



IRC REPORT TO UNITHOLDERS
December 31, 2007

Dear Unitholder:

The members of the independent review committee (“IRC”) of the Pinnacle Program Funds and Pinnacle Portfolios (the “Funds”) are pleased to provide you with the first annual report to unitholders. The Funds’ IRC was formed on May 1, 2007 and became fully operational by November 1, 2007, in accordance with the requirements of National Instrument 81-107. The information contained in this report covers the period beginning November 1, 2007 and ending December 31, 2007.

Securities regulators in Canada have given IRCs a mandate to review conflict of interest matters identified and referred to them by mutual fund managers, such as ScotiaMcLeod. Once identified, a mutual fund manager must present its conflict of interest matters to the IRC for either approval or recommendation, depending on the conflict of interest matter. The role of the IRC is to determine whether the manager’s proposed course of action with respect to a conflict of interest matter achieves a fair and reasonable result for the mutual fund(s).

At least annually, the IRC will review and assess the adequacy and effectiveness of ScotiaMcLeod’s policies and procedures relating to conflict of interest matters in respect of the Funds. The IRC will also conduct a self-assessment of its independence, compensation and effectiveness.

The members of the IRC look forward to continuing to serve the best interests of the Funds’ unitholders and working effectively and openly with ScotiaMcLeod.

“Eric Kirzner”

Eric Kirzner
Chair of the Independent Review Committee

December 31, 2007

Members of the IRC	Residence
Eric Kirzner Chair of the IRC	Toronto, Ontario
Murray Paton	Oakville, Ontario
Rob Bell	Toronto, Ontario

All of the members listed above were appointed to the IRC on May 1, 2007. There have been no changes in the composition of the IRC since its inception on May 1, 2007. The IRC also serves as the independent review committee of the ScotiaFunds, which are mutual funds offered by Scotia Securities Inc. (“SSI”), an affiliate of Scotia Capital Inc. (ScotiaMcLeod, the manager of the Funds, is a division of Scotia Capital Inc.).

Holdings of Securities

(a) Funds

As at December 31, 2007, the percentage of units of the Funds included in this report beneficially owned, directly or indirectly, in aggregate, by all members of the IRC did not exceed 10 per cent.

(b) Manager

As at December 31, 2007, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of Scotia Capital Inc.

(c) Service Providers

As at December 31, 2007, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of any service provider to the Funds or ScotiaMcLeod, with respect to its fund business.

Compensation and Indemnities

The aggregate compensation paid by the Funds and the ScotiaFunds to the IRC for the period from inception of the IRC on May 1, 2007 to December 31, 2007 (the “Period”), was \$88,000. This amount was allocated amongst the Funds and the ScotiaFunds in a manner considered by ScotiaMcLeod and SSI to be fair and reasonable to the Funds and ScotiaFunds.

The initial compensation of the IRC was set by ScotiaMcLeod. As at the date of this report, each member of the IRC receives an annual retainer of \$20,000 (\$30,000 for the Chair) and \$1,000 for each meeting of the IRC that the member attends (\$1,500 for meetings lasting longer than two hours), plus expenses for each meeting. At least annually, the IRC will review compensation, giving consideration to the following:

1. the best interests of the Funds;
2. industry best practices, including industry averages and surveys on IRC compensation;
3. the number, nature and complexity of the mutual funds for which the IRC acts;
and
4. the nature and extent of the workload of each member of the IRC, including the commitment of time and energy that is expected from each member.

No indemnities were paid to the IRC by the Funds or ScotiaMcLeod during the Period.

Conflict of Interest Matters

Except as set forth below, the IRC is not aware of any instances in which ScotiaMcLeod acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its approval or recommendation. ScotiaMcLeod has an obligation to notify the IRC of any such instances.

Policies and Standing Instructions

ScotiaMcLeod has policies and procedures in place to address each of the actions listed in this report. For each of these actions, ScotiaMcLeod received standing instructions from the IRC. The standing instructions require ScotiaMcLeod to comply with its policy and procedures and report periodically to the IRC.

Approvals Relied Upon

In accordance with the requirements of NI 81-102, NI 81-107 and exemptive relief granted by the Canadian securities regulatory authorities, during the period beginning November 1, 2007 and ending December 31, 2007 (the "Reporting Period") the IRC provided approval for the Funds to invest in or hold securities of related issuers.

As a condition of IRC approval and as a requirement under securities legislation, ScotiaMcLeod must file a report with the securities regulators containing the particulars of each investment made by the Funds in reliance upon the IRC's approval to invest in or hold securities of related issuers. This report must be filed no later than the time that the applicable Fund files its annual financial statements. ScotiaMcLeod has informed the IRC that it filed this report later than the required timeframe. This oversight occurred because the filing obligation is new and because there was a transition of responsibility for such report among personnel within ScotiaMcLeod. The IRC is of the view that ScotiaMcLeod has taken appropriate steps to rectify this oversight, including promptly filing the report with the securities regulators once the issue was identified, and modifying its procedures to facilitate timely filing of this report in the future. The IRC is

not aware of any other instance in which ScotiaMcLeod acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its approval.

Recommendations Relied Upon

During the Reporting Period, ScotiaMcLeod received positive recommendations with respect to the conflict of interest matters addressed by the following policies:

1. Error Correction Policy (in respect of a Fund's net asset value)
2. Dual Employment Policy
3. Fund Valuation (including fair valuation) Policy
4. Cost and Expense Allocation Policy
5. Personal Trading Policy
6. Portfolio Advisor Selection, Monitoring and Oversight Policy
7. Acquisition of Securities of a Related Fund Policy
8. Outsourcing to Related Parties Policy

The IRC is not aware of any instance in which ScotiaMcLeod acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its recommendation. ScotiaMcLeod has an obligation to notify the IRC of any such instance.

Negative Recommendations

The IRC is not aware of any instance in which ScotiaMcLeod acted in a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation. ScotiaMcLeod has an obligation to notify the IRC of any such instance.

Funds Included in this Report

Pinnacle Short Term Income Fund
Pinnacle Income Fund
Pinnacle High Yield Income Fund
Pinnacle American Core-Plus Bond Fund
Pinnacle Global Real Estate Securities Fund
Pinnacle Strategic Balanced Fund
Pinnacle Canadian Value Equity Fund
Pinnacle Canadian Mid Cap Value Equity Fund
Pinnacle Canadian Growth Equity Fund
Pinnacle Canadian Small Cap Equity Fund
Pinnacle American Value Equity Fund
Pinnacle American Mid Cap Value Equity Fund
Pinnacle American Large Cap Growth Equity Fund
Pinnacle American Mid Cap Growth Equity Fund
Pinnacle International Equity Fund
Pinnacle International Small to Mid Cap Value Equity Fund
Pinnacle Global Equity Fund

Pinnacle Balanced Income Portfolio
Pinnacle Conservative Balanced Growth Portfolio
Pinnacle Balanced Growth Portfolio
Pinnacle Conservative Growth Portfolio
Pinnacle Growth Portfolio