

Pinnacle Mines Ltd.

Consolidated Financial Statements

December 31, 2008

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AUDITORS' REPORT

To the Shareholders of
Pinnacle Mines Ltd.

We have audited the consolidated balance sheet of Pinnacle Mines Ltd. as at December 31, 2008 and the consolidated statements of operations, deficit and comprehensive loss, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited consolidated financial statements at December 31, 2007 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated March 11, 2008, except for Note 16 which is as of April 24, 2008.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 7, 2009



Pinnacle Mines Ltd.

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
Assets		
Current		
Cash and cash equivalents	\$ 2,395,763	\$ 2,220,087
Short-term investments (Note 5)	38,249	286,803
Receivables	67,991	610,963
Prepays	24,426	45,813
	<u>2,526,429</u>	<u>3,163,666</u>
Environmental reclamation deposits (Note 6)	55,000	40,000
Mineral property interests (Note 7)	9,885,663	6,104,241
Equipment (Note 8)	87,745	107,217
	<u>\$ 12,554,837</u>	<u>\$ 9,415,124</u>
Liabilities		
Current		
Payables and accruals	\$ 502,408	\$ 443,291
Future income tax liability (Note 14)	925,000	-
	<u>1,427,408</u>	<u>443,291</u>
Shareholders' Equity		
Share capital (Note 9)	28,601,336	23,547,649
Contributed surplus (Note 9)	1,327,153	1,269,878
Accumulated other comprehensive loss (Note 10)	(319,728)	(175,997)
Deficit	<u>(18,481,332)</u>	<u>(15,669,697)</u>
	<u>11,127,429</u>	<u>8,971,833</u>
	<u>\$ 12,554,837</u>	<u>\$ 9,415,124</u>

Ability to continue as a going concern (Note 2)
 Commitments (Note 12)
 Subsequent events (Note 19)

Approved on Behalf of the Board

"Gerald Sneddon" Director
 Gerald Sneddon

"Paul F. Saxton" Director
 Paul F. Saxton

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Consolidated Statements of Operations, Deficit and Comprehensive Loss

Years ended December 31	2008	2007
General and administrative expenses		
Amortization	\$ 33,520	\$ 25,390
Consulting services	88,484	127,002
Foreign exchange (gain) loss	(514)	151,387
Management services	75,834	205,294
Investor relations	92,047	197,778
Professional fees	138,393	158,294
Office	120,139	117,079
Rent	69,672	48,264
Salaries and benefits	124,739	87,728
Regulatory and shareholder services	37,460	41,094
Stock-based compensation (Note 9)	27,032	355,795
Travel	36,021	81,714
	<u>842,827</u>	<u>1,596,819</u>
Loss before undernoted income (expenses)	<u>(842,827)</u>	<u>(1,596,819)</u>
Write-off of mineral property interests (Note 7)	(2,582,819)	(259,038)
Property investigations	-	(31,170)
Loss on sale of short-term investments	(67,330)	(6,096)
Interest and miscellaneous income	31,341	60,108
Gain on sale of mineral property interests (Note 7(d))	-	219,328
	<u>(2,618,808)</u>	<u>(16,868)</u>
Loss before income taxes	<u>(3,461,635)</u>	<u>(1,613,687)</u>
Future income tax recovery (Note 14)	<u>650,000</u>	<u>-</u>
Net loss for the year	<u>\$ (2,811,635)</u>	<u>\$ (1,613,687)</u>
Other comprehensive income (loss)		
Unrealized loss on available-for-sale investments	(183,594)	(185,899)
Reversal of unrealized losses on sale of short-term investments	39,863	-
	<u>39,863</u>	<u>-</u>
Comprehensive loss	<u>\$ (2,955,366)</u>	<u>\$ (1,799,586)</u>
<hr/>		
Deficit, beginning of year	\$ (15,669,697)	\$ (14,056,010)
Net loss	<u>(2,811,635)</u>	<u>(1,613,687)</u>
Deficit, end of year	<u>\$ (18,481,332)</u>	<u>\$ (15,669,697)</u>
<hr/>		
Loss per share, basic and diluted	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>
Weighted average common shares outstanding	<u>37,999,719</u>	<u>21,809,620</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Consolidated Statements of Cash Flows

Years ended December 31	2008	2007
Cash derived from (used in)		
Operating activities		
Net loss for the year	\$ (2,811,635)	\$ (1,613,687)
Amortization	33,520	25,390
Loss on sale of investments held in short term	67,330	6,096
Gain on disposition of mineral property interests	-	(219,328)
Stock-based compensation	27,032	355,795
Future income taxes	(650,000)	-
Write-off of mineral properties	2,582,819	259,038
Change in non-cash operating working capital (Note 11)	105,380	6,134
	<u>(645,554)</u>	<u>(1,180,562)</u>
Financing activities		
Shares issued for cash	3,418,000	2,094,501
Share issue costs	(194,070)	(195,002)
	<u>3,223,930</u>	<u>1,899,499</u>
Investing activities		
Mineral property expenditures		
Environmental reclamation deposit	(15,000)	(25,000)
Exploration expenditures	(2,246,143)	(1,864,728)
Acquisition costs	(165,000)	(109,000)
Proceeds on sale of investments held in short term	37,493	24,789
Purchase of equipment	(16,853)	(107,638)
Proceeds on sale of equipment	2,803	-
	<u>(2,402,700)</u>	<u>(2,081,577)</u>
Net (decrease) increase in cash and cash equivalents	175,676	(1,362,640)
Cash and cash equivalents		
Beginning of year	<u>2,220,087</u>	<u>3,582,727</u>
End of year	<u>\$ 2,395,763</u>	<u>\$ 2,220,087</u>
Cash and cash equivalents comprises:		
Cash	\$ 2,395,763	\$ 1,970,087
Cashable guaranteed investment certificates	-	250,000
	<u>\$ 2,395,763</u>	<u>\$ 2,220,087</u>
Supplemental cash flow information:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

Supplementary cash flow information (Note 15)

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

1. Nature of operations

Pinnacle Mines Ltd. (the "Company") was incorporated under the laws of the Province of British Columbia. The Company's shares are traded on the TSX Venture Exchange ("TSXV"). The Company's business is to acquire, explore and develop interests in mining projects. To date, the Company has not generated significant revenues and is considered to be in the exploration stage.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations, and the recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

The business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations.

2. Ability to Continue as a Going Concern

The Company's annual financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material. As at December 31, 2008 the Company has no source of operating cash flow and has an accumulated deficit of approximately \$18.5 million. Operations for the year ended December 31, 2008 have been funded primarily from the issuances of capital stock and net changes in working capital balances.

Continued operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

3. Significant accounting policies

The Company's significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minera Pinnacle de Mexico S.A. de C.V. ("Pinnacle Mexico") and 0781639 B.C.Ltd. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, stock-based compensation, asset retirement obligations, the useful lives estimate and valuation allowances on future income tax assets. Actual results could differ from these estimates.

Presentation

Where applicable, comparative figures have been reclassified to conform with the presentation used in the current year.

Cash and cash equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Short-term investments

Short-term investments consist of shares in publicly listed companies which are carried at fair value.

Equipment

Equipment is recorded at cost less amortization. Amortization is calculated using the declining balance method at rates ranging from 20% to 30%.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

3. Significant accounting policies (continued...)

Mineral property interests

Mineral interests represent acquisition, property holding and deferred exploration costs, amounts recovered, depleted, written-off or written-down. Costs are reduced by amounts received from joint ventures or received as option payments related to each property. Gains are recognized on a property by property basis only when option payments received exceed costs. If production is attained, these costs will be amortized using the unit-of-production method based on estimated reserves. Accumulated costs related to properties which are abandoned or considered uneconomic in the foreseeable future are written down to their fair value.

When properties are acquired under agreements requiring future acquisition payments to be made at the sole discretion of the Company, those future payments, whether in cash or shares, are recorded only when the Company has made the payment or issued the shares.

The amounts shown for mineral properties and related costs represent acquisition, holding, and exploration costs and development expenditures. The amounts shown for mineral properties do not necessarily represent present or future recoverable values. The recoverability of amounts is dependent upon the confirmation of economically recoverable reserves from exploration properties, the ability of the Company to obtain the necessary financing to successfully complete development and upon future profitable production. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry practice for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company did not have any asset retirement obligations at December 31, 2008 and 2007.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

3. Significant accounting policies (continued...)

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Loss per share is calculated using the weighted average number of common shares outstanding during the year.

Foreign currency translation

The operations of the Company's foreign subsidiary, which is considered to be an integrated foreign operation, are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenues and expenses are translated at exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses on translation are included in operating results.

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation over the vesting period of the stock options.

Income taxes

Future income taxes are recorded using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

When flow-through expenditures are renounced, a portion of the future income tax assets not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of income taxes in the statement of operations.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

3. Significant accounting policies (continued...)

Financial instruments – recognition and measurement

Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Held-for-trading instruments are measured at fair value with unrealized gains and losses recognized in results of operations. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost.

The Company has implemented the following classifications for its financial instruments:

- a) Cash and cash equivalents have been classified as held-for-trading.
- b) Short-term investments have been classified as available-for-sale.
- c) Receivables have been classified as loans and receivables.
- d) Payables and accruals have been classified as other financial liabilities.

Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

Adoption of new accounting policies:

The Company adopted the following new accounting policies effective January 1, 2008:

(a) Financial instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments - Disclosures*, which requires an increased emphasis on disclosing the nature and the extent of risk arising from financial statements and how the entity manages those risks. This section, together with Section 3863, *Financial Instruments - Presentation*, replaced Section 3861, *Financial Instruments - Disclosure and Presentation*. Section 3863, *Financial Instruments - Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. Other than the additional disclosure in Note 17, the adoption of these Sections has had no significant impact on the Company's financial statements.

(b) Capital disclosures

The AcSB issued CICA Handbook Section 1535, *Capital Disclosures*, which establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Other than the additional disclosure in Note 16, the adoption of this section has had no significant impact on the Company's financial statements.

4. Recent accounting pronouncements

(a) Goodwill and intangible assets

The Company will adopt the new standard *Goodwill and Intangible Assets* (Section 3064) for its fiscal year beginning January 1, 2009. This Section replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

(b) Business combinations, non-controlling interest and consolidated financial statements

In January 2009, the CICA issued Handbook Section 1582 *Business Combinations*, 1601 *Consolidated Financial Statements* and 1602 *Non-controlling Interests* which replace CICA Handbook Sections 1581 *Business Combinations* and 1600 *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

4. Recent accounting pronouncements (continued...)

(c) International financial reporting standards ("IFRS")

In addition to the above new accounting pronouncements the Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over a five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-accountable enterprises to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

5. Short-term investments

Investments held in the short term are classified as available-for-sale.

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
December 31, 2008			
Mountain Boy Minerals Ltd.	764,975	\$ 357,977	\$ 38,249
December 31, 2007			
Mountain Boy Minerals Ltd.	988,975	\$ 462,800	\$ 286,803

During 2007, the Company received 750,000 shares of Mountain Boy Minerals Ltd. ("Mountain Boy") as consideration for the sale of the Company's BA property (Note 7).

6. Environmental reclamation deposits

The environmental reclamation deposits represent term deposits pledged in favour of regulatory authorities as security for performance of site restoration. These deposits will be released to the Company on satisfactory reclamation of the property.

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Silver Coin reclamation bond	\$ 30,000	\$ 30,000
Surprise Creek reclamation bond	10,000	10,000
Summit Lake reclamation bond	15,000	-
	<u>\$ 55,000</u>	<u>\$ 40,000</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

7. Mineral property interests

The Company's mineral property interests are comprised of properties located in Canada and Mexico.

	Canada	Mexico	Total
Balance, December 31, 2006	\$ 4,227,895	\$ 112,808	\$ 4,340,703
Acquisition costs	109,000	215,500	324,500
Exploration expenditures			
Geochemistry	924	22,379	23,303
Drilling and metallurgical	525,036	651,571	1,176,607
Environmental permitting	7,735	17,410	25,145
Geological & engineering	107,909	211,464	319,373
Helicopter	127,545	-	127,545
General administration and shipping	16,657	141,348	158,005
Geologic mapping and imagery	5,198	1,082	6,280
Maintenance	14,890	49,375	64,265
Field supplies	23,810	14,870	38,680
Resource estimation	33,570	-	33,570
Reclamation	3,913	-	3,913
Travel and accommodation	45,705	160,568	206,273
Properties written-off	-	(259,038)	(259,038)
Mineral exploration tax credit	(359,211)	-	(359,211)
Sale of mineral property	(125,672)	-	(125,672)
Balance, December 31, 2007	4,764,904	1,339,337	6,104,241
Acquisition costs	3,557,500	42,500	3,600,000
Exploration expenditures			
Geochemistry	-	39,868	39,868
Drilling	1,211,749	373,074	1,584,823
Metallurgy	100,588	-	100,588
Environmental permitting	-	6,272	6,272
Geological & engineering	238,371	235,363	473,734
Helicopter	495	-	495
General administration	23,346	165,126	188,472
Geologic mapping and imagery	21,671	160	21,831
Geophysics	-	69,839	69,839
Maintenance	-	2,763	2,763
Field supplies	29,672	7,147	36,819
Resource estimation	102,397	-	102,397
Shipping	21,467	5,157	26,624
Reclamation	15,484	-	15,484
Travel and accommodation	24,994	69,238	94,232
Properties written-off	(962,211)	(1,620,608)	(2,582,819)
Balance, December 31, 2008	\$ 9,150,427	\$ 735,236	\$ 9,885,663

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2008

7. Mineral property interests (continued...)

Canada

	Silver Coin and Kansas	Surprise Creek	BA	Summit Lake	Other	Total
Balance, December 31, 2006	\$ 3,735,617	\$ 469,751	\$ 17,555	\$ -	\$ 4,972	\$ 4,227,895
Acquisition costs	-	-	109,000	-	-	109,000
Exploration expenditures						
Geochemistry	924	-	-	-	-	924
Drilling and metallurgical	237,111	287,925	-	-	-	525,036
Environmental permitting	7,735	-	-	-	-	7,735
Geological & engineering	84,486	22,938	485	-	-	107,909
Helicopter	1,527	126,018	-	-	-	127,545
General admin and shipping	9,067	404	-	-	7,186	16,657
Geologic mapping and imagery	4,648	550	-	-	-	5,198
Maintenance	4,543	9,847	-	-	500	14,890
Field supplies	2,486	20,939	-	-	385	23,810
Resource estimation	33,570	-	-	-	-	33,570
Travel and accommodation	23,309	23,764	(1,368)	-	-	45,705
Reclamation	3,913	-	-	-	-	3,913
Mineral exploration tax credit	(359,211)	-	-	-	-	(359,211)
Sale of mineral property (Note 7(d))	-	-	(125,672)	-	-	(125,672)
Balance, December 31, 2007	3,789,725	962,136	-	-	13,043	4,764,904
Acquisition costs	3,215,500	-	-	342,000	-	3,557,500
Exploration expenditures						
Drilling	1,211,749	-	-	-	-	1,211,749
Metallurgy	100,588	-	-	-	-	100,588
Geological & engineering	153,296	75	-	85,000	-	238,371
Helicopter	495	-	-	-	-	495
General admin	19,438	-	-	-	3,908	23,346
Geologic mapping and imagery	21,671	-	-	-	-	21,671
Field supplies	29,672	-	-	-	-	29,672
Resource estimation	102,397	-	-	-	-	102,397
Shipping	21,467	-	-	-	-	21,467
Travel and accommodation	24,994	-	-	-	-	24,994
Reclamation	15,484	-	-	-	-	15,484
Properties written-off	-	(962,211)	-	-	-	(962,211)
Balance, December 31, 2008	\$ 8,706,476	\$ -	\$ -	\$ 427,000	\$ 16,951	\$ 9,150,427

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

7. Mineral property interests (continued...)

(a) Silver Coin Property

On August 4, 2004 the Company entered into an option agreement with Mountain Boy Minerals Ltd. ("Mountain Boy") whereby the Company can earn 51% of Mountain Boy's interest in its 100% owned Silver Coin and 55% owned Dauntless projects as well as the 100% owned FR claims by spending \$1.75 million on exploration on the Silver Coin Property over a three year period (incurred). In March 2006, the Company earned a 51% interest in the Silver Coin property.

In addition, the Company has the right to earn an additional 9% in these projects by bringing one of the projects to production.

(b) Kansas Property and Summit Lake Property

In October 2004 the Company entered into an option agreement with Tenajon Resources Corp. ("Tenajon") whereby the Company earned a 60% interest in Tenajon's 100% owned Kansas property by making a cash payment of \$50,000 (\$25,500 paid by the Company and \$24,500 paid by the joint venture partner Mountain Boy) on signing, issuing 77,000 common shares and spending \$1.0 million on exploration and development.

The Kansas property is surrounded by the Silver Coin project. The expenditures incurred on the Kansas property are included in the Silver Coin property expenditures and are eligible for the expenditures required for that property. Pursuant to an option agreement dated July 29, 2004 with Mountain Boy, Mountain Boy will be participating in the Kansas property and earned a 49% interest in the Company's 60% interest by making a cash payment of \$24,500 upon the signing of the agreement and issuing to the Company 98,000 shares of Mountain Boy. If the Company elects to put the Kansas property or any adjoining property into production, Mountain Boy would be reduced to owning 40% of the Company's interest.

On April 15, 2008 the Company entered into a binding letter agreement whereby the Company purchased Tenajon's wholly owned subsidiary, 0781639 B.C. Ltd. which holds an undivided 40% ownership interest in the Kansas property and a 100% ownership interest in the Summit Lake property. Since 0781639 B.C. Ltd.'s only asset is mineral properties and it is not considered a business, the transaction has been accounted for as an asset acquisition. As a result of the difference between the carrying amount and the tax bases of the properties the Company has recorded a future income tax liability of \$925,000 and included the amount in the asset acquisition.

On closing, the Company issued to Tenajon 13,500,000 common shares at a value of \$2,430,000 and incurred related costs totaling \$165,000. The Company also issued 187,500 units (Note 9) with a value of \$37,500 in relation to this acquisition. In addition, the Company reimbursed Tenajon \$15,000 for a reclamation deposit which the Company assumed and \$85,000 for geological and exploration work on the Summit Lake property. The Company was also granted an option to purchase the 3% net smelter royalty held by Tenajon on the Summit Lake property by paying \$115,000 which the Company declined.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

7. Mineral property interests (continued...)

(c) Surprise Creek Property

On July 30, 2005 the Company entered into an agreement to acquire a 100% interest in three additional mineral claims in the Surprise Creek property area. After assessing the drilling results of the property the Company decided not to proceed with any further programs on the property and as such has written off all expenditures.

(d) BA Claims

On September 21, 2006 the Company signed an agreement to acquire a 100% interest in the BA 1 - 4 claims from an unrelated third party through the issuance of 150,000 shares and payment of \$4,000 cash upon receiving regulatory approval.

At the same time the Company agreed to sell a 50% interest in the BA 1 - 10 claims to Mountain Boy for a 50% interest in the Stro 1 - 3 claims and a net payment of \$45,000 to be received from Mountain Boy. The Stro claims are adjacent to the BA claims.

During the first quarter of 2007, the Company received regulatory approval and issued the 150,000 shares and paid \$4,000 to acquire a 100% interest in the BA 1 - 4 claims.

On June 14, 2007 the Company entered into an agreement to sell its interest in the BA claims to Mountain Boy in return for 750,000 shares of Mountain Boy with a value of \$345,000. A gain on sale of mineral properties of \$219,328 was recognized as a result of this transaction.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

7. Mineral property interests (continued...)

Mexico

	La			Total
	Tuligtic	Calavera	Rio Minas	
Balance, December 31, 2006	\$ 112,808	\$ -	\$ -	\$ 112,808
Acquisition costs	-	107,750	107,750	215,500
Exploration expenditures				
Geochemistry	2,953	-	19,426	22,379
Drilling and metallurgical	115	650,400	1,056	651,571
Environmental permitting	8,910	8,500	-	17,410
Geological & engineering	41,292	159,601	10,571	211,464
General admin and shipping	24,224	68,304	48,820	141,348
Geologic mapping and imagery	867	20	195	1,082
Maintenance	37,252	5,624	6,499	49,375
Field supplies	1,450	10,297	3,123	14,870
Travel and accommodation	29,167	102,910	28,491	160,568
Properties written-off	(259,038)	-	-	(259,038)
Balance, December 31, 2007	-	1,113,406	225,931	1,339,337
Acquisition costs	-	-	42,500	42,500
Exploration expenditures				
Geochemistry	-	-	39,868	39,868
Drilling and metallurgical	-	362,891	10,183	373,074
Environmental permitting	-	5,951	321	6,272
Geological & engineering	-	41,791	193,572	235,363
Geophysics	-	69,839	-	69,839
General administration	-	3,127	161,999	165,126
Geologic mapping and imagery	-	-	160	160
Maintenance	-	(2,236)	4,999	2,763
Field supplies	-	2,641	4,506	7,147
Shipping	-	3,230	1,927	5,157
Travel and accommodation	-	19,968	49,270	69,238
Properties written-off	-	(1,620,608)	-	(1,620,608)
Balance, December 31, 2008	\$ -	\$ -	\$ 735,236	\$ 735,236

(e) Tuligtic Project

On July 24, 2006 the Company signed an option agreement with Almaden Minerals Ltd. ("Almaden") whereby the Company could acquire up to a 60% interest in the Tuligtic Project located in the State of Puebla, Mexico by undertaking a work program on the Tuligtic Project aggregating US\$6,000,000 and issuing an aggregate of 1,000,000 shares.

By August 9, 2007 the Company failed to meet a US\$300,000 exploration expenditure obligation pertaining to the option agreement with Almaden. The property was returned to Almaden and the property expenditures incurred to date were written-off.

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2008

7. Mineral property interests (continued...)

(f) La Calavera and Rio Minas

On May 9, 2007 the Company signed an option and joint venture agreement with Chesapeake Gold Corp ("Chesapeake"), a company related by way of a common director, whereby the Company can acquire up to a 70% interest in the La Calavera property and Rio Minas property located in Oaxaca, Mexico by undertaking a work program on the La Calavera – Rio Minas properties aggregating US\$6,000,000, paying US\$1,300,000 and issuing an aggregate of 500,000 shares. In order to earn a 51% interest in the properties, the exploration expenditures, cash and share issuance agreed to are as follows:

	Exploration Expenditures		Payments		
by signing joint venture	US\$ -	US\$ 50,000	(paid)	100,000	shares (issued)
by September 1, 2007	-	-		150,000	shares (issued)
by December 31, 2007	-	50,000	(paid)	-	
by March 1, 2008	-	-		250,000	shares (issued)
by March 31, 2008	500,000 (incurred)	-		-	
by March 31, 2009	1,250,000 (incurred)	400,000		-	
by March 31, 2010	1,250,000	400,000		-	
by March 31, 2011	1,500,000	400,000		-	
by March 31, 2012	1,500,000	-		-	
	<u>US\$ 6,000,000</u>	<u>US\$ 1,300,000</u>		<u>500,000</u>	

Upon completion of the foregoing terms a joint venture will have been formed between the Company and Chesapeake. The properties shall thereupon become a joint venture asset.

The Company may elect to earn a further 19% undivided joint venture interest in the properties by paying US\$3,000,000, causing a bankable feasibility study to be completed and arranging production financing for the properties or a portion thereof all of which must be completed by December 31, 2014.

Chesapeake has given notice to the Company that it has terminated its underlying option agreement with the La Calavera property owner. Chesapeake has also advised the Company that the US\$400,000 owing by March 31, 2009 is not due and the Company and Chesapeake will renegotiate and/or enter into a new option agreement with respect to the Rio Minas property.

As of December 31, 2008, all costs relating to the La Calavera property have been written off to operations.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

8. Equipment

	December 31, 2008		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 38,705	\$ 23,849	\$ 14,856
Other equipment	53,259	18,329	34,930
Mining equipment	13,363	4,273	9,090
Vehicle	55,665	26,796	28,869
	<u>\$ 160,992</u>	<u>\$ 73,247</u>	<u>\$ 87,745</u>

	December 31, 2007		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 38,705	\$ 17,174	\$ 21,531
Other equipment	53,259	9,597	43,662
Mining equipment	13,363	1,096	12,267
Vehicle	41,617	11,860	29,757
	<u>\$ 146,944</u>	<u>\$ 39,727</u>	<u>\$ 107,217</u>

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2008

9. Share capital and contributed surplus

	<u>Common Shares</u>	
	<u>Number</u>	<u>Amount</u>
Authorized:		
Unlimited number of common shares without par value		
Issued:		
Balance, December 31, 2006	20,573,647	\$ 21,430,270
Exercise of options	90,000	36,000
Fair value of options exercised	-	28,500
Brokered private placement, net of share issue costs \$192,621	4,060,000	1,837,379
Issued for mineral properties (Note 7)	<u>400,000</u>	<u>215,500</u>
Balance, December 31, 2007	25,123,647	23,547,649
Issued for mineral properties (Note 7)	250,000	42,500
Tax benefits renounced to flow-through share subscribers (Note 14)	-	(650,000)
Brokered private placement, net of share issue costs \$129,218	3,500,000	570,782
Non-brokered private placement, net of share issue costs \$22,750	1,215,000	220,250
Financial advisory units	187,500	37,500
Issued for mineral properties (Note 7)	13,500,000	2,430,000
Non-brokered private placement, net of share issue costs \$226,345	<u>47,800,000</u>	<u>2,402,655</u>
Balance, December 31, 2008	<u>91,576,147</u>	<u>\$ 28,601,336</u>

Private placements

In October 2007, the Company completed a private placement of 4,000,000 flow-through units at a price of \$0.50 per unit for net proceeds of \$1,837,379. Each flow-through unit consisted of one flow-through common share and one half of one common share purchase warrant. Each whole warrant is exercisable to acquire one additional non flow-through share for a period of eighteen months at a price of \$1.00 per share. The agent received a commission of \$110,000 and 60,000 units with the same terms as the offering except that the agent's units are non flow-through. In addition, the agent received 320,000 compensation options with each agent's option exercisable into one common share at a price of \$0.60 for a period of eighteen months. The fair value of these options was estimated at \$26,120.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

9. Share capital and contributed surplus (continued...)

In April 2008, the Company closed a partially brokered private placement consisting of 4,715,000 units at a price of \$0.20 per unit for gross proceeds of \$943,000. Each unit entitles the holder to one common share and one-half share purchase warrant with one whole warrant being exercisable into one additional common share for a period of one year at a price of \$0.30 per share. The Company paid an agent fee of \$52,500 and granted 350,000 agent compensation options with a value of \$24,602. Each agent's option is exercisable into one additional unit at a price of \$0.20 per unit for one year. The Company also paid finders' fees of \$17,100 in cash and 80,250 compensation options with a value of \$5,641 with each compensation option exercisable into one additional unit at a price of \$0.20 for one year. The agents' compensation options were valued using the Black-Scholes pricing model with an expected volatility of 108%, and expected term of one year, a risk free interest rate of 2.85% and a dividend yield of 0%.

In April and August 2008, the Company issued 93,750 units each pursuant to a financial advisory agreement relating to the acquisition of the Kansas and Summit Lake properties (Note 7). The units have the same terms and conditions as the units issued in the April 2008 private placement

In December 2008, the Company closed a non-brokered private placement consisting of 45,000,000 units at a price of \$0.055 per unit for gross proceeds of \$2,475,000. Each unit entitles the holder to one common share and one share purchase warrant which is exercisable into one additional common share for a period of two years at a price of \$0.07 during the first year and \$0.15 during the second year. The Company paid a finder's fee of \$198,000 of which \$44,000 was paid in cash and \$154,000 was paid in 2,800,000 common shares.

Stock options

The Company has a stock option plan whereby the maximum number of shares subject to the plan, in the aggregate, may not exceed 10% of the Company's issued shares. The maximum term of any option will be five years and the vesting is at the direction of the company, however, options granted to consultants performing "investor relations' activities" must at a minimum vest in stages over a period of not less than twelve months, with no more than ¼ of the options vesting in any three month period. The exercise price shall be no less than the greater of \$0.10 per share and the last closing price of the company's shares.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

9. Share capital and contributed surplus (continued...)

Stock option activity for the respective years is as follows:

	December 31, 2008		December 31, 2007	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Options outstanding, beginning of year	1,750,000	\$ 0.49	1,485,000	\$ 0.75
Granted	70,000	0.20	1,000,000	0.40
Exercised	-	-	(90,000)	0.40
Expired	(180,000)	0.40	(50,000)	0.50
Cancelled	(610,000)	0.46	(595,000)	0.99
Options outstanding, end of year	<u>1,030,000</u>	0.45	<u>1,750,000</u>	0.49
Options exercisable, end of year	<u>1,020,000</u>	\$ 0.45	<u>1,581,250</u>	\$ 0.50

The options outstanding and exercisable at December 31, 2008 are as follows:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Exercisable	Weighted Average Exercise Price
\$0.20-\$0.39	95,000	\$ 0.24	1.90	85,000	\$ 0.24
\$0.40-\$0.59	780,000	0.41	3.54	780,000	0.41
\$0.60-\$0.95	155,000	0.80	0.93	155,000	0.80
	<u>1,030,000</u>	\$ 0.45	3.00	<u>1,020,000</u>	\$ 0.45

During the year ended December 31, 2008 the Company recognized \$27,032 (2007 - \$355,795) of stock-based compensation expense. The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date using the following weighted average assumptions:

	2008	2007
Risk-free interest rate	3.44%	3.99%
Dividend yield	Nil	Nil
Expected volatility	104%	101.68%
Expected option life	5.0 years	5.0 years

The weighted average grant-date fair value of the options granted in the year ended December 31, 2008 is \$0.07 (2007 - \$0.31) per option.

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2008

9. Share capital and contributed surplus (continued)

Warrants

Full share equivalent warrant activity for the respective years is as follows:

	December 31, 2008		December 31, 2007	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Warrants outstanding, beginning of year	2,206,559	\$ 1.02	3,287,368	\$ 1.12
Issued	47,451,250	0.08	2,030,000	1.00
Expired	(176,559)	1.20	(3,110,809)	1.12
Warrants outstanding, end of year	<u>49,481,250</u>	\$ 0.12	<u>2,206,559</u>	\$ 1.02

Full share equivalent warrants outstanding and exercisable at December 31, 2008:

<u>Description</u>	<u>Number of Full Share Equivalent Warrants</u>	<u>Price Per Share</u>	<u>Expiry Date</u>
Warrants	2,000,000	\$ 1.00	April 9, 2009
Warrants	30,000	1.00	April 9, 2009
Warrants	2,357,500	0.30	April 3, 2009
Warrants	46,875	0.30	April 3, 2009
Warrants	46,875	0.30	August 11, 2009
Warrants	<u>45,000,000</u>	* 0.07	December 18, 2010
	<u>49,481,250</u>		

* Price for second year ending December 18, 2010 is \$0.15

Agent's options

Full share equivalent agent options activity for the respective years is as follows:

	December 31, 2008		December 31, 2007	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Agent options outstanding, beginning of year	320,000	\$ 0.60	-	\$ -
Issued	430,250	0.20	320,000	0.60
Expired	-	-	-	-
Agent options outstanding, end of year	<u>750,250</u>	\$ 0.37	<u>320,000</u>	\$ 0.60

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

9. Share capital and contributed surplus (continued)

The 320,000 agent's options entitle the agent to acquire one common share of the Company at \$0.60 until April 9, 2009. The 430,250 agent's options entitle the agent to acquire one unit of the Company at \$0.20 until April 3, 2009 with each unit consisting of one common share and one-half share purchase warrant with one whole warrant being exercisable into one additional common share at a price of \$0.30 per share until April 3, 2009.

Contributed surplus	December 31, 2008	December 31, 2007
Balance, beginning of year	\$ 1,269,878	\$ 916,463
Stock-based compensation	27,032	355,795
Fair value of agent's options	30,243	26,120
Fair value of of options exercised	-	(28,500)
Balance, end of year	<u>\$ 1,327,153</u>	<u>\$ 1,269,878</u>

10. Accumulated other comprehensive loss	December 31, 2008	December 31, 2007
Balance, beginning of year	\$ (175,997)	\$ -
Unrealized gains on available-for-sale investments at January 1, 2007	-	9,902
Unrealized loss on available-for-sale investments in the year	(183,594)	(185,899)
Reversal of unrealized losses on sale of short-term investments	39,863	
Balance, end of year	<u>\$ (319,728)</u>	<u>\$ (175,997)</u>

11. Change in non-cash operating working capital	December 31, 2008	December 31, 2007
Receivables	\$ (14,088)	\$ 46,977
Prepays	21,387	(14,871)
Payables and accruals	98,081	(25,972)
	<u>\$ 105,380</u>	<u>\$ 6,134</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

12. Commitments

- (a) The Company entered into a five-year lease agreement for its office space commencing March 1, 2005 and ending February 28, 2010. The Company is committed to making lease payments in 2009 of \$97,925 and in 2010 of \$15,842.
- (b) During 2005, the Company entered into a Cooperation Agreement with Gold Mountain (H.K.) International Mining Co. Ltd. ("Gold Mountain") a Hong Kong based subsidiary of Zijin Mining Group Co. Ltd. ("Zijin"), a gold and copper producer in China. This Cooperation Agreement was entered as part of Gold Mountain's 2005 investment of \$1,950,000 in the Company.

Under the Cooperation Agreement, Gold Mountain and Zijin agree to offer and select as yet undetermined projects in China to the Company for joint venture. Also under the Cooperative Agreement, the Company agrees to offer Zijin a right of first refusal to participate in any projects located in China held at the time of the Cooperative Agreement. Zijin may also arrange to have suitable professionals join the Company's project team at the Company's cost.

13. Related party transactions

During the year ended December 31, 2008, the Company incurred fees of \$75,834 (2007 - \$205,294) with companies controlled by directors for management consulting services. This amount has been included in management services expense on the statement of operations.

Included in payables is an amount of \$10,686 (2007 - \$9,313) owed to directors and officers of the Company. Included in receivables is \$43,281 (2007 - \$5,098) owed by Lincoln Gold Corp ("Lincoln") which shares offices with the Company and has one director in common.

The Company shares office space with Lincoln and Southern Gold Resources Ltd. who reimburse each month to the Company a portion of the rent and office expenses. During the year ended December 31, 2008, these reimbursements totalled \$78,308 (2007: \$51,845).

All related party transactions have been recorded at the exchange amount, which is the amount of consideration established and agreed to between the parties. The exchange amount was negotiated and agreed to by the related parties.

14. Income taxes

During the year ended December 31, 2007 the Company issued 4,000,000 common shares on a flow-through basis for gross proceeds of \$2,000,000. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenses incurred on the Company's mineral properties to the flow-through participants. During the year ended December 31, 2008, the Company renounced exploration expenditures of \$2,000,000 which resulted in a future income tax recovery and a charge against capital stock of \$650,000.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

14. Income taxes (continued)

The future income tax liability of \$925,000 is a result of the difference between the carrying amount and the tax bases of the Company's Kansas and Summit Lake mineral property interests (Note 7).

The income tax provision (recovery) shown on the statements of operations differs from the amounts obtained by applying combined federal and provincial statutory rates to the net loss before taxes as follows:

	2008	2007
Loss before income taxes	\$ (3,461,635)	\$ (1,613,687)
Effective tax rate	31.0%	31.5%
Expected tax recovery	\$ (1,073,107)	\$ (508,000)
Resource loss	766,412	-
Other	(49,532)	2,000
Stock-based compensation	8,380	112,000
Change in valuation allowance	(302,153)	394,000
Future income tax recovery	\$ (650,000)	\$ -

Future income tax assets (liabilities) are calculated as follows:

	2008	2007
Future income tax assets (liabilities) relate to:		
Loss carryforwards	\$ 1,329,000	\$ 1,242,000
Unrealized loss on investments held in the short term	42,000	28,000
Foreign exchange translation differences	-	(13,000)
Accumulated mineral property expenditures	14,000	240,000
Capital assets and other	36,000	23,000
Financing costs	150,000	130,000
Future income tax assets	1,571,000	1,650,000
Valuation allowance	(1,571,000)	(1,650,000)
	-	-
Mineral properties	(925,000)	-
Future income tax liabilities	\$ (925,000)	\$ -

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

14. Income taxes (continued)

As at December 31, 2008, the Company has non-capital loss carry forwards of \$4,600,000 (2007: \$3,942,000) available to reduce income otherwise taxable in future years expiring through 2028.

The potential tax benefits related to the loss carry forwards and other temporary differences, the application of which may be restricted, have not been recognized in these consolidated financial statements as management does not consider it likely that such assets will be realized in the carry forward period. Also, the availability of the above deductions for income tax purposes may be restricted if there are future changes in control.

15. Supplementary cash flow information

	December 31, 2008	December 31, 2007
Investments held in short term received as option proceeds	\$ -	\$ -
Investments held in short term received for mineral property interests	\$ -	\$ 345,000
Mineral exploration tax credit accrued		\$ 359,211
Shares issued for mineral property	\$ 2,472,500	\$ 215,500
Agent compensation options	\$ 30,244	\$ -
Financial advisory units for mineral property	\$ 37,500	\$ -
Finders' fees on private placement	\$ 154,000	\$ -
Mineral property expenditures included in accounts payable	\$ 356,078	\$ 395,039
Mineral property recoveries included in receivables	\$ -	\$ 557,060

16. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Company defines capital that it manages as its shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. In addition, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

17. Financial instruments and risk management

(a) Fair value

The Company's financial instruments consist of cash and cash equivalents, short-term investments, receivables, and payables and accruals. The fair value of these financial instruments, except for short-term investments which are recorded at fair value, approximates their carrying values due to the short-term nature of these instruments.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and commodity price risk.

(a) Foreign exchange risk

Cash held in foreign currencies other than the Canadian dollar is subject to currency risk. The Company's operations in Mexico expose the Company to foreign exchange risk. The Company does not enter into derivative financial instruments to mitigate this risk but the company does not believe its net exposure to foreign exchange risk is significant.

(b) Credit risk

The Company's cash and cash equivalents are held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company's receivables consist mainly of GST receivable due from the Federal Government of Canada and Lincoln which shares office space with the Company. Management believes that the credit risk concentration with respect to financial instruments included in receivables is minimal.

(c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

(d) Liquidity risk

The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2008

17. Financial instruments and risk management (continued...)

(e) Price risk

The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of precious metals. The Company monitors precious metals prices to determine the appropriate course of action to be taken by the Company.

The Company's short-term investments are subject to fair value fluctuations ongoing from changes in the equity and commodity markets.

18. Segmented disclosure

The Company has one operating segment which is mineral exploration and all capital assets of the Company are located in Canada except for certain of its mineral properties and equipment as follows:

	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Capital			
December 31, 2008	\$ 9,202,684	\$ 770,724	\$ 9,973,408
December 31, 2007	4,832,428	1,379,030	6,211,458

19. Subsequent events

As of January 1, 2009 the Company entered into an agreement with Baron Global Financial Canada Ltd. ("Baron") whereby Baron has agreed to act as a corporate advisor to the Company for a 12-month period. One of Baron's employees will act as the Chief Financial Officer of the Company. In return, the Company will pay a monthly advisory fee of \$10,000 plus taxes. The Company will also reimburse Baron all reasonable expenses.