

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Interim Consolidated Financial Statements**  
For the second quarter ended  
June 30, 2007  
(Unaudited – prepared by management)

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

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## 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  
August 29, 2007

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

	June 30, 2007	December 31, 2006
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 2,497,607	\$ 2,650,661
Cash held in trust	-	932,066
Investments held in the short term (Note 3)	152,488	148,685
Receivables	211,615	298,729
Prepays	15,423	30,942
	<u>2,877,133</u>	<u>4,061,083</u>
Environmental reclamation deposits	20,000	15,000
Mineral property interests (Note 4)	4,913,234	4,340,703
Equipment (Note 5)	96,918	24,969
	<u>\$ 7,907,285</u>	<u>\$ 8,441,755</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 44,818	\$ 151,032
Future income taxes	3,400	-
	<u>48,218</u>	<u>151,032</u>
<b>Shareholders' Equity</b>		
Share capital (Note 6)	21,680,270	21,430,270
Contributed surplus (Note 6)	988,095	916,463
Other accumulated comprehensive income (Note 7)	6,567	-
Deficit	<u>(14,815,865)</u>	<u>(14,056,010)</u>
	<u>7,859,067</u>	<u>8,290,723</u>
	<u>\$ 7,907,285</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 Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
General and administrative expenses				
Amortization	\$ 6,506	\$ 1,874	\$ 10,934	\$ 3,748
Consulting services (Note 10)	24,624	42,962	73,464	79,719
Management services (Note 10)	45,000	39,000	90,000	78,000
Investor relations	41,347	92,912	109,645	133,539
Professional fees				
Accounting and audit	21,204	11,663	19,310	12,686
Legal	12,704	11,775	20,270	14,833
Office (Note 10)	29,912	19,518	60,611	43,560
Rent (Note 10)	10,790	10,890	21,692	21,839
Salaries and benefits	19,698	30,782	30,096	54,838
Regulatory and shareholder services	18,490	17,422	25,143	24,951
Stock-based compensation	50,067	-	100,133	-
Foreign exchange loss (gain)	120,752	(7,431)	136,316	(7,958)
Travel	52,022	28,904	73,456	81,847
	<u>453,116</u>	<u>300,271</u>	<u>771,070</u>	<u>541,602</u>
Loss before undernoted income (expenses)	(453,116)	(300,271)	(771,070)	(541,602)
Property investigations	-	(13,646)	(30,250)	(15,976)
Interest and miscellaneous income	19,738	9,035	39,263	10,577
Gain on sale of investments held in the short term	2,202	-	2,202	-
	<u>21,940</u>	<u>(4,611)</u>	<u>11,215</u>	<u>(5,399)</u>
Net loss	<u>\$ (431,176)</u>	<u>\$ (304,882)</u>	<u>\$ (759,855)</u>	<u>\$ (547,001)</u>
Deficit, beginning of period	\$ (14,384,689)	\$ (12,834,818)	\$ (14,056,010)	\$ (12,592,699)
Net loss	<u>(431,176)</u>	<u>(304,882)</u>	<u>(759,855)</u>	<u>(547,001)</u>
Deficit, end of period	<u>\$ (14,815,865)</u>	<u>\$ (13,139,700)</u>	<u>\$ (14,815,865)</u>	<u>\$ (13,139,700)</u>
Loss per share, basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
Weighted average common shares outstanding	<u>20,840,570</u>	<u>16,700,271</u>	<u>20,756,741</u>	<u>15,516,396</u>
Net loss	\$ (431,176)	\$ (304,882)	\$ (759,855)	\$ (547,001)
Other comprehensive income				
Unrealized gains on available-for-sale investments	<u>(53,240)</u>	<u>-</u>	<u>44</u>	<u>-</u>
Comprehensive loss	<u>\$ (484,416)</u>	<u>\$ (304,882)</u>	<u>\$ (759,811)</u>	<u>\$ (547,001)</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 Months Ended June 30, 2007		Six Months Ended June 30, 2007	
	2007	2006	2007	2006
Cash derived from (applied to)				
<b>Operating activities</b>				
Net loss	\$ (431,176)	\$ (304,882)	\$ (759,855)	\$ (547,001)
Amortization	6,506	1,874	10,934	3,748
Gain on investments held in short term	(2,202)	-	(2,202)	-
Stock-based compensation	21,566	-	71,632	-
Change in non-cash operating working capital (Note 9)	(33,299)	(347,088)	62,159	(526,889)
	<u>(438,605)</u>	<u>(650,096)</u>	<u>(617,332)</u>	<u>(1,070,142)</u>
<b>Financing activities</b>				
Shares issued for cash, net of costs	64,500	1,168,142	64,500	1,619,762
<b>Investing activities</b>				
Mineral property expenditures				
Project deposit	(5,000)	(5,000)	(5,000)	(5,000)
Exploration expenditures	(162,376)	26,572	(327,531)	(149,450)
Acquisition costs	(55,500)	-	(59,500)	-
Sale of investments held in short term	8,367	-	8,367	-
Purchase of equipment	(44,734)	-	(82,883)	-
Change in working capital items related to investing transactions	(44,043)	-	(65,741)	-
	<u>(303,286)</u>	<u>21,572</u>	<u>(532,288)</u>	<u>(154,450)</u>
Net increase in cash and cash equivalents	(677,391)	539,618	(1,085,120)	395,170
Cash and cash equivalents				
Beginning of period	<u>3,174,998</u>	<u>1,732,974</u>	<u>3,582,727</u>	<u>1,877,422</u>
End of period	<u>\$ 2,497,607</u>	<u>\$ 2,272,592</u>	<u>\$ 2,497,607</u>	<u>\$ 2,272,592</u>
<b>Cash and cash equivalents comprises:</b>				
Cash	\$ 612,027	\$ 1,122,592	\$ 612,027	\$ 1,122,592
Cashable guaranteed investment certificates	<u>1,885,580</u>	<u>1,150,000</u>	<u>1,885,580</u>	<u>1,150,000</u>
	<u>\$ 2,497,607</u>	<u>\$ 2,272,592</u>	<u>\$ 2,497,607</u>	<u>\$ 2,272,592</u>
<b>Non-cash investing and financing transactions not included in cash flows:</b>				
Investments held in short term received as option proceeds	\$ -	\$ -	\$ -	\$ 124,185
Shares issued for mineral property	58,000	-	185,500	-

See accompanying notes to the consolidated financial statements.

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**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
Unaudited – prepared by management  
For the Period Ended June 30, 2007

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**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 \$759,855 for the six month period ended June 30, 2007 and has an accumulated deficit of \$14,815,865 at June 30, 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.

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**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.

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**Pinnacle Mines Ltd.**  
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**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 \$3,803 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.

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**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>
June 30, 2007			
Mountain Boy Minerals Ltd.	304,975	\$ 148,685	\$ 152,488
December 31, 2006			

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**4. Mineral property interests**

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

	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Balance, December 31, 2006	4,227,895	112,808	4,340,703
Acquisition costs	131,500	113,500	245,000
Exploration expenditures			-
Geochemistry	727	2,953	3,680
Drilling and metallurgical	67,625	-	67,625
Environmental permitting	-	12,507	12,507
Geological & engineering	40,619	44,524	85,143
Helicopter	1,086	-	1,086
General administration	4,876	47,851	52,727
Geologic mapping	-	847	847
Maintenance	-	24,696	24,696
Field supplies	426	2,295	2,721
Resource estimation	33,570	-	33,570
Shipping	431	142	573
Travel and accommodation	5,219	37,137	42,356
Balance, June 30, 2007	\$ 4,513,974	\$ 399,260	\$ 4,913,234

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**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
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**4. Mineral property interests (Continued)**

**Canada**

	Silver Coin and Kansas	Surprise Creek	BA	Other	Total
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	17,625	50,000	-	-	67,625
Geological & engineering	38,784	1,350	485	-	40,619
Helicopter	520	566	-	-	1,086
General administration	3,861	-	-	1,015	4,876
Field supplies	426	-	-	-	426
Resource estimation	33,570	-	-	-	33,570
Shipping	431	-	-	-	431
Travel and accommodation	5,450	1,137	(1,368)	-	5,219
Balance, June 30, 2007	\$ 3,837,011	\$ 522,804	\$ 148,172	\$ 5,987	\$ 4,513,974

**(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.

On June 14, 2007 the company signed an agreement, subject to regulatory approval to sell its interest in the BA claims in return for 750,000 shares of the purchasing company.

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
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**4. Mineral property interests (Continued)**

**Mexico**

	Tuligtec	La Calavera	Rio Minas	Total
Balance, December 31, 2006	\$ 112,808	\$ -	\$ -	\$ 112,808
Acquisition costs	-	56,750	56,750	113,500
Exploration expenditures				
Geochemistry	2,953	-	-	2,953
Environmental permitting	4,488	8,019	-	12,507
Geological & engineering	28,871	11,600	4,053	44,524
General administration	23,557	13,190	11,104	47,851
Geologic mapping	847	-	-	847
Maintenance	20,460	-	4,236	24,696
Field supplies	1,427	817	51	2,295
Shipping	142	-	-	142
Travel and accommodation	21,807	9,622	5,708	37,137
Balance, June 30, 2007	\$ 217,360	\$ 99,998	\$ 81,902	\$ 399,260

**(a) 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:

to earn 51%	Exploration Expenditures	Payments
		by September 5, 2006 100,000 shares (issued)
by August 9, 2007 US\$ 300,000 elective		by August 9, 2007 150,000 shares (issued)
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
	US\$ 3,500,000	700,000 shares
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
	US\$ 2,500,000	300,000 shares

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**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements,**  
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**4. Mineral property interests (Continued)**

**(b) La Calavera and Rio Minas**

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:

To earn 51%	Exploration Expenditures	Payments	
by signing joint venture	US\$ -	US\$ 50,000	(paid) 100,000 shares (issued)
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	-	-
	<u>US\$ 6,000,000</u>	<u>US\$ 1,300,000</u>	<u>500,000</u>

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.

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**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
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**5. Equipment**

	June 30, 2007		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 33,227	\$ 13,329	\$ 19,898
Other equipment	47,344	6,324	41,020
Vehicle	<u>41,618</u>	<u>5,618</u>	<u>36,000</u>
	<u>\$ 122,189</u>	<u>\$ 25,271</u>	<u>\$ 96,918</u>

  

	December 31, 2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 25,744	\$ 10,694	\$ 15,050
Other equipment	<u>13,562</u>	<u>3,643</u>	<u>9,919</u>
	<u>\$ 39,306</u>	<u>\$ 14,337</u>	<u>\$ 24,969</u>

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**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
Exercise of options	90,000	36,000
Fair value of options exercised	-	28,500
Issued for mineral properties (Note 4)	<u>250,000</u>	<u>185,500</u>
Balance, June 30, 2007	<u>20,913,647</u>	<u>\$ 21,680,270</u>

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**Pinnacle Mines Ltd.**  
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**Notes to the Consolidated Financial Statements,**  
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**6. Share capital and contributed surplus (Continued)**

**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.

Stock option activity for the respective periods is as follows:

	June 30, 2007		December 31, 2006	
	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	(90,000)	\$ 0.40	(125,000)	\$ 0.44
Expired	(50,000)	\$ 0.50	-	\$ -
Cancelled	(270,000)	\$ 0.54	(15,000)	\$ 0.50
Options outstanding, end of period	<u>1,075,000</u>	\$ 0.76	<u>1,485,000</u>	\$ 0.75
Options exercisable, end of period	<u>1,075,000</u>	\$ 0.76	<u>1,372,500</u>	\$ 0.66

The weighted average remaining contractual life of the options outstanding at June 30, 2007 was 2.43 years (2006 – 3.66 years).

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**Pinnacle Mines Ltd.**  
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**Notes to the Consolidated Financial Statements,**  
 Unaudited – prepared by management  
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**6. Share capital and contributed surplus (Continued)**

**Stock options (Continued)**

During the six months ended June 30, 2007 the company recognized \$100,133 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>June 30, 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	(185,859)	\$ 0.83	(701,925)	\$ 0.85
Warrants outstanding, end of period	<u>3,101,509</u>	<u>\$ 1.12</u>	<u>3,287,368</u>	<u>\$ 1.11</u>

The weighted average remaining contractual life of the options outstanding at June 30, 2007 was .21 years (2006 – 0.59 years).

	June 30, 2007		December 31, 2006	
Balance, beginning of period	\$	916,463	\$	767,234
Stock-based compensation		100,132		203,164
Fair value of of options exercised		<u>(28,500)</u>		<u>(53,935)</u>
Balance, end of period	<u>\$</u>	<u>988,095</u>	<u>\$</u>	<u>916,463</u>

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<b>7. Accumulated other comprehensive income</b>		June 30, 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>44</u>
Balance, end of period	\$	<u>6,567</u>

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<b>8. Change in non-cash operating working capital</b>		June 30, 2007		June 30, 2006
Receivables	\$	87,114	\$	(451,547)
Prepays		15,519		(23,708)
Payables and accruals		<u>(40,474)</u>		<u>(51,634)</u>
	\$	<u>62,159</u>	\$	<u>(526,889)</u>

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**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.

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.

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**10. Related party transactions**

During the six months ended June 30, 2007, the company incurred fees of \$90,000 (2006 - \$78,000) 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.

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**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.

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**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 June 30, 2007 and June 30, 2006 and the assets at June 30, 2007 and December 31, 2006 identifiable to these segments are as follows:

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**12. Segmented disclosure (Continued)**

	<u>Canada</u>		<u>China</u>		<u>Mexico</u>		<u>Corporate</u>		<u>Total</u>
<b>Assets</b>									
June 30, 2007	\$ 4,513,974	\$	-	\$	399,260	\$	2,994,051	\$	7,907,285
December 31, 2006	4,227,895		932,066		112,808		3,168,986		8,441,755
<b>Net loss</b>									
Period ended									
June 30, 2007	-		-		-		(759,855)		(759,855)
Period ended									
June 30, 2006	-		-		-		(547,001)		(547,001)

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**13. Subsequent events**

On August 8, 2007 the company announced a private placement of up to 5,000,000 flow-through units at a price of \$0.55 per unit to raise gross proceeds of up to \$2,750,000. Each flow-through unit will consist of one flow-through common share and one half of one transferable common share purchase warrant. Each whole warrant will be exercisable to acquire one additional share for a period of eighteen months from the closing at an exercise price of \$1.00. The agent will receive a commission of 7.0% of the gross proceeds, payable in cash or units at the election of the agent. In addition the agent will receive compensation options equal to 8.0% of the number of flow-through units sold under the offering. Each compensation option will entitle the agent to purchase one share at a price of \$0.60 for a period of eighteen months following the closing of the offering.