis were the industrials and infrastructure sectors. The top detractors from performance included agency and securitization.

On an individual holdings basis, the top contributors to performance were Aeroports de Montreal 6.95% 2032 and Brascan Corporation 5.95% 2035. Detracting from performance were Edmonton Alberta 11.50% 2010 and Consumers Gas 11.95% 2010.

During the period, the fund experienced net sales of \$15,642,454.

Recent Developments

Peter Lindley was named President and Head of Investments for State Street Global Advisors (SSgA) Canada, following the departure of Gregory Chrispin. Marilina Mastronardi expanded on her current role as Head of Investment Operations to become SSgA Canada's Chief of Staff. Edith Rathe was recently named Chief Compliance Officer. Denis Sénécal joined SSgA as Head of Fixed Income and Cash in Canada. Denis joined SSgA from Caisse Centrale Desjardins where he was Vice President in Treasury, responsible for asset-liability management, securitization and interest risk management. Patrice Denis has assumed the role of Head of Business Development and Relationship Management for SSgA Canada.

Victor Grigore joined SSgA Canada as a Credit Analyst within the Fixed Income and Cash Management group at State Street Global Advisors Ltd. (Canada). Victor's responsibilities include covering Canadian issuers for the SSgA global investment centres and assisting with credit investment recommendations

for the Canadian Active and Enhanced Fixed Income and Cash funds.

Meriem Mechouat joined SSgA Canada as a Credit Analyst within the Fixed Income and Cash Management group at State Street Global Advisors Ltd. (Canada). Meriem's responsibilities include covering Canadian issuers for the SSgA global investment centres and assisting with credit investment recommendations for the Canadian Active and Enhanced Fixed Income and Cash funds.

Philippe Nolet was hired as Portfolio Manager with the Canadian Fixed Income team, focusing on Enhanced and Active Bond Strategies. Philippe brings to the team a strong quantitative and modeling background that integrates well within SSgA Canada's current Canadian Active and Enhanced investment process that is characterised by tight risk controls, strong benchmark orientation and a focus on diversified sources of alpha.

Sebastien Guilbault and Yves Desjardins, portfolio managers in the Canadian Fixed Income team, left the firm to pursue other opportunities.

It will likely take quite some time before sovereign risk concerns completely subside, which means global economic growth is likely to gravitate toward a weaker trend. Liquidity will remain an important consideration going forward. The portfolio advisor does not anticipate any foreseeable changes to the fund's investment process or objectives.

The Government of Ontario has taken steps to harmonize their provincial sales taxes with the federal goods and services tax effective July 1, 2010. Implementation of the harmonized sales tax will increase the amount of taxes paid by the Fund on its expenses, including but not limited to management fees, and therefore increase the management expense ratio ("MER") when the legislation comes into force.

Future Accounting Changes

Effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises, which includes the Funds.

The Manager has commenced the development of a changeover plan to meet the implementation date. The key elements of the plan include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the Net Assets or Net Asset Value of the Funds. A disclosure of the qualitative and quantitative impact, if any, will be presented in the annual financial statements ending December 31, 2010. The manager does not expect that there will be significant impact to the Funds' Net Asset Value as a result of the changeover to IFRS. The Manager expects the changes to be limited to presentation and disclosure relating to the fund consolidation, classification of puttables, and additional note disclosures. However, the

Manager's current assessment may change if new standards are issued or if interpretations of existing standards are revised.

The Canadian Accounting Standard Board ("AcSB") has issued an exposure draft on the adoption of IFRSs by Investment Companies. Entities currently applying Accounting Guideline 18, "Investments Companies" can continue to apply existing Canadian standards in Part V of the CICA Handbook – Accounting until fiscal years beginning on or after January 1, 2012, although earlier application would be permitted. In light of this proposal, the Manager is currently evaluating the impact on its transition plan and timetable in the event that the AcSB proposal is confirmed.

Related Party Transactions

We are the trustee, manager, registrar and transfer agent of the Fund. The Fund pays us a management fee, which may vary for each class of units of the Fund. The Bank of Nova Scotia ("Scotiabank"), the parent company of the manager, earns fees for of providing custodial services, including safe-keeping and administrative services and unitholder record-keeping services to the fund.

Our affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. We, or our affiliates, may earn a foreign exchange spread when unitholders switch between units of funds denominated in different currencies. The Fund also maintains bank accounts and over-draft provisions with Scotiabank for which Scotiabank may earn a fee.

For certain classes of units of the Fund, Scotia Securities Inc., a wholly-owned subsidiary of Scotiabank, is the principal distributor for which it is paid a trailer commission by SAM. Units of the funds are also distributed through brokers and dealers, including Scotia Capital Inc. ("SCI"), a wholly-owned subsidiary of Scotiabank. SCI, like other dealers, is paid a trailer commission by SAM for distributing certain classes of units of the Fund. Trailer commissions are paid by SAM out of the management fees it receives from the Fund and are based on the average value of assets held by each dealer.

SAM has established an independent review committee ("IRC") which acts as an impartial and independent committee to review and provide recommendations or, in certain cases, approvals respecting any conflict of interest matters referred to it by SAM. The IRC prepares, at least annually, a report of its activities to unitholders of the Fund. The report is available on the ScotiaFunds website at www.scotiafunds.com or at the unitholder's request at no cost by contacting SAM (see front cover).

SAM and the Fund relied on standing instructions from the IRC in respect of one or more of the following types of transactions:

- Investing in or holding securities of related issuer, including Scotiabank;

- Trades in securities with SCI or parties related to the manager or the portfolio advisor, where SCI or such related parties act as principal;
- Investing in securities of an issuer during, or for 60 days after, the period in which SCI, or a related entity to the portfolio advisor, acted as an underwriter in the offering of those securities; and
- Purchases or sales of securities from or to another investment fund managed by us (referred to as “Inter Fund Trading”).

The applicable standing instructions require that investment decisions relating to the above types of transactions (i) are made free from any influence by us or any entity related to us and without taking in account any considerations relevant to us or any entity related to us; (ii) represent the business judgment of the portfolio advisor uninfluenced by any consideration other than the best interests of the Funds; (iii) are in compliance with our policies; and (iv) achieve a fair and reasonable result for the Fund.

From time to time, the Fund may enter into portfolio securities transactions with SCI or other dealers in whom Scotiabank has a significant interest (the “Related Dealers”). These Related Dealers may earn commissions or spreads provided that such trades are made on terms and conditions that are comparable to non-related brokers or dealers.

Financial Highlights

The following tables show selected key financial information about the fund and are intended to help you understand the fund’s financial performance over each of the past five years ended December 31, as applicable, and for the six months ended June 30, 2010. This information is derived from the fund’s audited annual financial statements and unaudited interim financial statements, as applicable.

The Fund’s Net Assets per Unit⁽¹⁾

Class A Units

	June 30	December 31					
	2010	2009	2008	2007	2006	2005	
Net Assets, beginning of period	\$ 10.83	10.80	10.61	10.76	10.88	10.77	
Increase (decrease) from operations:							
Total revenue	\$ 0.23	0.47	0.52	0.53	0.54	0.57	
Total expenses	\$ (0.04)	(0.09)	(0.10)	(0.10)	(0.11)	(0.11)	
Realized gains (losses) for the period	\$ (0.01)	0.01	0.04	(0.05)	(0.03)	0.10	
Unrealized gains (losses) for the period	\$ 0.20	(0.03)	0.15	(0.13)	(0.09)	0.01	
Total increase (decrease) from operations⁽²⁾	\$ 0.38	0.36	0.61	0.25	0.31	0.57	
Distributions:							
From net investment income (excluding dividends)	\$ (0.20)	(0.38)	(0.42)	(0.42)	(0.44)	(0.45)	
From dividends	\$ –	–	–	–	–	–	
From capital gains	\$ –	–	–	–	–	–	
Return of capital	\$ –	–	–	–	–	–	
Total distributions for period⁽³⁾	\$ (0.20)	(0.38)	(0.42)	(0.42)	(0.44)	(0.45)	
Net assets, end of period	\$ 11.03	10.83	10.80	10.61	10.77	10.88	

Class F Units

	June 30	December 31					
	2010	2009	2008	2007	2006	2005	
Net Assets, beginning of period	\$ 10.85	10.83	10.64	10.74	10.87	10.76	
Increase (decrease) from operations:							
Total revenue	\$ 0.23	0.52	0.54	0.53	0.54	0.56	
Total expenses	\$ (0.03)	(0.06)	(0.06)	(0.06)	(0.07)	(0.07)	
Realized gains (losses) for the period	\$ (0.01)	0.01	0.04	(0.05)	(0.10)	0.12	
Unrealized gains (losses) for the period	\$ 0.09	0.02	0.16	(0.10)	(0.08)	0.01	
Total increase (decrease) from operations⁽²⁾	\$ 0.28	0.49	0.68	0.32	0.29	0.62	
Distributions:							
From net investment income (excluding dividends)	\$ (0.20)	(0.41)	(0.46)	(0.46)	(0.47)	(0.50)	
From dividends	\$ –	–	–	–	–	–	
From capital gains	\$ –	–	–	–	–	–	
Return of capital	\$ –	–	–	–	–	–	
Total distributions for period⁽³⁾	\$ (0.20)	(0.41)	(0.46)	(0.46)	(0.47)	(0.50)	
Net assets, end of period	\$ 11.05	10.85	10.83	10.64	10.75	10.87	

Class I Units

	June 30	December 31				
	2010	2009	2008	2007	2006	2005*
Net Assets, beginning of period	\$ 10.79	10.79	10.61	10.75	10.88	10.99
Increase (decrease) from operations:						
Total revenue	\$ 0.23	0.49	0.52	0.53	0.54	0.29
Total expenses	\$ –	–	(0.01)	(0.01)	(0.01)	–
Realized gains (losses) for the period	\$ (0.01)	0.01	0.04	(0.05)	0.03	(0.08)
Unrealized gains (losses) for the period	\$ 0.21	(0.03)	0.12	(0.09)	(0.09)	–
Total increase (decrease) from operations⁽²⁾	\$ 0.43	0.47	0.67	0.38	0.47	0.21
Distributions:						
From net investment income (excluding dividends)	\$ (0.24)	(0.47)	(0.51)	(0.52)	(0.53)	(0.30)
From dividends	\$ –	–	–	–	–	–
From capital gains	\$ –	–	–	–	–	–
Return of capital	\$ –	–	–	–	–	–
Total distributions for period⁽³⁾	\$ (0.24)	(0.47)	(0.51)	(0.52)	(0.53)	(0.30)
Net assets, end of period	\$ 10.98	10.79	10.79	10.61	10.76	10.88

* The start date for Class I units was June 20.

⁽¹⁾ This information is derived from the fund's unaudited interim financial statements and audited annual financial statements. The net assets per security presented in the financial statements differs from the net asset value calculated for fund pricing purposes. This difference is due to the requirements of generally accepted accounting principles ("GAAP"), including CICA Handbook Section 3855, and may result in a different valuation of securities held by the fund in accordance with GAAP than the market value used to determine net asset value of the fund for the purchase, switch and redemption of the fund's units ("Pricing NAV"). The provisions of Section 3855 have been applied retroactively without restatement of periods prior to December 31, 2007. The Pricing NAV per unit at the end of the period is disclosed in Ratios and Supplemental Data.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽³⁾ Distributions were paid in cash/reinvested in additional units of the fund, or both.

Ratios and Supplemental Data

Class A Units

	June 30	December 31				
	2010	2009	2008	2007	2006	2005
Total net asset value (000's) ⁽¹⁾	\$ 258,104	230,272	94,468	74,705	79,213	77,424
Number of units outstanding (000's) ⁽¹⁾	23,386	21,289	8,740	7,031	7,358	7,115
Management expense ratio ⁽²⁾	% 0.82	0.86	0.91	0.97	1.00	1.04
Management expense ratio before waivers or absorptions ⁽²⁾	% 0.82	0.86	0.92	0.97	1.03	1.06
Trading expense ratio ⁽³⁾	% –	–	–	–	–	–
Portfolio turnover rate ⁽⁴⁾	% 22.09	37.67	34.24	41.96	45.20	36.45
Net asset value per unit	\$ 11.04	10.84	10.81	10.63	10.77	10.88

Class F Units

	June 30	December 31				
	2010	2009	2008	2007	2006	2005
Total net asset value (000's) ⁽¹⁾	\$ 49	268	502	1,156	1,451	1,554
Number of units outstanding (000's) ⁽¹⁾	4	25	46	109	135	143
Management expense ratio ⁽²⁾	% 0.58	0.56	0.56	0.59	0.63	0.65
Management expense ratio before waivers or absorptions ⁽²⁾	% 2.08	0.99	0.82	0.69	0.67	0.87
Trading expense ratio ⁽³⁾	% –	–	–	–	–	–
Portfolio turnover rate ⁽⁴⁾	% 22.09	37.67	34.24	41.96	45.20	36.45
Net asset value per unit	\$ 11.06	10.86	10.84	10.65	10.75	10.87

Class I Units

	June 30	December 31				
	2010	2009	2008	2007	2006	2005
Total net asset value (000's) ⁽¹⁾	\$ 48,056	54,391	39,825	34,739	28,052	18,303
Number of units outstanding (000's) ⁽¹⁾	4,371	5,033	3,686	3,271	2,607	1,682
Management expense ratio ⁽²⁾	% 0.03	0.05	0.07	0.08	0.08	0.04
Management expense ratio before waivers or absorptions ⁽²⁾	% 0.03	0.05	0.07	0.08	0.09	0.05
Trading expense ratio ⁽³⁾	% –	–	–	–	–	–
Portfolio turnover rate ⁽⁴⁾	% 22.09	37.67	34.24	41.96	45.20	36.45
Net asset value per unit	\$ 10.99	10.81	10.80	10.62	10.76	10.88

⁽¹⁾ This information is provided as at the period end of the year shown.

⁽²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of the daily average net asset value during the period.

⁽⁴⁾ The fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Management Fees

The management fee for each class is calculated as a percentage of its daily net asset value and is accrued daily. The management fees cover the costs of managing the fund, allow us to arrange to provide investment analysis, recommendations and investment decision making for the fund, allow us to make brokerage arrangements for the purchase and sale of the fund's portfolio securities and to provide or arrange to provide other services. The breakdown of the services received in consideration of the management fees for each class, as a percentage of the management fees, are as follows:

	Management Fees (%)	Breakdown of Services	
		Dealer Compensation (%)	Other* (%)
Class A	0.70	4.49	95.51
Class F	0.35	–	100

* Includes all costs related to management, trustee, investment advisory services, general administration and profit.

Past Performance

The performance shown assumes that all distributions made by the fund in the periods shown were reinvested in additional units of the fund. If you hold the fund outside of a registered plan, you will be taxed on these distributions.

The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns.

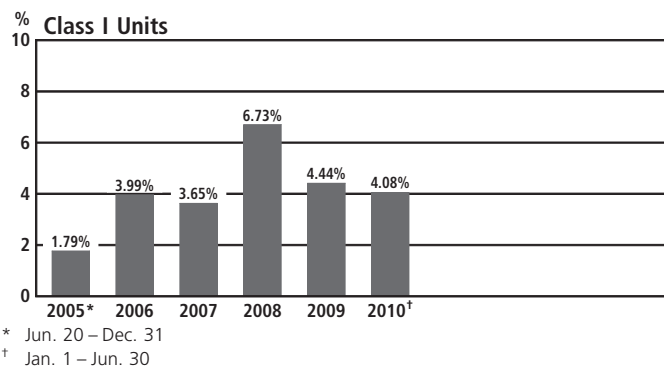
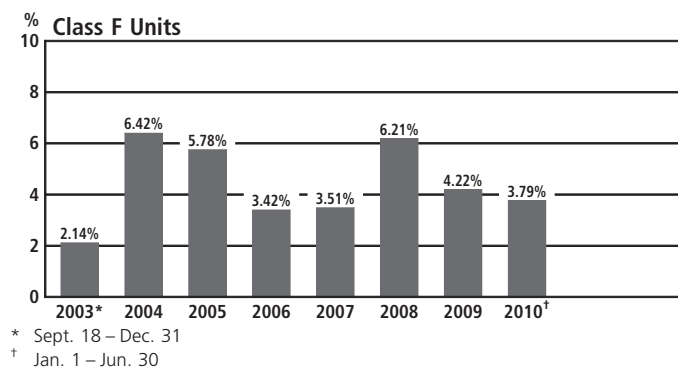
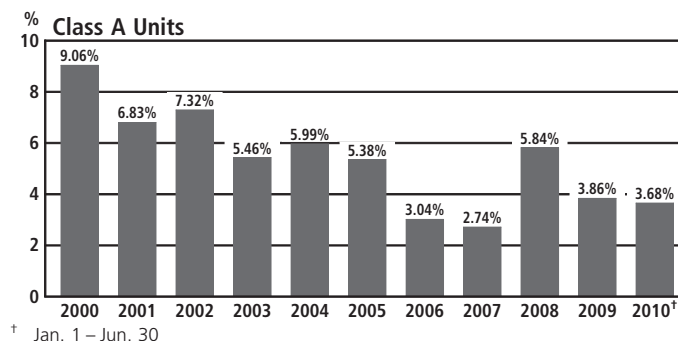
How the fund has performed in the past does not necessarily indicate how it will perform in the future.

Prior to September 18, 2001, the portfolio advisor to the fund was Scotia Cassels Investment Counsel Limited. From September 18, 2001 to February 28, 2002, the portfolio advisor to the fund was Barclays Global Investors Canada Limited. On March 1, 2002, State Street Global Advisors, Ltd. was appointed portfolio advisor to the fund. These changes in portfolio advisor could have materially affected the performance of the fund during the performance measurement periods.

All rates of return are based on Pricing NAV and are in Canadian dollars unless stated otherwise.

Year-by-Year Returns

This chart shows the fund's performance, which changes from year to year. It shows in percentage terms how much an investment held on January 1 each year would have increased or decreased by December 31 of that year, or by June 30, as applicable.



Summary of Investment Portfolio

(as at June 30, 2010)

This is a breakdown of the fund's investments and a list of up to 25 of its largest holdings. The holdings will change as the portfolio advisor buys and sells securities. You can obtain an up to date list of portfolio holdings on a quarterly basis by calling 1 800 268-9269 (416 750-3863 in Toronto) for English, 1 800 387-5004 for French, or by visiting www.scotiafunds.com.

Sector Mix⁽¹⁾

	% of net asset value ⁽²⁾
Federal Bonds	46.1
Corporate Bonds	26.4
Provincial Bonds	25.4
Municipal Bonds	1.2

⁽¹⁾ 0.9% of the fund's assets are held in cash, other assets and liabilities.

⁽²⁾ Based on Pricing NAV.

Top Holdings

Issuer	% of net asset value⁽¹⁾
Government of Canada 3.50% due Jun. 1, 2013	3.9
Government of Canada 1.25% due Dec. 1, 2011	3.0
Government of Canada 1.00% due Sep. 9, 2011	2.3
Government of Canada 3.00% due Jun. 1, 2014	1.9
Canada Housing Trust No. 1 4.55% due Dec. 15, 2012	1.7
Government of Canada 2.50% due Jun. 1, 2015	1.7
Government of Canada 4.00% due Jun. 1, 2016	1.7
Government of Canada 1.50% due Jun. 1, 2012	1.6
Government of Canada 3.50% due Jun. 1, 2020	1.6
Government of Canada 3.75% due Jun. 1, 2012	1.5
Government of Canada 5.75% due Jun. 1, 2029	1.5
Government of Canada 5.75% due Jun. 1, 2033	1.5
Government of Canada 5.00% due Jun. 1, 2037	1.5
Province of Ontario 4.75% due Jun. 2, 2013	1.5
Province of Ontario 5.00% due Mar. 8, 2014	1.5
Canada Housing Trust No. 1 4.00% due Jun. 15, 2012	1.4
Canada Housing Trust No. 1 2.95% due Mar. 15, 2015	1.4
Canada Housing Trust No. 1 3.15% due Jun. 15, 2014	1.1
Government of Canada 2.00% due Sep. 1, 2012	1.1
Government of Canada 4.25% due Jun. 1, 2018	1.1
Canada Housing Trust No. 1 4.10% due Dec. 15, 2018	1.0
Government of Canada 3.75% due Jun. 1, 2019	1.0
Government of Canada 4.00% due Jun. 1, 2017	0.9
Province of Quebec 5.50% due Dec. 1, 2014	0.8
Toronto-Dominion Bank, The 4.85% due Feb. 13, 2013	0.8
Total Net Asset Value (000's)	\$306,209

⁽¹⁾ Based on Pricing NAV.

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