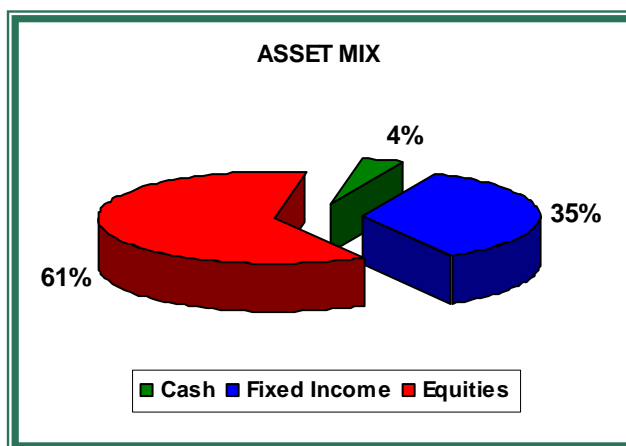


NEXUS NORTH AMERICAN BALANCED FUND

QUARTERLY REPORT – December 31, 2007

North American capital markets were roiled in the final quarter of 2007 by the consequences of the sharp deterioration in the asset quality of the global financial system. Although this crisis in credit has been unfolding since late spring, credit and equity markets were particularly volatile in the 4th quarter, lurching higher and lower in reaction to a stream of news releases and rumours. Originally, the problem was believed to be predominantly a result of lax mortgage underwriting standards in the United States. It is now clear that financial engineering, excessive borrowing and inadequate risk controls are pervasive problems in the global financial system. What has been laid bare is that liquidity was overestimated, complexity underestimated, and that the problems were more broadly distributed than almost anyone would have imagined. Virtually no financial institution or investor has been able to avoid being affected by the crisis now unfolding.

Canada has had a more conservative culture for borrowing and lending and, as a result, our system has suffered comparatively less than both the Americans and Europeans. 'Ground zero' of the credit crisis was the sub-prime mortgage lending business in the United States but, despite our geographic proximity, Canada's financial system has been only partly contaminated by this problem. Where it did affect Canadians was with regard to the asset-backed commercial paper market. This 'made in Canada' problem arose because a number of issuers of commercial paper in Canada had investments that contained more leverage and more exposure to low quality assets than investors realized. Since August, a committee of bankers, investors, and financial regulators has been working steadily to elicit agreement to what is known as the 'Montreal Accord', a plan to restructure almost \$32 billion dollars of frozen Canadian asset-backed commercial paper. On December 23rd, an agreement was arranged in principle that will turn the short-term debt into longer-term floating rate notes - a small, tentative sign of progress. Following this agreement, the tone in Canadian money markets improved. However, it is not clear that this improved sentiment will help the bond or stock markets. There remain many more credit challenges globally.



The Fund has avoided any direct exposure to the most egregious excesses and damaging write-offs in both the U.S. and Canada. Thankfully, we watched the negotiations of the Montreal Accord from the sidelines, unscathed by any exposure to the affected commercial paper, and our list of Canadian bank holdings does not include the CIBC which has had far more exposure to global credit problems than any other Canadian institution.

As the quarter ended, unlike the light at the end of the tunnel suggested by the Montreal Accord here in Canada, the global financial system remained in turmoil, without any clear end in sight. The problems of the global banking system have led to a significant reduction in lending activity and a slowdown in personal spending and corporate investment. It appears that concerns about the integrity of the financial system have undermined consumer and business confidence in North America and Europe. As economies in the developed world decelerate, the theory that the emerging economies of China and India can continue to grow in the face of a slowdown in the developed world will be tested.

After several years of excellent returns, in 2007 the Fund was essentially unchanged from where it began the year. In the past quarter, the fund declined 1.7% and returned 0.1% of the full year.

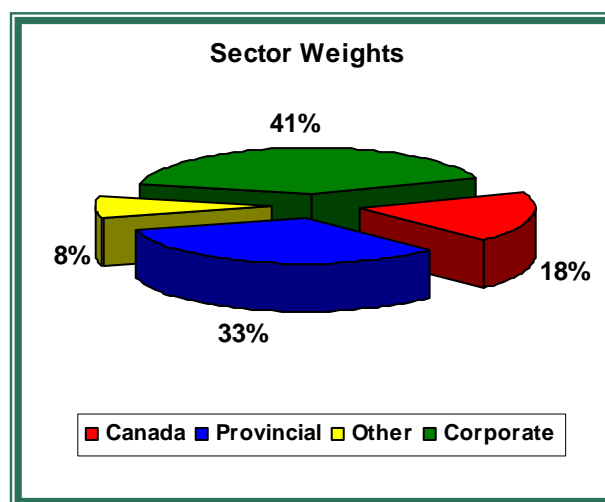
Asset Mix

Our asset allocation reflects our cautious opinion of the investment environment. In anticipation of a rally in bond markets, we decreased our cash position by 4% early in the 4th quarter and increased our weighting in fixed income. Unsurprisingly, given our cautious approach, our equity allocation remained below our long-term guidelines. We remain underweight stocks and overweight fixed income and cash.

Fixed Income Summary (35% of Assets)

Government of Canada bond yields, from two years to thirty years, declined between 33 and 35 basis points this quarter. This uniform decline belied the incredible volatility and nervous trading that was experienced. The pricing of provincial and corporate bonds that trade on a spread to Canada bonds of a similar maturity was especially volatile.

The composition of the Canadian corporate bond market is dominated by financial companies – particularly Canadian banks and the Canadian subsidiaries of U.S. lenders, such as Wells Fargo Finance or JP Morgan Chase. In many instances, despite the credit ratings of the foreign institutions being judged to be superior to their Canadian counterparts, their bonds still trade at higher yields. We have a number of holdings issued by foreign financial institutions. We are comfortable that, over time, we will benefit either by an improvement in the spreads of our international holdings or in the higher rates of interest they provide.



Spreads between corporate and government bonds widened over the quarter, driven by two key factors. The first was a basic concern regarding the integrity of the financial system and the damage to credit quality that might occur as banks and other financial institutions recognized the losses buried in their balance sheets. Investors perceived there to be heightened risk and wanted a higher return as a result. The second is related, but subtly different. In anticipation of coming problems, many financial institutions rushed to raise capital in the bond markets. In some instances this was done to shore up their regulatory capital; for others, it was in preparation for having to fund loans that previously they would have sold to other investors; for others still, it was in order to have the financial flexibility to participate in any coming consolidation of the global banking sector. With the exception of the Royal Bank, which was an active issuer in September, every major Canadian bank and many international financial institutions raised money in the Canadian bond market this past quarter, with the result that spreads were pressured wider.

Although the Canadian dollar finished the quarter very close to the level it had closed the 3rd quarter, it did spend much of the 4th quarter at a significant premium to the U.S. greenback. After briefly touching US\$1.10 intra-day on November 6th, it made a record high close on November 7th of \$1.0905. As exciting as this was, the run-up proved speculative, and likely took advantage of thin market conditions around the Canadian banks' year-ends at the end of October. It was not just cross-border shoppers who moved to take advantage of their temporarily powerful loonie. Currency markets are terribly efficient and currency traders and hedgers were willing sellers at these extreme high levels. One week after making its closing high, it was back to \$1.02 - the level it closed the year at.

Obviously, Canadian dollar strength is creating a terrific strain on export-oriented industries in central Canada. What is less well appreciated, is the drag it is having on the natural resource exporting industries of western Canada. Although global energy and materials prices have been very strong, the realized prices to Canadian producers when translated back from U.S. dollars into Canadian dollars has been less than many people think. Over the course of the year, the C\$ appreciated almost 17% against the U.S. dollar. Both the amount, and the pace of the change, were a crushing drag on economic performance, and the full effects of this unprecedented climb have yet to be fully reflected in economic activity. We believe that the strength in the currency will take at least 18 months to work its way through the economy.

The U.S. Federal Reserve is expected to aggressively lower interest rates to offset the problems in their credit markets. We expect the Bank of Canada will also need to lower interest rates, both because economic performance in Canada is beginning to lag, as well as to avoid a change in interest rate differentials between the countries that would put upward pressure on our currency. Specifically, we expect a 75 basis point reduction in the bank rate in the coming six months.

The Fund's fixed income returns were +2.2% for the quarter and +2.5% in the previous 12 months. By comparison, the DEX Universe Bond Index (DUBI) was +2.8%, and +3.7% for the same periods.

Canadian Equity Summary (41% of Assets)

Ten Largest Holdings	
TD Bank	3.0%
Bank of Nova Scotia	2.9%
Royal Bank	2.9%
Rogers Communications	2.8%
Manulife	2.6%
Suncor Energy	2.3%
Encana	2.0%
Enbridge	1.9%
Bank of Montreal	1.8%
Telus	1.7%

We made a few small changes this quarter but generally stayed with our concentration in energy and financial services stocks. On the selling front, apart from selling two small positions that accounted for less than 1% of the value of the Fund, we tendered our units in CCS Income Trust to a take-over offer led by the founder. We were sorry to lose CCS, as it was a stable business, well suited to be an income trust and which we had only held since May. However, it was sold at a considerable premium to where we had purchased it and we are pleased to recognize the gain and look elsewhere for other attractive holdings.

With the proceeds of the sale of CCS, we added to two core holdings, TransCanada Corporation and Teranet Income Fund. They are both excellent defensive holdings. Each of these companies can be described as having stable businesses with clear opportunities for growth. They have attractive yields, are conservatively

capitalized and are not particularly cyclical. Both have actually appreciated in a down market since we added to them.

Our Canadian stock performance lagged the TSX Composite this past quarter. Our Canadian equity returns were -3.3% for the quarter and + 4.0% for the year. By comparison, the TSX Composite was lower by -1.3% in the last quarter and +9.8% for the year.

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

Tumultuous capital markets inevitably generate attractive long-term opportunities or significant valuation distortions between industrial sectors. The current investment environment will be no different. In order to take advantage of these situations, investors often note that being able to act quickly is key. In fact, while this is often the case, it is sometimes also true that patience is also a prerequisite. Investors with our style frequently invest early in companies and sectors that are out of fashion. Long-term unitholders will know that healthcare is a sector that we have emphasized without much benefit over the last several years. It now seems that because this sector is deemed to be 'safe' from many of the prevailing worries in the capital markets, it is finally on the cusp of delivering the reliable returns we had expected of it for some time. We have a number of exciting holdings in this area. For the most part they are conservatively capitalized and relatively insensitive to changing economic conditions.

We made no sales in this asset class and only one small addition to our holdings this quarter. Indeed, the addition was in the healthcare sector where we made a small increase to our position in Edwards Lifesciences. Based in California, Edwards is a global leader in the field of cardiovascular disease. It focuses primarily on heart valve disease, making tissue valves which are implanted in patients for whom mechanical replacement valves are unsuitable. In the future, we hope that they will successfully commercialize a procedure for implanting new heart valves in patients without the patients requiring invasive open-heart surgery.

This quarter concluded another difficult year for Canadian investors exposed to U.S. equities. At 13% of Fund assets, we remain underweight this sector. However, given our growing conviction that the heady days of the C\$ are behind us, and the attractive valuations of some (not all) excellent multi-national companies in the U.S., it is quite possible that we will increase our holdings in the U.S. in the coming year. Given the extraordinary circumstances in credit markets and the potential economic consequences we will naturally be judicious.

After being a drag on performance all year, the Canadian dollar was basically unchanged this past quarter, meaning it played little role in the returns from U.S. investing. Our Fund's U.S. returns trailed the S&P 500 index this quarter and also lagged slightly over the course of the year. The Fund's U.S. equity returns in C\$ were -7.8% for the quarter, and -11.5% for the last year. By comparison, the S&P 500 (in C\$) declined 4.1%, and declined 10.6% in the past year.

Ten Largest Holdings	
CVS / Caremark	1.5%
Waters Corporation	1.4%
Bank of America	1.3%
DaVita	1.2%
Lincare Holdings	1.1%
Exxon Mobil	1.1%
Baxter International	1.1%
Edwards Lifesciences	1.0%
CIT Group	1.0%
Pfizer	0.7%

Other Investments (7% of Assets)

Our 7% weighting is unchanged from the start of the quarter and reflects a 6% weighting in the JPMorgan *Equity International Investment Trust* (EQIT), with the balance invested in Wal-Mart de México (Walmex). In a difficult equity environment, EQIT was down only slightly over the quarter outperforming both the U.S. and Canadian equity markets. 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.