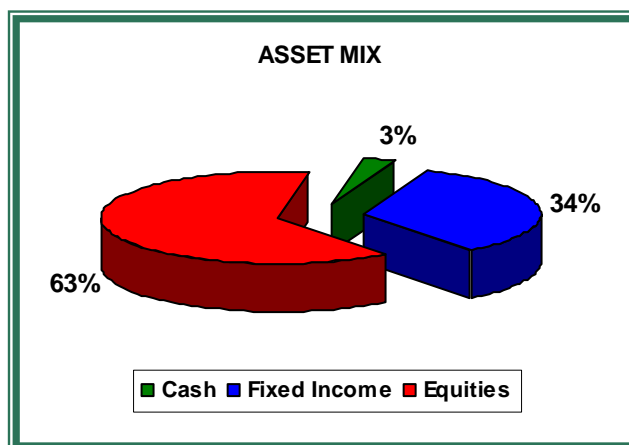


NEXUS NORTH AMERICAN BALANCED FUND

QUARTERLY REPORT – December 31, 2006

After fluctuating noticeably in the previous two quarters (up in Q2, then down in Q3), the general level of interest rates changed very little over the course of the past quarter. Furthermore, looking back a full year, it is remarkable how little rates have changed. In the money market, rates have risen by 0.50%, but interest rates for bonds with maturities longer than two years have generally risen about 10 basis points. This outcome was consistent with our view expressed a year ago that interest rates would trend sideways over the course of the year. In the equity markets, the year finished very strongly. 2006 will go down in the books as another year of strong returns with both major Canadian and US stock indices up more than 15%. Our forecasting record in the equity market is not as sharp as in the bond market. At the start of 2006 we expected modest positive returns, but have been pleasantly surprised (and rewarded) by the extent of the rise in equity markets.

Just as interest rates were basically unchanged on the year, so too was the level of the Canadian dollar. At the end of 2005, it was trading at US\$0.86 and that is approximately where it closed 2006. However, while interest rates were steady this past quarter, the C\$ has actually fallen quite sharply from almost US\$ 0.90 in September to its present level. The currency decline matches a softening in commodity and energy prices as well as increased evidence of a North American economic slowdown. In our last quarterly report, we remarked that we were surprised at the resiliency of the currency and that some erosion of its value would be unsurprising. Indeed, this decline in the currency has brought some needed relief to beleaguered exporters and manufacturers working hard to make the necessary competitive adaptations to a stronger currency. For policy-making central bankers, this break in the strength of the currency is likely welcomed as well. At this level (US\$0.86) we expect the currency to stabilize and to trade in a narrow range.



Over this past quarter, Canadian economic news has been decidedly mixed. It is clear that economic growth has moderated, but only a little more than was generally predicted. Indicators of economic output, business investment and retail consumption tell a consistent story of moderating growth, without particular risk of a sharp slowdown or recession. On the inflation front, consumer price increases have moderated from their mid-summer levels, but again at no greater a pace than has been expected. As a result, the Bank of Canada seems set to continue its hands-off approach. In fact, in December, Governor Dodge noted that inflation in Canada continued to read slightly above the Bank's target, while at the same time he noted that economic growth in Canada was likely to trail the Bank's previous forecast. As a consequence of all this, we expect no change to official interest rate policy in Canada (or the U.S.) until at least the summer.

Against a solid global economic backdrop, the major source of worry continues to emanate from the U.S. housing sector. Over the last quarter, the correction in this economic sector (lower prices, lower unit sales, reduced construction activity) continued to play out in a reasonably orderly fashion. What remains unknown is the degree of detrimental impact that will spill over to consumer spending. While it appears that measures of consumer sentiment have noticeably declined, spending has not fallen to the same degree. Anecdotal, as well as statistical, reports of sales during the Christmas season suggest that consumers are spending a little less, and are more price conscious. However, there is no evidence that they have put away their wallets and have fundamentally made the decision to save more and consume less.

Another issue to watch is the unfolding performance disparity between the goods producing and the service sectors of the economy. Goods producing industries (think autos) remain very much under the gun from the effects of global competition. One of the most important surveys of this sector of the U.S. economy is the monthly survey of purchasing managers by the Institute of Supply Management. In early December, this index fell below 50, its lowest level since the spring of 2003, and a level associated with economic recessions. Although it has made a slight rebound in January, it is clear that this sector of the economy is operating in very challenging times. On the other hand, the service sector (think Wall Street) is thriving. In contrast to the goods producing sector of the economy, this sector is expanding and adding jobs. As a result, what looks to be unfolding is what economists describe as a mid-cycle slowdown - a development that would be a great relief to central bankers and to long-term investors. For the bond and equity markets it likely portends at least another six months of interest rate stability

During the quarter, the Fund's unit value increased 5.5%.¹ The Fund is up 9.9% in the last 12 months.

ASSET MIX

As we had done in the 3rd quarter, we increased our allocation to equities by 2% this past quarter at the expense of our allocation to fixed income. Within the equity allocation we reduced our Canadian weighting by 2% and added to the U.S. and non-North American holdings. We are now at our benchmark weighting for Canadian stocks, but still slightly underweight foreign stocks. We are maintaining a very modest cash position.

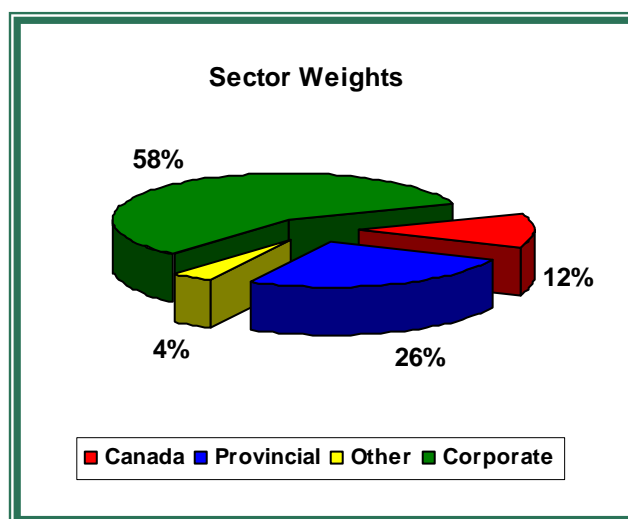
FIXED INCOME SUMMARY (34% of Assets)

Credit spreads, the difference in yield between where corporates and provincials borrow as compared to Canada bonds, continued to narrow. These spreads are certainly getting to levels where it can be argued that investors are not earning enough incremental yield, and that one might be better off earning a little less holding highly liquid Canada bonds. We will be monitoring this trend very closely in the months ahead. Our corporate holdings continue to be at the higher end of the quality spectrum and over the course of the quarter we switched certain lower-rated issues for higher-rated issues in an effort to maintain a very high quality approach.

Interest rates rose modestly this past quarter with rates in the middle of the yield curve rising a little more than at the long end. This continued the flattening trend in evidence all year and rates in the money market (less than one year in maturity) now exceed 30-

year bond rates. We have lengthened the duration of our portfolio to 6.2 years although this remains still shorter in maturity than the benchmark Scotia Capital Bond Universe, which has a duration of 6.7 years. Our holdings remain concentrated in maturities of between six and ten years. The relative allocation between Canada, provincial and corporate bonds was unchanged over the quarter.

The Fund's fixed income returns were +0.6% for the quarter and +4.0% for the year. By comparison, the SCBU Index was +0.7%, and +4.1% for the same periods.



¹ Fund returns are shown before the deduction of management fees but after the deduction of direct expenses.

CANADIAN EQUITY SUMMARY (40% of Assets)

Equity markets closed the year strongly, led higher by firm commodity prices, optimism for a successful soft-landing in the U.S. economy and relentless takeover activity across a wide variety of industries. The takeover mania is a product of two conditions; abundant global liquidity and forgiving credit conditions. Unsurprisingly, it has allowed increased borrowing by public companies to fund acquisitions, a fairly traditional pursuit. More noticeably it has funded pools of private capital (hedge funds, pension funds and private equity) to do likewise. In fact, in many instances, these private capital pools are actually purchasing public companies, or divisions of public companies, and operating them as private companies. In addition to the economic gain from buying good businesses at fair prices, there is a growing recognition that removing companies from public scrutiny empowers management to make decisions that, while difficult in the short term, are actually best for the longer term. Less important, but often cited, is the additional flexibility that comes from not operating under the glare of public market regulators and other oversight agencies. As 2007 begins, there is little reason to believe that take-over activity will subside at all in the coming year.

Ten Largest Holdings	
Royal Bank	3.1%
Bank of Nova Scotia	3.0%
Manulife	2.5%
TD Bank	2.4%
Suncor Energy	2.0%
Enbridge	1.9%
Telus Corp	1.9%
Bank of Montreal	1.8%
EnCana	1.6%
Trican Well Service	1.5%

We made few changes to our portfolio this quarter, keeping our concentration in the financial service, energy and utility sectors. We remain underexposed all year to the base and precious metals sectors, which were very strong contributors to TSX performance in 2006. Although the underlying commodities reached their peaks in the middle of the year, the stocks kept their upward momentum much longer. Beginning in December, sentiment and speculation in these areas has begun to roll over. Most noticeably, the price of many raw materials, particularly copper, fell through levels of presumed pricing support. We remain concerned that easy global liquidity conditions, not fundamentals, explain much of the strength in metals investments, but we are watching this area closely to be sure our thesis is correct.

Also worth noting is the effect of Finance Minister Flaherty's Halloween announcement of changes to the tax treatment of income trusts. While some of our income trust holdings initially declined by as much as 20%, others such as bank and utility shares benefited from renewed investor interest. Wholly unpredictable, the sudden turn-around in Ottawa underscores the wisdom of maintaining a diversified portfolio. As we cast forward as to what might happen in the income trust market, it is our opinion that the resolve of both the government and policy makers in the Department of Finance is very strong on this issue. With one exception, TimberWest Inc., we have kept our positions, believing that the bad news is fully incorporated in the valuations at this time. In the case of TimberWest, although thought of and categorized as an income trust, it is actually a "stapled unit", a form of security currently thought to be outside the changes to the legislation. As a result it was mostly unscathed by the changes, and in fact had appreciated during this period. Not wanting to risk a stricter interpretation by the government when the legislation is ultimately written, we decided to sell our position in late December.

The Fund's Canadian equity returns were +6.3% for the quarter and +10.2% in the last 12 months. By comparison, the TSX Composite was +10.4% and +17.3% for the same periods.

U.S. EQUITY SUMMARY (15% of Assets)

After a relatively busy previous quarter of disposals and purchases, trading activity was reasonably quiet this past quarter. We added to two positions in the financial services sector (Bank of America and CIT) and we made one new acquisition, a company called Navteq.

Navteq Inc. is a provider of digitized maps that enable customers to offer navigation, route planning and other geographic information. Their customers are companies that make automobile navigation devices, consumer GPS equipment or internet mapping services. Chances are, that if you have an on-board navigation system in your car, or from time-to-time use an internet mapping service such as Google Maps or Mapquest, you have relied on a Navteq map.

It is an attractive investment because the location and navigation device industry appears to be at a tipping point in a transition from commercial applications to far more ubiquitous consumer utilization. Navteq is the global market share leader and generates 2/3rds of its sales outside North America. It is a profitable, predominantly fixed cost business where earnings should expand even faster than revenues. Since purchasing it in early October, it has risen nicely.

Investment returns from U.S. equities were strong this quarter, and actually a little ahead of the TSX returns. Our fund returns slightly trailed the S&P 500 index this quarter but remained well ahead over the year. The Fund's U.S. equity returns in C\$ were +10.6% for the quarter, and +19.8% for the last year. By comparison, the S&P 500 (in C\$) was +11.5% and +15.7% for the same periods.

Ten Largest Holdings	
Lincare Holdings	1.5%
CIT Group	1.4%
Bank of America	1.4%
CVS Corporation	1.4%
DaVita	1.4%
Navteq	1.3%
Exxon Mobil	1.1%
Edwards Lifesciences	1.1%
Waters Corporation	1.1%
Baxter International	1.1%

OTHER INVESTMENTS (8% of Assets)

Our 8% weighting consists of a 6% weighting in the JPMorgan *Equity International Investment Trust* (EQIT) with the balance invested in Wal-Mart de México (Walmex), a security we described last quarter and which has continued to appreciate strongly.

This quarter EQIT returned +13.4% and, in the past year, it has increased 23.4%. Since inception, this has proven to be an excellent investment, on both an outright basis and as a substitute for U.S. exposure. However, this fund has slightly underperformed the non-North American benchmark index known as EAFE (Europe, Australasia and Far East) recently and so we met with the manager to review strategy in November. What became apparent in the discussion is that the phenomenon of excess investment liquidity playing out in North America is also making itself felt around the globe. Share performance of companies with more variable earnings records, smaller market capitalizations, and greater debt have all benefited when compared to larger, higher quality, more conservatively capitalized companies. Our manager has a style that emphasizes quality and growth and the EQIT Fund has a portfolio of attractive companies that will benefit in the future from any reversion to more normal liquidity conditions. We continue to view this as a core holding.