Scotia Cassels Canadian Corporate Bond Fund

ScotiaFunds™

Management Report of Fund Performance
(as at December 31, 2007)

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the fund. You can get a copy of the 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 Cassels Canadian Corporate Bond 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

Investment objectives and strategies

The fund's objective is to provide a high level of regular interest income and modest capital gains. It invests primarily in bonds issued by Canadian corporations. The fund can also invest up to 30% in foreign securities. It can invest anywhere in the world, but generally won't invest in emerging markets.

Securities with a maturity of one year or less will generally have a credit rating of R2 (low) or better by another approved rating agency. Securities with a maturity of more than one year must have a credit rating of BBB (low) or better by an approved rating agency. The fund can invest up to 25% of its assets in securities that have a credit rating of no lower than B (low) by an approved rating agency.

The portfolio advisor analyzes credit risk to identify securities that offer higher yields at an acceptable level of risk. Interest rate and yield curve analysis are used to manage the fund's average term to maturity depending on market conditions. The credit quality of the fund's investments will vary depending on the economic cycle, industry factors, specific company situations and market pricing considerations to try to maximize returns while minimizing portfolio risk.

Risk

The overall risks of investing in the fund remain as discussed in its simplified prospectus. The fund remains suitable for investors who want a high level of regular interest income, who can accept medium risk and who are investing for at least three years.

Results of operations

Over the review period, the fund returned 1.9% compared to a 3.6% return for the DEX Universe Bond Index. In contrast to the index, the fund's return is after the deduction of fees and expenses.

While the key market impact in the first half of 2007 revolved around a rise in "real" (inflation-adjusted) rates and the risk that the Bank of Canada might have to increase short-term interest rates, the second half of the year was dominated by government yields falling as sub-prime, housing, consumer and Asset-Backed Commercial Paper (ABCP) crises continued to hit the Canadian and U.S. financial markets.

There were a few key issues that caused corporate bond spreads to widen throughout the year. First, Financials dominated the new issue market causing spreads to widen as most new issues came at a deep concession relative to the market in order to get deals done. Second, in the second half of the year, quarterly results from U.S. banks and broker/dealers demonstrated a much deeper and broader exposure to the U.S. subprime housing market and complex derivatives than most had initially thought. Third, the non-bank sponsored ABCP market woes caused a major re-pricing of risk in short-term issues and further increased funding costs. Finally, liquidity drained from the market, making trading in any kind of volume virtually impossible.

Reacting to tightening credit conditions and the higher LIBOR (London Interbank Offered Rate), the U.S. Federal Reserve lowered the Fed funds interest rate twice during the fourth quarter to end at 4.25%. The Bank of Canada lowered the overnight interest rate once to also end the year at 4.25%, partly to offset the rise of the Canadian dollar by more than 15% against the U.S. dollar, partly because of the risks and uncertainties surrounding global economic growth, and partly to ease the liquidity constraints in the Financials sector. As a result, interest rates fell across the yield curve.

Overall, the most significant factor in the fund's underperformance relative to the index was the divergent returns between Government of Canada bonds and corporate issues, with the former returning 4.90%, thereby outperforming the latter by 3.11%.

During the period, the fund experienced net sales of $630,842,701. The fund's year-over-year interest income increased 38% and expenses increased 37% due to an increase of 36% in the fund's average year-over-year net asset value.

Recent developments

Going forward, the portfolio advisor expects corporate spreads to return closer to historical norms as their reading of the economic data continues to point to mild growth (but no recession) in the U.S. and similar (if not slightly better) growth in Canada over the next year.

The fund should benefit from the portfolio advisor's cautious approach to add value through the wider spreads in the asset-backed securities market by adding to shorter-term existing issues. These issues are highly rated and have strong underlying assets. The fund also added highly rated infrastructure bonds that are non-cyclical in nature and which should fare better in a slowing economy. In general, the fund should benefit from maintaining a significantly higher average credit quality than the benchmark.

As credit spreads remain vulnerable, the portfolio advisor expects to continue to maintain a high average credit quality in order to remain defensive and to continue to look for mispriced high grade credit opportunities.

Effective May 1, 2007, in accordance with National Instrument 81-107, *Independent Review Committee for Investment Funds*, we, as manager of the fund, have established an Independent Review Committee ("IRC"). The IRC became operational on November 1, 2007 and currently has three members, each of whom is independent of the manager and any party related to the manager. The current members of the IRC are Eric F. Kirzner, Robert S. Bell and D. Murray Paton. Additional information about the IRC is available in the fund's annual information form.

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 Administrators ("CSA") granted interim relief to investment funds from complying with National Instrument 81-106 for the purposes of calculating and reporting of net asset value (other than for financial reporting purposes). This relief has been extended and will expire on the earlier of September 30, 2008 and the date upon which changes to National Instrument 81-106 come into effect. 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 CSA, 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 to the fund.

Scotia Cassels Investment Counsel Limited, a wholly-owned subsidiary of The Bank of Nova Scotia, and an affiliate of the manager, provides portfolio management services to the fund.

During the period, the fund traded in government and non-government debt securities with Scotia Capital Inc., one of our affiliates. The fund also purchased non-government debt securities underwritten by Scotia Capital Inc. These transactions were completed in accordance with the terms of an exemption granted to the fund by the Canadian securities regulators.

For the period from November 1 to December 31, 2007, we relied on standing instructions from the IRC to proceed with purchases or sales of securities of an issuer 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:

- are made free from any influence by us or any entity related to us and without taking into account any consideration relevant to us or any entity related to us;
- represent the business judgment of the portfolio advisor uninfluenced by any consideration other than the best interests of the fund;
- are in compliance with our policies; and
- achieve a fair and reasonable result for the fund.

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. This information is derived from the fund's audited annual financial statements.

The fund's net assets per unit(1)

Scotia Private Client Units

		December 31				
		2007	2006	2005	2004	2003*
Net assets per unit – beginning of period	$	10.06	10.08	10.24	10.10	10.00
Increase (decrease) from operations:						
Total revenue	$	0.48	0.48	0.51	0.56	0.03
Total expenses	$	(0.01)	(0.01)	(0.01)	(0.01)	–
Realized gains (losses) for the period	$	(0.11)	(0.03)	0.07	0.01	0.01
Unrealized gains (losses) for the period	$	(0.14)	0.02	(0.15)	0.06	0.07
Total increase (decrease) from operations(2)	$	0.22	0.46	0.42	0.62	0.11
Distributions:						
From income (excluding dividends)	$	(0.46)	(0.47)	(0.50)	(0.52)	(0.01)
From dividends	$	–	–	(0.08)	–	–
From capital gains	$	–	–	–	–	–
Return of capital	$	–	–	–	–	–
Total distributions for period(3)	$	(0.46)	(0.47)	(0.58)	(0.52)	(0.01)
Net assets per unit – end of period(4)	$	9.78	10.07	10.08	10.24	10.10

* The inception date for the fund was October 30.

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

Ratios and supplemental data

Scotia Private Client Units

		December 31				
		2007	2006	2005	2004	2003
Total net asset value (000's)(1)	$	1,262,014	648,191	535,675	404,781	155,168
Number of units outstanding (000's)(1)		128,841	64,386	53,121	39,540	15,359
Management expense ratio(2)	%	0.09	0.09	0.11	0.14	0.11
Management expense ratio before waivers or absorptions(2)	%	0.09	0.10	0.11	0.14	0.11
Trading expense ratio(3)	%	–	–	–	–	–
Portfolio turnover rate(4)	%	98.19	79.31	165.28	30.91	249.41

(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 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 fees charged to the fund in 2007 totalled $567,224. The management fee 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. 100% of the total management fees we received from the fund for the year ended December 31, 2007 is attributable to the costs of investment management, 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.

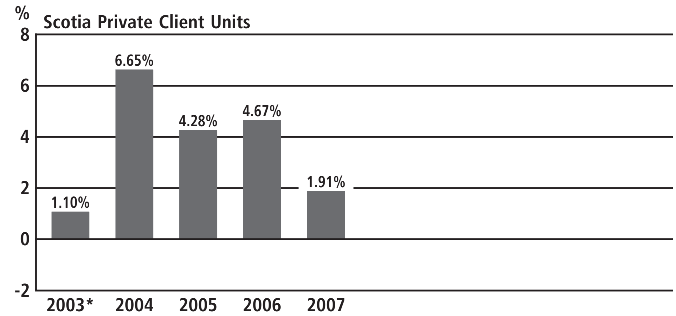
The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns.

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

All rates of return are calculated based on Pricing NAV and are in Canadian dollars.

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.



* Dec. 3 – Dec. 31

Annual compound returns

This table shows the fund's annual compound returns compared to the DEX Universe Bond Index (formerly the Scotia Capital Universe Bond Index), for the periods shown ending December 31, 2007.

		1 year	3 years	5 years	10 years	Since inception(1)
Scotia Cassels Canadian Corporate Bond Fund	%	1.91	3.61	–	–	4.56
DEX Universe Bond Index		3.68	4.72	–	–	5.61

(1) Inception Date: Scotia Private Client Units Dec. 3, 2003.

The DEX Universe Bond Index is a broad measure of the total return of Canadian bonds that mature in more than one year. It includes approximately 900 Canadian federal, provincial, municipal and corporate bonds rated BBB or higher.

A discussion of the fund's performance relative to the Index is found under *Results of Operations*.

Summary of Investment Portfolio

(as at December 31, 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.

Sector mix(1)

	% of net asset value(2)
Corporate Bonds	75.6
Federal Bonds	14.2
Mortgage-Backed Securities	9.1

(1) 1.1% 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)
Canada Housing Trust 4.55% due Dec. 15, 2012	12.7
Genesis Trust 4.00% due Mar. 15, 2010	2.5
Honda Canada Finance Inc. 5.68% due Sep. 26, 2012	2.5
Bank of America 5.45% due Sep. 17, 2014	2.5
Canadian Imperial Bank of Commerce 5.00% due Sep. 10, 2012	2.4
Royal Bank of Canada due 4.97% Jun. 5, 2014	2.4
General Electric Capital Canada Funding Company 5.53% due Aug. 17, 2017	2.4
Brascan Power Corporation 4.65% due Dec. 16, 2009	2.4
Manulife Financial Corporation 4.67% due Mar. 28, 2013	2.3
Toyota Credit Canada Inc. 5.05% due Jul. 27, 2012	2.3
Bank of Ireland (callable) 3.80% due Sep. 22, 2015-(2010)	2.3
Toronto-Dominion Bank (callable) 4.78% due Dec. 14, 2105-(2016)	2.3
Greater Toronto Airports Authority 6.25% due Jan. 30, 2012	2.2
Golden Credit Card Trust 4.25% due Feb. 15, 2011	2.2
Citigroup Inc. (callable) 4.65% due Oct. 11, 2022-(2017)	2.2
Bank of Montreal 5.04% due Sep. 4, 2012	2.1
National Australia Bank Ltd. (callable) 4.55% due Sep. 21, 2016-(2011)	2.1
Wells Fargo Financial Canada Corporation 4.45% due Feb. 28, 2011	2.1
American International Group 4.90% due Jun. 2, 2014	2.1
John Deere Credit Inc. 5.25% due Oct. 18, 2010	2.0
HSBC Financial Corporation Ltd. 4.80% due Apr. 13, 2011	2.0
Sun Life Financial Services Inc. (callable) 4.95% due Jun. 1, 2036-(2016)	1.8
Merrill Lynch Financial Assets Inc. 4.98% due Jun. 12, 2016	1.7
Shaw Communications Inc. 7.50% due Nov. 20, 2013	1.7
Merrill Lynch Financial Assets Inc. 4.81% due Oct. 12, 2016	1.7
Top holdings total	64.9

(1) Based on Pricing NAV.