NEXUS

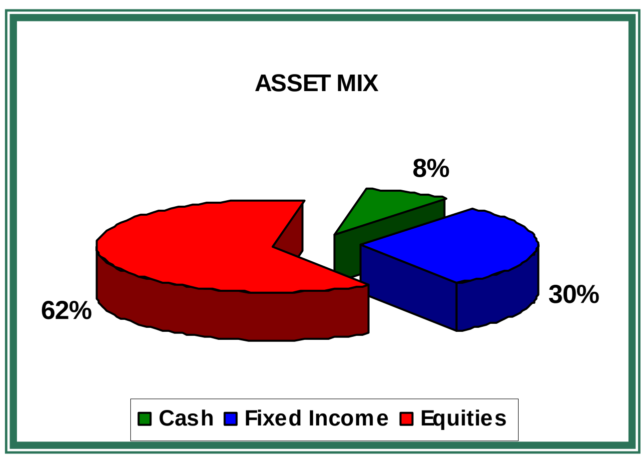
Portfolio Management & Financial Counsel

NEXUS NORTH AMERICAN BALANCED FUND

QUARTERLY REPORT – September 30, 2007

So much for summer doldrums! Against an economic backdrop of strong global growth, capital markets began the quarter coping with a rising tide of higher global interest rates, and ended the quarter dealing with abrupt interest rate cuts and the prospect of more to come. Simplistically, the cause of this turnabout in sentiment was the rapid decline in credit quality emanating from the sub-prime housing sector in the United States. Although this sector is only a small part of the U.S. economy, fears that the asset quality of the global banking system had been over-estimated, drove a severe widening of credit spreads and, indeed, a dramatic reduction in the willingness to lend at any price. The crises in credit markets also affected equity markets – initially through the realization that tighter credit conditions would derail LBO and M&A activity, but also as investors came to appreciate that capital market confidence and economic growth in the developed world were more fragile than many had suspected. After a long period where investors have been well rewarded for assuming more risks, a sudden preference for lower risk developed. Equity markets retreated from the record highs they had made in early July and prices rose (interest rates declined) for less risky treasury bills and government bonds.

Early in the quarter, in a widely anticipated move, the Bank of Canada raised interest rates 25 basis points. However, as the quarter unfolded and credit concerns came to light, Canadian interest rates fell, especially in shorter maturity instruments. While the official Bank rate has not yet moved lower, the Bank of Canada has been taking extraordinary actions in the money market to provide liquidity to the banking system. Essentially, the Bank is using purchase and re-sale agreements to provide credit to finance the short-term loans, commercial paper and securities of the domestic banking system until the situation stabilizes.



In the U.S., where the sub-prime worries are most extreme, the Federal Reserve has had to move more decisively. The Fed dramatically lowered rates by 50 basis points on September 18th, partially reversing a trend of interest rate increases. This move reflected a global effort on behalf of the Central Banks to steady markets in the face of the extreme uncertainty that was undermining confidence in the global banking system. While at the root the excesses of the sub-prime mortgage business are troubling, there can be no doubt that the lack of transparency in financial markets is exaggerating the scope of the problem. Our global financial system requires trust and confidence amongst its participants. This is not only true for individuals with chequing and savings accounts, but also true for institutional participants managing substantially larger sums of money. Over the past many years, the financial markets have developed increasingly complex derivative and structured investments. As a virtue, this has allowed a broad distribution of risk but, in a time of crisis, the ability to identify and isolate the problem has clearly been impaired.

Thankfully, we managed to navigate these troubled conditions without serious losses or impairment in our holdings. During the quarter, the Fund's unit value decreased 0.9%.[1] The Fund is up 7.4% in the last 12 months.

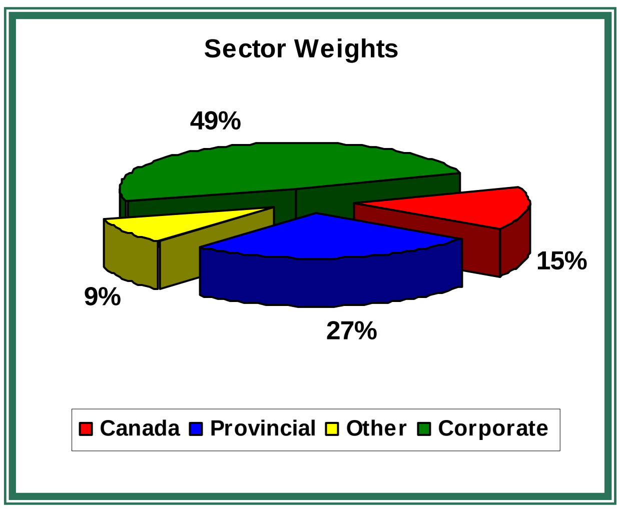
Asset Mix

We continue to allow our cash position to build and it is now 8% of the portfolio. We believe that the period of market and economic tumult is not yet behind us and so it is prudent to favour the side of caution and capital preservation. As a result, our cash position is as high as it has been in many years. Our allocation to equities remains unchanged. On that front, we remain overweight Canada and underweight the U.S.

Fixed Income Summary (30% of Assets)

We continued to make small reductions to our corporate bond exposure this quarter, substituting provincial and Canada bonds in their place. In our last report, we noted that credit markets had anticipated much of the bad news associated with BCE's plan to be taken private by an investment consortium led by Ontario Teachers Pension Plan and that the official credit rating would likely change only after shareholders voted their approval. As BCE was clearly no longer investment grade, rather than re-categorize our two bond holdings as "other income securities", we sold them. We will generate better returns using either equities or income trusts than by holding our BCE issues to maturity.

The most important story in capital markets in many years has been the implosion in the U.S. sub-prime mortgage market and its consequent effects on asset-backed securities and money markets. While the crisis has subsided for the moment, it is too early to conclude that it is behind us. Despite a reduction in short-term policy interest rates, mortgage rates have actually risen. Counterintuitively, at the same time that housing prices are declining, for many people the cost of housing is actually rising. In fact, one of the major contributors to the current crisis has been the re-setting of Adjustable Rate Mortgages (ARMs) at higher interest rates than the original, ultra-low "teaser" rates that had lured borrowers into assuming too much mortgage debt in the first place. Worrisomely, the amount of ARMs that are due to reset increases every month until May of 2008, so it is very likely that the weakness in the housing sector, as well as the issue of troubled credit quality, is not yet past. The pricing of securities, bonds and equities, anticipates some continued bad news, but it is prudent to be prepared for a set of outcomes that is worse than the market discounts.



At almost any other time, the leading theme of a report such as this would be the appreciation of the C$. While much of this strength has been the result of US$ weakness, our currency has also advanced very strongly against our major trading partners. Weighted by the amount we trade with all countries, not just

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

the U.S., the C$ has appreciated 11.5% in the year to date.[2] The rate of appreciation of the loonie is truly staggering – so fast, that many industries most directly affected are only just waking up to the dramatic impact it will have on their competitiveness and profitability. While in the long run, a strong currency is a desirable part of economic management, a sudden change such as this is fundamentally disruptive. When combined with the risks of a slowing U.S. economy spilling over into our export and manufacturing industries, it requires a direct policy response. As a result, we expect that the Bank of Canada will need to directly address the level of the currency with as many as two interest rate cuts in the coming quarters. Accordingly, we have positioned the portfolio in anticipation of short and medium term interest rates falling more than longer term rates.

The Fund's fixed income returns were +1.5% for the quarter and +0.9% in the previous 12 months. By comparison, the PC Bond Universe Index (formerly the Scotia Capital Bond Universe Index) was +1.7%, and +1.6% for the same periods.

Canadian Equity Summary (42% of Assets)

Ten Largest Holdings	
TD Bank	**3.2%**
Royal Bank	**3.0%**
Bank of Nova Scotia	**2.9%**
Rogers Communications	**2.7%**
Manulife	**2.5%**
Bank of Montreal	**2.0%**
CCS Income Trust	**2.0%**
Telus Corp	**1.9%**
Suncor Energy	**1.9%**
Encana	**1.8%**

Our concentration in the financial sector (Banking / Life Insurance) is almost 1/3rd of Canadian equity exposure.
This quarter we added to our position in our bank holdings and Manulife Financial. While we remain very aware of the pervasive unease in the global financial industry, we believe that there is tremendous long-term opportunity for Canadian financial companies to reap the benefit of a more conservative lending culture and the stronger Canadian dollar. Indeed, all of our current bank holdings have recently announced acquisitions outside of Canada. Each of these deals makes excellent sense strategically, and all have been abetted by the strength of the currency. With high dividend yields and attractive valuations, we see this sector as fundamental to generating superior long-term returns. Bank year-ends are October 31st and we expect excellent earnings results.

In our last report, we explained the benefit that the wave of take-over activity had meant to a number of our holdings. As a result of this trend, late in the quarter we tendered our units in Canadian Hotel Income Properties REIT. CHIP REIT had been an original and very successful holding of the Fund. Nonetheless, we are delighted with the price that was paid for it and were pleased to sell it to the British Columbia Investment Management Corporation, which will operate it privately.

The TSX Composite was volatile this past quarter as investor sentiment see-sawed between fear and greed. At one point in mid-August, it seemed as if a major stock market correction was underway. However, this worry was very short-lived, and by the end of September, the TSX index had made up all of the ground lost in August. It is important to note, index returns in this environment have been very narrowly based, with much of the TSX return coming from mining shares and Research in Motion. Other industry sectors have largely lagged the index return. The Fund's Canadian equity returns were -1.6% for the quarter and +14.1% in the last 12 months. By comparison, the TSX Composite was +2.0% and +22.8% for the same periods.

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[2] Bank of Canada – Canadian-Dollar Effective Exchange Rate Index (CERI).

U.S. Equity Summary (13% of Assets)

There were two notable changes to our U.S. investments this past quarter. The first was our decision to sell Navteq, the worldwide leader in digital maps used in Global Positioning Systems and on-line mapping services. Navteq had performed very strongly since we bought it for just less than US$ 28 in October 2006. In July, in the wake of an announced take-over of its largest competitor, it jumped higher and was trading above US$ 55. Its valuation seemed to discount a very optimistic future and we elected to take our profits. As things turned out it continued to move even higher after we had sold it and was recently the subject of a takeover by Nokia.

The second change worth noting was our decision to add to our position in CIT. CIT is a global commercial and consumer finance company, which provides financing and leasing services to a wide range of industries. In June this year, it made the strategic decision to exit its small home lending business and take a related one-time charge. As the credit crisis increased in July and August, CIT came under intense selling pressure, and its share price fell to a level we felt was unjustified. Accordingly, we made the decision to add to our holding, and were able to purchase additional shares at a very attractive price. Since adding to our holding in August, the shares have moved up nicely, and it is currently our second largest U.S. holding.

Ten Largest Holdings	
Bank of America	**1.6%**
CIT Group	**1.6%**
CVS / Caremark	**1.5%**
DaVita	**1.3%**
Waters Corporation	**1.2%**
Lincare Holdings	**1.1%**
Exxon Mobil	**1.1%**
Baxter International	**1.0%**
Edwards Lifesciences	**0.9%**
Pfizer	**0.8%**

With the Canadian dollar appreciating almost 7% last quarter, the U.S. was a difficult environment for Canadian investors. We remain well underweight our benchmark allocation. Our Fund returns outperformed the S&P 500 index this quarter and remain ahead of the index over the last 12 months. The Fund's U.S. equity returns in C$ were -2.1% for the quarter, and +6.2% for the last year. By comparison, the S&P 500 (in C$) declined 4.4%, but is up 4.0% in the past year.

Other Investments (7% of Assets)

Our 7% weighting consists of a 6% weighting in the JPMorgan *Equity International Investment Trust* (EQIT), with the balance invested in Wal-Mart de México (Walmex). The effect of the surging Canadian dollar also undermined realized results in this sector this past quarter. In the past year, it has increased 8.1%. EQIT continues to be an excellent investment for the Fund, providing both diversification and strong outright returns. We continue to view it as a core holding.