

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Interim Consolidated Financial Statements**  
For the first quarter ended  
March 31, 2007  
(unaudited – prepared by management)

Address: Suite 350, 885 Dunsmuir Street  
Vancouver, BC  
V6C 1N5

Contact: Andrew W. Bowering  
President

Telephone number: (604) 688-7377

Fax number: (604) 688-7307

Email address: bowering@pinnaclemines.com

Website: [www.pinnaclemines.com](http://www.pinnaclemines.com)

Note: These interim unaudited financial statements and the accompanying notes contained herein, have not been reviewed by the auditors.

## Contents

	<u>Page</u>
Management's Responsibility for Financial Reporting	1
Consolidated Balance Sheets, unaudited	2
Consolidated Statements of Operations and Deficit, unaudited	3
Consolidated Statements of Cash Flows, unaudited	4
Notes to the Consolidated Financial Statements, unaudited	5-16

## Management's Responsibility for Financial Reporting

To the Shareholders of  
Pinnacle Mines Ltd.  
(a development stage enterprise)

The accompanying unaudited interim consolidated financial statements of Pinnacle Mines Ltd. (a development stage enterprise) have been prepared in accordance with Canadian generally accepted accounting principals consistent with previous quarters and years.

Management is responsible for the integrity of the consolidated financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes. Our auditors have provided information regarding areas where our internal controls could be improved and we have undertaken to implement improvements where practicable.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This committee meets with management to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval.

"Andrew W. Bowering"  
Andrew W. Bowering  
Director

"Paul F. Saxton"  
Paul F. Saxton  
Director

Vancouver, Canada  
May 29, 2007

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Consolidated Balance Sheets,**  
 Unaudited – prepared by management

	March 31, 2007	December 31, 2006
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 3,174,998	\$ 2,650,661
Cash held in trust	-	932,066
Investments held in the short term (Note 3)	239,301	148,685
Receivables	169,465	298,729
Prepays	26,777	30,942
	<u>3,610,541</u>	<u>4,061,083</u>
Environmental reclamation deposits	15,000	15,000
Mineral property interests (Note 4)	4,637,358	4,340,703
Equipment (Note 5)	58,690	24,969
	<u>\$ 8,321,589</u>	<u>\$ 8,441,755</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 91,363	\$ 151,032
Future income taxes	30,809	-
	<u>122,172</u>	<u>151,032</u>
<b>Shareholders' Equity</b>		
Share capital (Note 6)	21,557,770	21,430,270
Contributed surplus (Note 6)	966,529	916,463
Other accumulated comprehensive income (Note 7)	59,807	-
Deficit	<u>(14,384,689)</u>	<u>(14,056,010)</u>
	<u>8,199,417</u>	<u>8,290,723</u>
	<u>\$ 8,321,589</u>	<u>\$ 8,441,755</u>

Nature of operations and going concern (Note 1)  
 Commitments (Note 9)

**Approved on Behalf of the Board**

"Andrew W. Bowering" Director  
 Andrew W. Bowering

"Paul F. Saxton" Director  
 Paul F. Saxton

See accompanying notes to the consolidated financial statements.

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Consolidated Statements of Operations and Deficit,**  
**Unaudited – prepared by management**

Three Month Period Ended March 31	2007	2006
General and administrative expenses		
Amortization	\$ 4,428	\$ 1,874
Consulting services	48,840	36,757
Foreign exchange loss	15,564	-
Management services (Note 10)	45,000	39,000
Investor relations	68,298	40,627
Professional fees		
Accounting and audit	(1,894)	1,023
Legal	7,566	3,058
Office (Note 10)	30,699	23,515
Rent (Note 10)	10,902	10,949
Salaries and benefits	10,398	24,056
Shareholder services	6,653	7,529
Stock-based compensation (Note 6)	50,066	-
Travel	21,434	52,943
	<u>317,954</u>	<u>241,331</u>
Other items		
Property investigations	(30,250)	(2,330)
Interest income and other	19,525	1,542
	<u>(10,725)</u>	<u>(788)</u>
Net loss	<u>\$ (328,679)</u>	<u>\$ (242,119)</u>
Deficit, beginning of period	\$ (14,056,010)	\$ (12,592,699)
Net loss	<u>(328,679)</u>	<u>(242,119)</u>
Deficit, end of period	<u>\$ (14,384,689)</u>	<u>\$ (12,834,818)</u>
Loss per share, basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding	<u>20,671,980</u>	<u>16,330,478</u>
Net loss	\$ (328,679)	\$ (242,119)
Other comprehensive income		
Unrealized gains on available-for-sale investments	53,284	-
Comprehensive loss	<u>\$ (275,395)</u>	<u>\$ (242,119)</u>

See accompanying notes to the consolidated financial statements.

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Consolidated Statements of Cash Flows,**  
**Unaudited – prepared by management**

Three Month Period Ended March 31	2007	2006
Cash derived from (used in)		
<b>Operating activities</b>		
Net loss for the period	\$ (328,679)	\$ (242,119)
Amortization	4,428	1,874
Stock-based compensation	50,066	-
Change in non-cash operating working capital (Note 8)	95,458	(179,801)
	<u>(178,727)</u>	<u>(420,046)</u>
<b>Financing activities</b>		
Shares issued for cash, net of costs	-	451,620
<b>Investing activities</b>		
Mineral property expenditures		
Exploration expenditures	(165,155)	(176,022)
Acquisition costs	(4,000)	-
Purchase of equipment	(38,149)	-
Change in working capital item related to investing transactions	(21,698)	-
	<u>(229,002)</u>	<u>(176,022)</u>
Net increase in cash and cash equivalents	(407,729)	(144,448)
Cash and cash equivalents		
Beginning of period	3,582,727	1,877,422
End of period	\$ 3,174,998	\$ 1,732,974
<b>Cash and cash equivalents comprises:</b>		
Cash	\$ 1,231,476	\$ -
Cashable guaranteed investment certificates	1,943,522	-
	<u>\$ 3,174,998</u>	<u>\$ -</u>
<b>Non-cash investing and financing transactions not included in cash flows:</b>		
Investments held in the short term received to settle debt	\$ -	\$ 124,185
Shares issued for acquisition of mineral property	\$ 127,500	\$ -
Investments held in the short term received as option proceeds	\$ -	\$ -

See accompanying notes to the consolidated financial statements.

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
Unaudited – prepared by management  
For the Period Ended March 31, 2007

---

**1. Nature of operations and going concern**

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.

On September 29, 2006 the company incorporated a wholly owned subsidiary in Mexico, Minera Pinnacle de Mexico, S.A. de C.V., ("Pinnacle Mexico") to carry out its operations in Mexico.

These interim unaudited consolidated financial statements have been prepared on the going concern basis, which assumes that the company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The company incurred a net loss of \$328,679 for the three month period ended March 31, 2007 and has an accumulated deficit of \$14,384,689 at March 31, 2007. The recoverability of the amounts shown for mineral property interests in the company's balance sheet are dependent upon the existence of economically recoverable reserves, the ability of the company to arrange appropriate financing to complete the development of its properties, the receipt of necessary permitting and upon achieving future profitable production or receiving proceeds from the disposition of the properties. The timing of such events occurring, if at all, is not yet determinable.

These interim unaudited consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the company is unable to raise sufficient capital to fund its operations and continue explorations of its mineral properties.

---

**2. Basis of presentation and adoption of accounting policies**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the presentation of interim financial information. These financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent audited annual consolidated financial statements of the company for the year ended December 31, 2006 (the "Annual Financial Statements"). The financial statements follow the same accounting policies and methods of their application as the Annual Financial Statements except as described below.

Effective January 1, 2007, the company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments - Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation" and Section 3865 "Hedges". As required by the new standards, prior periods have not been restated.

Adoption of these standards has not had a material impact on the company's results of operations or cash flows, but could have a material impact on the company's results of operations in future periods. The other effects of the implementation of the new standards are discussed below.

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
Unaudited – prepared by management  
For the Period Ended March 31, 2007

---

**2. Basis of presentation and adoption of accounting policies (Continued)**

**Comprehensive Income**

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Upon adoption of Section 1530, the company revised its "Consolidated Statements of Earnings and Accumulated Earnings" to include the newly required statement of comprehensive income by creating a combined statement.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to accumulated other comprehensive income.

**Financial Instruments**

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as 'held-for-trading', 'available-for-sale', 'held-to-maturity', 'loans and receivables', or 'other financial liabilities' as defined by the standard.

Financial assets and financial liabilities 'held-for-trading' are measured at fair value with changes in those fair values recognized in net earnings. Financial assets 'available-for-sale' are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets 'held-to-maturity', 'loans and receivables' and 'other financial liabilities' are measured at amortized cost using the effective interest method of amortization. The company previously carried available for sale investments at the lower of cost or market, and the adoption of the new standard has resulted in a \$90,616 increase in the carrying value in respect of unrealized gains.

**Accounting Changes**

As of January 1, 2007, the company adopted revised CICA Section 1506 "Accounting Changes", which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information. There is no material impact to the company's consolidated financial statements as a result of implementing this new standard.

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
 Unaudited – prepared by management  
 For the Period Ended March 31, 2007

---

**3. Investments held in the short term**

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

	<u>Shares</u>	<u>Cost</u>	<u>Net Book Value</u>
March 31, 2007			
Mountain Boy Minerals Ltd.	304,975	\$ 148,685	\$ 228,731
Bravo Venture Group Inc.	7,142	-	10,570
		<u>\$ 148,685</u>	<u>\$ 239,301</u>
December 31, 2006			
Mountain Boy Minerals Ltd.	304,975	\$ 148,685	\$ 158,587

---

**4. Mineral property interests**

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

Balance, December 31, 2006	4,227,895	112,808	4,340,703
Acquisition costs	131,500	-	131,500
Exploration expenditures			-
Geochemistry	727	237	964
Drilling and metallurgical	66,950	-	66,950
Geological & engineering	16,653	19,875	36,528
General administration	1,541	12,199	13,740
Maintenance	-	17,037	17,037
Field supplies	-	40	40
Resource estimation	17,188	-	17,188
Shipping	189	142	331
Travel and accommodation	1,235	11,142	12,377
Balance, March 31, 2007	<u>\$ 4,463,878</u>	<u>\$ 173,480</u>	<u>\$ 4,637,358</u>

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
 Unaudited – prepared by management  
 For the Period Ended March 31, 2007

---

**4. Mineral property interests (Continued)**

**Canada**

Balance, December 31, 2006	3,735,617	469,751	17,555	4,972	4,227,895
Acquisition	-	-	131,500	-	131,500
Exploration expenditures					
Geochemistry	727	-	-	-	727
Drilling and metallurgical	16,950	50,000	-	-	66,950
Geological & engineering	16,168	-	485	-	16,653
General administration	1,541	-	-	-	1,541
Resource estimation	17,188	-	-	-	17,188
Shipping	189	-	-	-	189
Travel and accommodation	1,903	700	(1,368)	-	1,235
Balance, March 31, 2007	<u>\$ 3,790,283</u>	<u>\$ 520,451</u>	<u>\$ 148,172</u>	<u>\$ 4,972</u>	<u>\$ 4,463,878</u>

**(a) 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 by agreeing to issue 150,000 shares and pay \$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. Mountain Boy further agreed to carry out a limited drill program of 800 meters (completed) on the property.

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.

**Mexico**

**Tuligtic Project**

On July 24, 2006 the company signed an option agreement with Almaden Minerals Ltd. ("Almaden") whereby the company can 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. The exploration expenditures and share issuance agreed to are as follows:

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
 Unaudited – prepared by management  
 For the Period Ended March 31, 2007

---

**4. Mineral property interests (Continued)**

to earn 51%	<u>Exploration Expenditures</u>	<u>Payments</u>
		by September 5, 2006 100,000 shares (issued)
by August 9, 2007	US\$ 300,000 elective	by August 9, 2007 150,000 shares
by August 9, 2008	1,000,000 elective	by August 9, 2008 150,000 shares
by August 9, 2009	1,000,000 elective	by August 9, 2009 150,000 shares
by August 9, 2010	1,200,000 elective	by August 9, 2010 150,000 shares
	<u>US\$ 3,500,000</u>	<u>700,000 shares</u>
to earn additional 9%		
by August 9, 2011	US\$ 1,500,000	by August 9, 2011 150,000 shares
by August 9, 2012	1,000,000	by August 9, 2012 150,000 shares
	<u>US\$ 2,500,000</u>	<u>300,000 shares</u>

---

**5. Equipment**

	<u>March 31, 2007</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 27,277	\$ 11,880	\$ 15,397
Other equipment	13,562	4,140	9,422
Vehicle	36,617	2,746	33,871
	<u>\$ 77,456</u>	<u>\$ 18,766</u>	<u>\$ 58,690</u>
	<u>December 31, 2006</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 25,744	\$ 10,694	\$ 15,050
Other equipment	13,562	3,643	9,919
	<u>\$ 39,306</u>	<u>\$ 14,337</u>	<u>\$ 24,969</u>

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
 Unaudited – prepared by management  
 For the Period Ended March 31, 2007

---

**6. Share capital and contributed surplus**

	<u>Common Shares</u>	
	<u>Number</u>	<u>Amount</u>
<b>Authorized:</b>		
Unlimited number of common shares without par value		
<b>Issued:</b>		
Balance, December 31, 2005	15,984,531	\$ 16,978,870
Private placement, net of finder's fee \$12,500	235,470	187,650
Exercise of warrants	1,266,625	1,067,331
Exercise of options	125,000	54,500
Non-Brokered Private placement, net of share issue costs \$97,880	1,099,021	1,165,995
Brokered Private placement, net of share issue costs \$285,823	1,763,000	1,810,989
Fair value of options exercised	-	53,935
Issued for mineral properties	<u>100,000</u>	<u>111,000</u>
Balance, December 31, 2006	20,573,647	21,430,270
Issued for mineral properties (Note 4)	<u>150,000</u>	<u>127,500</u>
Balance, March 31, 2007	<u>20,723,647</u>	<u>\$ 21,557,770</u>

**Stock options**

During 1997 the company established a share option plan (the "1997 Plan") whereby the board of directors may from time to time grant stock options to directors, officers, employees or consultants. The maximum number of shares subject to the plan, in the aggregate, may not exceed 20% of the company's issued shares. The maximum term of any option will be ten years, but generally options are granted for five years or less. The exercise price of an option is not less than the greater of \$0.15 per share or the minimum price permitted under the policies of the TSX Venture Exchange. Options vest over a two year period.

This plan was revised on May 16, 2003. 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 if the company is a "Tier 2" company and ten years if the company is a "Tier 1" company. 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 not less than the greater of \$0.10 per share and the last closing price of the company's shares.

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
Unaudited – prepared by management  
For the Period Ended March 31, 2007

---

**6. Share capital and contributed surplus (Continued)**

**Stock options (Continued)**

Stock option activity for the respective periods is as follows:

	<u>March 31, 2007</u>		<u>December 31, 2006</u>	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Options outstanding, beginning of period	1,485,000	\$ 0.75	1,300,000	\$ 0.59
Granted	-	\$ -	325,000	\$ 1.26
Exercised	-	\$ -	(125,000)	\$ 0.44
Cancelled	-	\$ -	(15,000)	\$ 0.50
Options outstanding, end of period	<u>1,485,000</u>	\$ 0.75	<u>1,485,000</u>	\$ 0.75
Options exercisable, end of period	<u>1,428,750</u>	\$ 0.67	<u>1,372,500</u>	\$ 0.66

The weighted average remaining contractual life of the options outstanding at March 31, 2007 was 2.03 years (2006 – 3.66 years).

During the three months ended March 31, 2007 the company recognized \$50,066 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:

<u>2007</u>	
Risk-free interest rate	4.0%
Dividend yield	Nil
Expected volatility	139%
Expected option life	3.31 years

**Warrants**

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

	<u>March 31, 2007</u>		<u>December 31, 2006</u>	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Warrants outstanding, beginning of period	3,287,368	\$ 1.11	3,477,850	\$ 0.84
Issued	-	\$ -	1,778,068	\$ 1.34
Exercised	-	\$ -	(1,266,625)	\$ 0.85
Expired	-	\$ -	(701,925)	\$ 0.85
Warrants outstanding, end of period	<u>3,287,368</u>	\$ 1.11	<u>3,287,368</u>	\$ 1.11

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
 Unaudited – prepared by management  
 For the Period Ended March 31, 2007

---

**6. Share capital and contributed surplus (Continued)**

The weighted average remaining contractual life of the options outstanding at March 31, 2007 was .21 years (2006 – 0.59 years).

<b>Contributed surplus</b>	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 916,463	\$ 767,234
Stock-based compensation	50,066	203,164
Fair value of of options exercised	-	(53,935)
Balance, end of period	<u>\$ 966,529</u>	<u>\$ 916,463</u>

---

**7. Accumulated other comprehensive income**

	March 31, 2007
Balance, beginning of period	\$ -
Unrealized gains on available-for-sale investments at January 1, 2007, net of future income taxes (Note 2)	6,523
Unrealized gain on available-for-sale investments in the period, net of future income taxes	<u>53,284</u>
Balance, end of period	<u>\$ 59,807</u>

---

**8. Change in non-cash operating working capital**

	March 31, 2007	March 31, 2006
Receivables	\$ 129,264	\$ (108,213)
Prepays	4,165	11,289
Payables and accruals	<u>(37,971)</u>	<u>(82,877)</u>
	<u>\$ 95,458</u>	<u>\$ (179,801)</u>

---

**9. 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 2007 of \$89,363, in 2008 and 2009 of \$92,812 each year and in 2010 of \$15,469.
- (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.

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
Unaudited – prepared by management  
For the Period Ended March 31, 2007

---

**9. Commitments (Continued)**

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 indeterminable 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.

---

**10. Related party transactions**

During the three months ended March 31, 2007, the company incurred fees of \$45,000 (2006 - \$39,000) with directors for management consulting services. This amount has been included in management services expense on the statement of operations and deficit.

The company shares office space with Doublestar Resources Ltd. and Lincoln Gold Corp. Starting March 2005 Doublestar and Lincoln reimburse each month to the company a portion of the rent and office expenses.

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 established and agreed to by the related parties.

---

**11. Financial instruments**

**(a) Fair value**

The company's financial instruments consist of cash and cash equivalents, cash held in trust, investments held in the short term, receivables and payables and accruals. The fair value of these financial instruments, with the exception of investments held in the short term, approximates their carrying values. The fair value of the investments held in the short term exceeds their carrying amount as disclosed in Note 3. It is management's opinion that the company is not exposed to significant interest, or credit risks arising from these financial instruments. The company limits its exposure to credit loss by placing its cash and cashable guaranteed investment certificates with high credit quality financial institutions in Canada.

**(b) Foreign exchange 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.

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
 Unaudited – prepared by management  
 For the Period Ended March 31, 2007

---

**12. 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 located in Mexico as disclosed in Note 4.

The company operates in two geographical segments: Canada and Mexico. Corporate administrative activities are conducted from Canada. The income and expenses for the periods ended March 31, 2007 and March 31, 2006 and the assets at March 31, 2007 and December 31, 2006 identifiable to these segments are as follows:

	<u>Canada</u>	<u>China</u>	<u>Mexico</u>	<u>Corporate</u>	<u>Total</u>
<b>Assets</b>					
March 31, 2007	\$ 4,463,878	\$ -	\$ 173,480	\$ 3,684,231	\$ 8,321,589
December 31, 2006	4,227,895	932,066	112,808	3,168,986	8,441,755
<b>Net loss</b>					
Period ended					
March 31, 2007	-	-	-	(328,679)	(328,679)
Period ended					
March 31, 2006	-	-	-	(242,119)	(242,119)

---

**13. Subsequent events**

On May 9, 2007 the company signed an option and joint venture agreement with Chesapeake Gold Corp (“Chesapeake”) whereby the company can acquire up to a 70% interest in the La Calavera property and Rio Minas properties located in the 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. The exploration expenditures, cash and share issuance agreed to are as follows:

	Exploration		Payments	
	Expenditures			
To earn 51%				
by signing joint venture	US\$ -	US\$ 50,000	100,000	shares
by September 1, 2007	-	-	150,000	shares
by December 31, 2007	-	50,000	-	shares
by March 1, 2008	-	-	250,000	shares
by March 31, 2008	500,000	-	-	
by March 31, 2009	1,250,000	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	-	-	
	US\$ <u>6,000,000</u>	US\$ <u>1,300,000</u>	<u>500,000</u>	

---

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
Unaudited – prepared by management  
For the Period Ended March 31, 2007

---

**13. Subsequent events (Continued)**

Upon completion of the terms to earn 51% a joint venture will have been formed between the company and Chesapeake. The company may elect to earn a further 19% 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.