Scotia Canadian Tactical Asset Allocation Fund

(formerly Scotia Total Return Fund)

Scotia Securities™

Management Report of Fund Performance

(as at June 30, 2007)

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 visit www.scotiabank.com/mutualfunds or SEDAR at 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 and our refers to Scotia Securities Inc. and fund refers to the Scotia Canadian Tactical Asset Allocation 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

During the period, the fund's Class A units gained 3.5% compared to a return of 3.2% for a blended index consisting of 40% S&P/TSX Composite Index, 40% Scotia Capital (SC) Universe Bond Index, and 20% Morgan Stanley Capital International (MSCI) World Index. In contrast to the blended index, the fund's return is after the deduction of fees and expenses. Please see 'Past Performance' for the performance return of the fund's other class.

Robust economic growth combined with relatively stable inflation heightened mergers and acquisitions activity, and strong monetary growth fueled global equity markets through much of the first half of the year. The second quarter was exceptionally strong with many market indices, including the S&P/TSX Composite Index, reaching all-time highs. However, the bond market sold off in May and June, and longer-term global interest rates backed up more than 0.5% as investors demanded higher risk premiums in the face of increased uncertainty. This had an immediate impact on equity markets, which also retreated from their intra-quarter highs. Fortunately, international and North American stock markets recovered much of the lost ground in the final days of the quarter. The Canadian dollar rose almost 8% to end near 94 cents U.S. and oil approached $70 per barrel at the end of June. Both were contributing factors in the Canadian equity market's rise while the dollar's rise significantly negated foreign equity returns converted back into Canadian currency.

The Canadian equity component of the fund returned 10.6% versus 9.0% for the S&P/TSX Composite Index. Although sector allocation was only slightly positive, security selection within the value portion was the largest source of added value to the fund, as holdings in the Materials sector such as Agrium and Sherritt International were large contributors to performance.

Security selection in the foreign equity component of the fund, particularly in the international portion contributed positively to performance, as stock, sector and country decisions all benefited the fund.

The bond component of the fund matched the SC Universe Bond Index return of –0.7%, as positive yield-curve positioning structured to benefit from the curve becoming steeper was offset by the sector strategy to hold an overweight exposure to corporate bonds.

During the period, the fund experienced net sales of $1,226,571.

Recent developments

Effective April 23, 2007, the fund changed its name from Scotia Total Return Fund to Scotia Canadian Tactical Asset Allocation Fund.

The portfolio advisor retains a positive view towards equities as valuations remain attractive and continue to have room to expand. Even with the strong market returns to the end of June, global equities remain cheaper today than they were at the beginning of 2003 when the current bull market started. Share buyback programs and mergers and acquisition activity will serve to support the market and importantly, corporate earnings are expected to continue to grow through the remainder of the year.

In terms of inflation, the portfolio advisor continues to see a fairly benign environment unfolding, with monetary policy expected to remain supportive of economic growth and financial markets despite the current expectation that the Bank of Canada will increase interest rates by up to half a percent in the second half of the year.

The portfolio advisor believes that the greatest risks to the fund's performance will be the U.S. economy's ability to avoid a recession as a result of the follow-on effects of the sub-prime mortgage issue, a collapse in corporate earnings, or a potential surge in inflation causing the U.S. Federal Reserve Board and the Bank of Canada to have to tighten more than current market expectations have built-in.

On balance, given the positive factors that exist, the portfolio advisor expects to see the Canadian equity market move through its previous highs before we finish 2007. Similarly, the portfolio advisor expects to see reasonable returns in foreign equities outside the U.S., but is not as optimistic for bonds, expecting a modest positive return in the second half of 2007.

Accounting policy change

National Instrument 81-106 requires the fund's net asset value to be calculated in accordance with Canadian generally accepted accounting principles ('GAAP'). Effective October 1, 2006, CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, requires financial instruments which are actively traded to be valued based on the last bid price for the security. Prior to that date, fair value for GAAP purposes was based on the last traded price for the day, when available.

The Canadian securities regulatory authorities granted interim relief to investment funds from complying with Section 3855 for the purposes of calculating and reporting of net asset value (other than for financial reporting purposes). Accordingly, the value used to determine the daily price of the fund's units for purchase and redemption by investors ('Pricing NAV') is not affected by this accounting policy change. In accordance with the decision of the Canadian securities regulatory authorities, a reconciliation between the Pricing NAV and the net asset value calculated in accordance with Section 3855 ('GAAP NAV') is required in the notes to the financial statements of the fund.

Related party transactions

We are the manager of the fund. The Bank of Nova Scotia, the parent company of the manager, earns fees as a result of providing custodial services, including safekeeping and administrative services and unitholder record-keeping services to the fund, and as a result of acting as agent in respect of securities lending transactions for certain Scotia Mutual Funds.

As at June 30, 2007, the fund paid brokerage fees to Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia and an affiliate of the manager, in the amount of $6,069.00.

The fund may invest in common shares of The Bank of Nova Scotia. Trades in common shares of The Bank of Nova Scotia are made pursuant to an exemption the fund received from the Canadian securities regulatory authorities.

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, 2007. 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				
		2007	2006	2005	2004	2003	2002
Net asset value per unit – beginning of period	$	18.25	16.62	15.13	14.22	12.73	13.71
New accounting policy adjustment[1]	$	(0.05)	–	–	–	–	–
Increase (decrease) from operations:							
Total revenue	$	0.30	0.55	0.54	0.42	0.29	0.35
Total expenses	$	(0.20)	(0.36)	(0.34)	(0.37)	(0.33)	(0.33)
Realized gains (losses) for the period	$	0.57	1.13	0.91	1.85	(0.28)	(0.90)
Unrealized gains (losses) for the period	$	0.01	0.50	0.56	(1.01)	1.75	(0.08)
Total increase (decrease) from operations[2]	$	0.68	1.82	1.67	0.89	1.43	(0.96)
Distributions:							
From income (excluding dividends)	$	(0.11)	(0.01)	–	–	–	–
From dividends	$	–	(0.19)	(0.19)	–	–	(0.03)
From capital gains	$	–	–	–	–	–	–
Return of capital	$	–	–	–	–	–	–
Total distributions for period[3]	$	(0.11)	(0.20)	(0.19)	–	–	(0.03)
Net assets per units – end of period[4]	$	18.77	18.25	16.62	15.13	14.22	12.73

Class F Units

		June 30	December 31				
		2007	2006	2005	2004	2003	2002
Net asset value per unit – beginning of period	$	18.51	16.85	15.35	14.26	12.86	13.72
New accounting policy adjustment(1)	$	(0.05)	–	–	–	–	–
Increase (decrease) from operations:							
Total revenue	$	0.31	0.56	0.55	0.43	0.28	0.35
Total expenses	$	(0.12)	(0.20)	(0.19)	(0.20)	(0.41)	(0.17)
Realized gains (losses) for the period	$	0.58	1.17	0.92	2.27	(0.19)	(1.06)
Unrealized gains (losses) for the period	$	(0.03)	0.50	0.57	(1.03)	1.72	(0.08)
Total increase (decrease) from operations(2)	$	0.74	2.03	1.85	1.47	1.40	(0.96)
Distributions:							
From income (excluding dividends)	$	(0.21)	(0.03)	–	–	–	–
From dividends	$	–	(0.33)	(0.35)	–	(0.05)	(0.07)
From capital gains	$	–	–	–	–	–	–
Return of capital	$	–	–	–	–	–	–
Total distributions for period(3)	$	(0.21)	(0.36)	(0.35)	–	(0.05)	(0.07)
Net assets per unit – end of period(4)	$	18.99	18.51	16.85	15.35	14.26	12.86

(1) The adoption of the new accounting policy may result in a different valuation of securities held by the fund for financial reporting purposes than the market value used to determine the net asset value of the fund for the purchase and redemption of the fund's units. An explanation of these differences can be found in the notes to the fund's financial statements.

(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 to GAAP, as at the fund's period end.

Ratios and supplemental data

Class A Units

		June 30	December 31				
		2007	2006	2005	2004	2003	2002
Total net asset value (000's)(1)	$	476,130	461,239	441,822	444,476	469,176	471,617
Number of units outstanding (000's)(1)		25,336	25,269	26,588	29,376	32,996	37,047
Management expense ratio(2)	%	2.04	2.07	2.14	2.56	2.56	2.51
Management expense ratio before waivers or absorptions(2)	%	2.05	2.07	2.16	2.60	2.56	2.59
Trading expense ratio(3)	%	0.11	0.11	0.12	–	–	–
Portfolio turnover rate(4)	%	118.60	174.06	146.41	220.47	31.19	168.29

Class F Units

		June 30	December 31				
		2007	2006	2005	2004	2003	2002
Total net asset value (000's)(1)	$	21	21	19	17	6	12
Number of units outstanding (000's)(1)		1	1	1	1	0.50	1
Management expense ratio(2)	%	1.12	1.14	1.20	1.36	1.34	1.31
Management expense ratio before waivers or absorptions(2)	%	18.47	16.46	30.21	22.87	8.01	1.37
Trading expense ratio(3)	%	0.11	0.11	0.12	–	–	–
Portfolio turnover rate(4)	%	118.60	174.06	146.41	220.47	31.19	168.29

(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 daily average net asset value during the period.

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

(4) The fund's portfolio turnover ratio 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 fees charged to the fund for the period ending June 30, 2007 totalled $4,120,791. 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 management fees are also used to fund commission payments and other compensation paid to registered dealers and brokers (collectively "distribution related costs") for units of the fund purchased and held by investors. The distribution related costs were approximately 2.22% of the total management fees we received from the fund during the period ending June 30, 2007.

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.

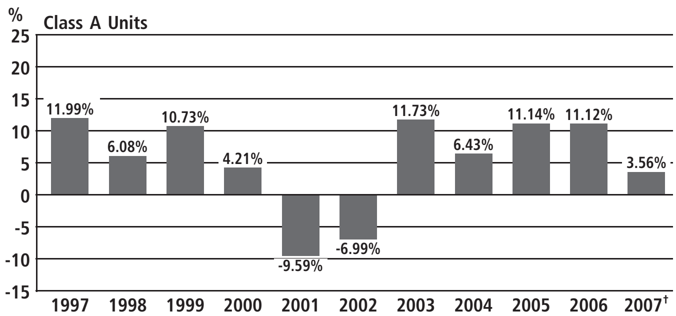
On January 26, 2004, Connor, Clark & Lunn Investment Management Ltd. was appointed portfolio advisor to the fund.

Prior to that, the portfolio advisor to the fund was Montrusco Bolton Investments Inc. This change in portfolio advisor could have materially affected the performance of the fund during the performance measurement periods.

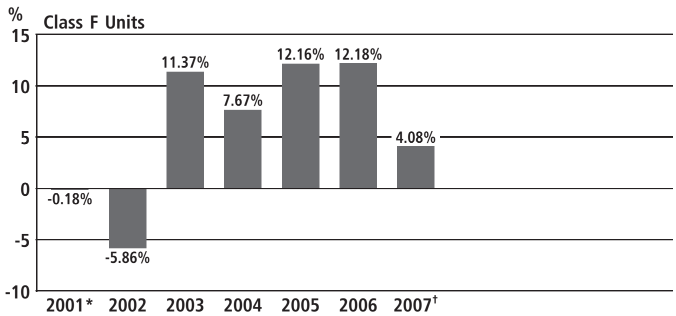
All rates of return are calculated based on the Pricing NAV.

Year-by-year returns

These charts show the fund's performance, which changes from year to year. They show 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.



† Jan. 1 – Jun. 30



* Mar. 22 – Dec. 31
† Jan. 1 – Jun. 30

Summary of Investment Portfolio
(as at June 30, 2007)

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 from the internet at www.scotiabank.com/mutualfunds.

Asset mix

	% of net asset value(1)
Canadian Equities	44.3
Bonds and Debentures	29.5
Foreign Equities	23.9
Cash, other assets and liabilities	2.3

(1) Based on Pricing NAV.

Top holdings

Issuer	% of net asset value(1)
Royal Bank of Canada	3.5
Canada Housing Trust 3.95% due Dec. 15, 2011	3.3
Toronto-Dominion Bank	3.2
Manulife Financial Corporation	2.5
Cash and cash equivalents	2.5
EnCana Corporation	2.3
Government of Canada 4.80% due Jun. 15, 2012	2.2
Suncor Energy Inc.	2.0
Canadian Imperial Bank of Commerce	1.9
Canadian Natural Resources Ltd.	1.8
Petro-Canada	1.7
Bank of Montreal	1.4
Rogers Communications Inc. Class B	1.4
Canadian National Railway Company	1.4
Talisman Energy Inc.	1.3
Telus Corporation Non-Voting	1.2
Canada Housing Trust 4.60% due Sep. 15, 2011	1.1
Nexen Inc.	1.1
Canada Housing Trust 3.55% due Sep. 15, 2010	1.0
Agrium Inc.	1.0
Government of Canada 3.75% due Sep. 1, 2011	1.0
Alcan Inc.	1.0
BCE Inc.	0.9
Government of Canada 4.00% due Jun. 1, 2017	0.8
Canada Housing Trust 4.40% due Mar. 15, 2008	0.8
Top holdings total	42.3

(1) Based on Pricing NAV.