ScotiaFunds®

Scotia Canadian Dividend Income Fund

Interim Management Report of Fund Performance

For the period ended June 30, 2013

This interim management report of fund performance ("MRFP") contains financial highlights, but may not contain the complete semi-annual financial statements of the fund. You can get a copy of the semi-annual financial statements at your request, and at no cost, by calling toll-free 1 800 268-9269, or by asking your mutual fund representative. You can also write to us at Scotia Asset Management L.P., Scotia Plaza, 52nd Floor, 40 King Street West, Toronto, Ontario M5H 1H1, 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 Dividend Income 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

For the period ended June 30, 2013 (the "review period"), the fund returned 7.59% compared to a −0.88% return for the broad-based S&P/TSX Composite Index (TR), and a −1.09% return for a blended benchmark consisting of 30% DEX Universe Bond Index and 70% S&P/TSX Composite Index (TR). In contrast to the indices, the fund's return is after the deduction of fees and expenses.

Over the review period, the Canadian equity market fell, primarily as a result of the significant decline in the price of gold, which negatively impacted the materials sector. Economic growth in the emerging markets, such as China and Brazil, was much slower than expected. In Europe, policymakers indicated that interest rates in the U.K. and continental Europe were likely to remain low for the foreseeable future. The U.S. housing market continued to strengthen, and mortgage rates increased by as much as 100 basis points. Toward the end of the review period, the U.S. Federal Reserve Board (the Fed) indicated that it could begin to taper its asset purchase program.

The fund outperformed the benchmark during the review period. Holdings in the financials, consumer discretionary, health care, and energy sectors contributed to performance. Significant individual contributors to performance included Nu Skin Enterprises, Inc., CGI Group Inc., Warner Chilcott plc, Johnson & Johnson Inc., Canadian Energy Services & Technology Corp., and Canexus Corporation.

Holdings in the materials and telecommunications services sectors detracted from performance over the period. The fund's fixed income allocation also detracted from performance.

At the end of the review period, the fund was approximately 63% invested in Canadian equities, 15% in U.S. equities, 2% in foreign equities, 18% in fixed income, and 2% in cash and equivalents. The fund maintained overweight positions in the health care, telecommunications services, and consumer discretionary sectors, and an underweight position in the financials sector.

During the review period, the fund's cash position increased modestly. The portfolio advisor increased the fund's exposure to the telecommunications services sectors, as the portfolio advisor believes equity valuations in the sector are attractive.

In the portfolio advisor's view, the rebound in global economic growth remains sluggish. In Europe, the portfolio advisor considers that equity markets have likely reached their bottom. However, signs of economic growth have yet to be seen. The portfolio advisor also believes the current level of global economic growth justifies recent increases in interest rates, and therefore expects the Fed to continue its quantitative easing program for a while. Retail spending in the U.S. remains strong, driven by an improving labour market. The U.S. housing market continues to improve. Still, the portfolio advisor remains concerned about interest rates, but expects that if the Fed can stabilize interest rates, the housing market will hopefully continue to improve.

The fund will continue to be focused on companies that the portfolio advisor believes have the ability to grow dividends in a low-growth, low-interest-rate environment.

Over the review period, the fund experienced net sales of $43,423,475.

Recent Developments

On August 26, 2011, a majority of voters in a British Columbia referendum opted to eliminate the application of harmonized sales tax ("HST") in that province. Effective April 1, 2013 the government of British Columbia phased out the HST and returned to its former system of the federal goods and services tax ("GST") and provincial sales tax ("PST").

In addition, effective April 1, 2013, the government of Prince Edward Island harmonized its PST with the federal HST at a combined rate of 14%.

Furthermore, the government of Quebec harmonized certain aspects of the Quebec sales tax ("QST") with the HST effective January 1, 2013, subject to certain transitional rules. As a result of the harmonization, the fund's overall tax burden may increase. Among other things, financial services are now generally exempt from QST rather than being zero-rated, such that QST payable by the fund, for instance on management fees and other fees, are no longer refundable. As of January 1, 2013, the QST is calculated on the selling price not including GST. However, to ensure the total taxes payable remain the same, the QST rate has been increased to 9.975%. The combined GST/QST rate is 14.975%.

Future Accounting Changes

On December 12, 2011, the Canadian Accounting Standards Board ("AcSB") extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment entities to fiscal year beginning on or after January 1, 2014. Consequently, the fund will adopt IFRS beginning January 1, 2014 and will publish the first financial statements, prepared in accordance with IFRS, for the semi-annual period ending June 30, 2014. The June 30, 2014 semi-annual and December 31, 2014 annual financial statements will include an opening Statement of Net Assets as at January 1, 2013 ("the transition date"), and comparative financial information prepared in accordance with IFRS.

In addition, on May 12, 2011, the International Accounting Standards Board ("IASB") issued IFRS 13 – "Fair Value Measurement", which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It only applies when other IFRS standards require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the net asset value per unit and net assets per unit under current Canadian GAAP.

Furthermore, in October 2012, the IASB issued Investment Entities (Amendments to IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 27 – "Separate Financial Statements"), which define an investment entity and introduce an exception to the consolidation requirements. The amendments require an investment entity to measure investments in most controlled subsidiaries at fair value through profit or loss in accordance with IFRS 9 – "Financial Instruments". The amendments also introduce new disclosure requirements for these entities and apply for annual periods beginning on or after January 1, 2014.

The Manager has developed a changeover plan to meet the implementation date published by the AcSB. The key elements of the plan include identifying differences between the fund's current accounting policies and those the fund 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 fund.

Based on the Manager's analysis to date, there will likely be no material impact to the net asset value per unit of each series of the fund due to the changeover to IFRS. The major qualitative changes that will result from the adoption of IFRS will be in the areas of fair valuation, cash flow presentation, classification of net assets representing unitholders' equity, and additional note disclosures. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

Manager Name Change

On or about September 30, 2013, the Manager will change its name from Scotia Asset Management L.P. to 1832 Asset Management L.P.

Related Party Transactions

Where applicable, we are the manager, trustee, registrar and transfer agent of the fund. The fund pays us a management fee, which may vary for each series of units of the fund. The Bank of Nova Scotia ("Scotiabank"), the parent company of the manager, earns fees for providing custodial services, including safekeeping 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 series 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"), DWM Securities Inc. ("DWMSI") and Dundee Private Investors Inc. ("DPII") which are wholly-owned subsidiaries of Scotiabank. SCI, DWMSI and DPII, like other dealers, are paid a trailer commission by SAM for distributing certain series 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 page).

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. During the period, the fund paid commissions to SCI amounting to approximately $4,283.

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, 2013. 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)]

Series A Units

		June 30	December 31				
		2013	2012	2011	2010*	2009	2008
Net Assets, beginning of period	$	10.87	9.97	10.55	10.00	–	–
Increase (decrease) from operations:							
Total revenue	$	0.20	0.35	0.37	0.14	–	–
Total expenses	$	(0.13)	(0.23)	(0.25)	(0.09)	–	–
Realized gains (losses) for the period	$	0.71	0.55	(0.79)	–	–	–
Unrealized gains (losses) for the period	$	(0.05)	0.29	(0.05)	0.50	–	–
Total increase (decrease) from operations[(2)]	$	0.73	0.96	(0.72)	0.55	–	–
Distributions:							
From net investment income (excluding dividends)	$	–	–	–	–	–	–
From dividends	$	(0.05)	(0.08)	(0.10)	(0.02)	–	–
From capital gains	$	–	–	–	(0.01)	–	–
Return of capital	$	–	–	–	–	–	–
Total distributions for period[(3)]	$	(0.05)	(0.08)	(0.10)	(0.03)	–	–
Net Assets, end of period[(4)]	$	11.64	10.87	9.97	10.55	–	–

* The start date for Series A units was September 1.

(1) This information is derived from the audited fund's unaudited and 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 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.

(4) The net assets per unit at period end is not a cumulative amount but, rather, the value of the fund's units, in accordance with GAAP, as at the fund's period end.

Ratios and Supplemental Data

Series A Units

		June 30	December 31				
		2013	2012	2011	2010	2009	2008
Total net asset value (000's)[(1)]	$	153,229	101,966	79,342	27,882	–	–
Number of units outstanding (000's)[(1)]		13,142	9,370	7,954	2,641	–	–
Management expense ratio[(2)]	%	1.89	1.93	2.01	2.09	–	–
Management expense ratio before waivers or absorptions[(2)]	%	1.89	1.93	2.01	3.01	–	–
Trading expense ratio[(3)]	%	0.42	0.31	0.37	0.52	–	–
Portfolio turnover rate[(4)]	%	78.37	113.90	152.35	18.01	–	–
Net asset value per unit	$	11.66	10.88	9.98	10.56	–	–

(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 series 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 Manager, at its sole discretion, may absorb management fees and operating expenses otherwise payable by certain Series. The Manager may cease to absorb expenses at any time, without notice.

The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, are as follows:

	Maximum Management Fee (%)	Breakdown of Services: Dealer Compensation (%)	Breakdown of Services: Other* (%)
Series A	1.65	45.50	54.50

* 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.

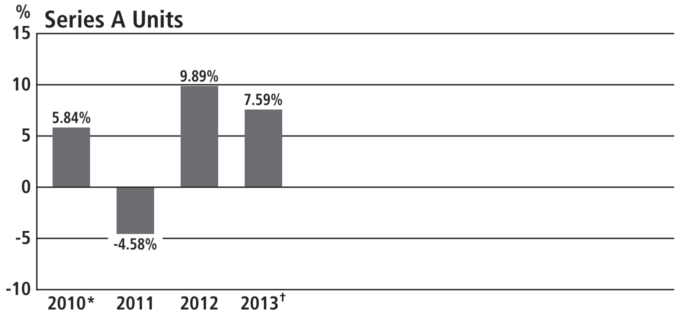
The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns.

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

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, or held commencing from start of series in each year, would have increased or decreased by December 31 of that year, or by June 30, as applicable.



* Sept. 1 – Dec. 31
† Jan. 1 – Jun. 30

Summary of Investment Portfolio

This is a breakdown of the fund's investments and a list of up to 25 of its largest holdings, as applicable. The holdings will change as the portfolio advisor buys and sells securities. You can obtain a list of portfolio holdings on a quarterly basis by calling 1 800 268-9269, or by visiting www.scotiafunds.com.

Asset Mix(1)

	% of net asset value(2)
Canadian Equities	66.1
Fixed Income Funds	17.9
Foreign Equities	13.4

(1) 2.6% 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)
Scotia Canadian Income Fund Series I	13.7
Scotia Private Canadian Corporate Bond Pool Series I	4.2
Cash and cash equivalents	4.2
BCE Inc.	3.1
TELUS Corporation	3.0
Canexus Corp.	2.9
Canaccord Financial Inc.	2.6
Rogers Communications, Inc., Class B	2.2
Brookfield Infrastructure Partners LP	2.2
Inter Pipeline Fund, Class A	2.2
FirstService Corporation	2.1
Talisman Energy Inc.	2.0
EnerCare Inc	1.8
McKesson Corporation	1.7
West Fraser Timber Co., Ltd.	1.7
Royal Bank of Canada	1.7
Brookfield Properties Corporation, Inc.	1.7
Baxter International Inc.	1.7
Foot Locker, Inc.	1.6
Trilogy Energy Corporation	1.5
Cenovus Energy Inc.	1.5
RioCan Real Estate Investment Trust	1.5
Dundee Real Estate Investment Trust	1.5
EnCana Corporation	1.5
AltaGas Ltd.	1.5
Total Net Asset Value (000's)	$153,229

(1) Based on Pricing NAV.