

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

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NOTICE TO READER

These unaudited interim consolidated financial statements for the third financial quarter ended September 30, 2007 have not been reviewed by our auditors, Grant Thornton, Chartered Accountants. They have been prepared by Pinnacle Mines Ltd.'s management in accordance with accounting principles generally accepted in Canada, consistent with previous quarters and years except for the adoption of a new accounting policy as described in Note 2. These unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2006.

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
November 26, 2007

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

	September 30, 2007	December 31, 2006
Assets		
Current		
Cash and cash equivalents	\$ 1,504,509	\$ 2,650,661
Cash held in trust	-	932,066
Investments held in the short term (Note 3)	580,236	148,685
Receivables	230,308	298,729
Prepays	53,400	30,942
	<u>2,368,453</u>	<u>4,061,083</u>
Environmental reclamation deposits	40,000	15,000
Mineral property interests (Note 4)	5,244,176	4,340,703
Equipment (Note 5)	104,289	24,969
	<u>\$ 7,756,918</u>	<u>\$ 8,441,755</u>
Liabilities		
Current		
Payables and accruals	\$ 121,295	\$ 151,032
Future income taxes	29,400	-
	<u>150,695</u>	<u>151,032</u>
Shareholders' Equity		
Share capital (Note 6)	21,732,770	21,430,270
Contributed surplus (Note 6)	988,095	916,463
Other accumulated comprehensive income (Note 7)	57,151	-
Deficit	<u>(15,171,793)</u>	<u>(14,056,010)</u>
	<u>7,606,223</u>	<u>8,290,723</u>
	<u>\$ 7,756,918</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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
General and administrative expenses				
Amortization	\$ 7,162	\$ 1,959	\$ 18,096	\$ 5,707
Consulting services	30,232	38,784	103,696	118,503
Management services (Note 10)	66,668	65,000	156,668	143,000
Investor relations	43,311	79,371	152,956	212,910
Professional fees				
Accounting and audit	8,360	2,367	27,670	15,053
Legal	23,925	32,556	44,195	47,389
Office	23,827	37,130	84,438	80,690
Rent	9,238	10,890	30,930	32,729
Salaries and benefits	21,916	10,579	52,012	65,417
Regulatory and shareholder services	3,567	27,396	28,710	52,347
Stock-based compensation	-	153,097	100,133	153,097
Foreign exchange loss (gain)	69,934	1,279	206,250	(6,679)
Travel	5,049	34,430	78,505	116,277
	<u>313,189</u>	<u>494,838</u>	<u>1,084,259</u>	<u>1,036,440</u>
Loss before undernoted income (expenses)	<u>(313,189)</u>	<u>(494,838)</u>	<u>(1,084,259)</u>	<u>(1,036,440)</u>
Write-down of mineral property interests	(259,038)	-	(259,038)	-
Property investigations	-	(20,542)	(30,250)	(36,518)
Interest and miscellaneous income	13,206	43,974	52,469	54,551
Gain on sale of mineral property interests	196,928	-	196,928	-
Gain on sale of investments held in the short term	6,165	-	8,367	-
	<u>(42,739)</u>	<u>23,432</u>	<u>(31,524)</u>	<u>18,033</u>
Net loss	<u>\$ (355,928)</u>	<u>\$ (471,406)</u>	<u>\$ (1,115,783)</u>	<u>\$ (1,018,407)</u>
Deficit, beginning of period	\$ (14,815,965)	\$ (13,139,700)	\$ (14,056,010)	\$ (12,592,699)
Net loss	<u>(355,928)</u>	<u>(471,406)</u>	<u>(1,115,783)</u>	<u>(1,018,407)</u>
Deficit, end of period	<u>\$ (15,171,893)</u>	<u>\$ (13,611,106)</u>	<u>\$ (15,171,793)</u>	<u>\$ (13,611,106)</u>
Loss per share, basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>
Weighted average common shares outstanding	<u>20,964,190</u>	<u>19,425,673</u>	<u>20,826,651</u>	<u>17,496,811</u>
Net loss	\$ (355,928)	\$ (471,406)	\$ (1,115,783)	\$ (1,018,407)
Other comprehensive income				
Unrealized gains on available-for-sale investments	50,584	-	50,628	-
Comprehensive loss	<u>\$ (305,344)</u>	<u>\$ (471,406)</u>	<u>\$ (1,065,155)</u>	<u>\$ (1,018,407)</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 September 30, 2007		September 30, 2006	
Cash derived from (applied to)				
Operating activities				
Net loss	\$ (355,928)	\$ (471,406)	\$ (1,115,783)	\$ (1,018,407)
Amortization	7,162	1,959	18,096	5,707
Gain on investments held in short term	(6,165)	-	(8,367)	-
Gain on disposition of mineral property interests	(196,928)	-	(196,928)	-
Stock-based compensation	-	153,097	71,632	153,097
Write-down of mineral properties	259,038	-	259,038	-
Change in non-cash operating working capital (Note 8)	(29,303)	(261,506)	32,856	(788,395)
	<u>(322,124)</u>	<u>(577,856)</u>	<u>(939,456)</u>	<u>(1,647,998)</u>
Financing activities				
Shares issued for cash, net of costs	<u>-</u>	<u>1,853,410</u>	<u>64,500</u>	<u>3,473,172</u>
Investing activities				
Mineral property expenditures				
Project deposit	(20,000)	-	(25,000)	(5,000)
Exploration expenditures	(685,552)	(1,168,143)	(1,013,083)	(1,317,593)
Acquisition costs	-	-	(59,500)	-
Proceeds from sale of mineral property interest	-	45,000	-	45,000
Sale of investments held in short term	-	-	8,367	-
Purchase of equipment	(14,533)	(758)	(97,416)	(758)
Change in working capital items related to investing transactions	49,111	-	(16,630)	-
	<u>(670,974)</u>	<u>(1,123,901)</u>	<u>(1,203,262)</u>	<u>(1,278,351)</u>
Net increase in cash and cash equivalents	(993,098)	151,653	(2,078,218)	546,823
Cash and cash equivalents				
Beginning of period	<u>2,497,607</u>	<u>2,272,592</u>	<u>3,582,727</u>	<u>1,877,422</u>
End of period	<u>\$ 1,504,509</u>	<u>\$ 2,424,245</u>	<u>\$ 1,504,509</u>	<u>\$ 2,424,245</u>
Cash and cash equivalents comprises:				
Cash	\$ 358,751	\$ 205,755	\$ 358,751	\$ 205,755
Cashable guaranteed investment certificates	<u>1,145,758</u>	<u>2,218,490</u>	<u>1,145,758</u>	<u>2,218,490</u>
	<u>\$ 1,504,509</u>	<u>\$ 2,424,245</u>	<u>\$ 1,504,509</u>	<u>\$ 2,424,245</u>
Non-cash investing and financing transactions not included in cash flows:				
Investments held in short term received as option proceeds	\$ -	\$ -	\$ -	\$ 124,185
Investments held in short term received for mineral property interests	345,000	-	345,000	-
Shares issued for mineral property	52,500	238,500	238,000	238,500

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 September 30, 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 unaudited interim 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 \$1,115,783 for the nine month period ended September 30, 2007 and has an accumulated deficit of \$15,171,793 at September 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 unaudited interim 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 September 30, 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 Operations and Deficit" 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 \$57,151 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 September 30, 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>Fair Value</u>
September 30, 2007			
Mountain Boy Minerals Ltd.	1,054,975	\$ 493,685	\$ 580,236
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.

	<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	166,000	297,500
Exploration expenditures			
Geochemistry	924	7,485	8,409
Drilling	297,027	6,365	303,392
Metallurgy	14,814	-	14,814
Environmental permitting	4,108	16,929	21,037
Geological & engineering	87,907	99,072	186,979
Helicopter	127,546	-	127,546
General administration	9,376	80,813	90,189
Geologic mapping	440	1,082	1,522
Maintenance	12,858	41,656	54,514
Field supplies	20,874	4,740	25,614
Imagery	1,420	-	1,420
Resource estimation	33,570	-	33,570
Shipping	967	285	1,252
Travel and accommodation	34,538	104,474	139,012
Reclamation	3,913	-	3,913
	<u>781,782</u>	<u>528,901</u>	<u>1,310,683</u>
Properties written-down	-	(259,038)	(259,038)
Shares for sale of mineral property	(148,172)	-	(148,172)
	<u>633,610</u>	<u>269,863</u>	<u>903,473</u>
Balance, September 30, 2007	\$ 4,861,505	\$ 382,671	\$ 5,244,176

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

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	924	-	-	-	924
Drilling	10,208	286,819	-	-	297,027
Metallurgy	14,814	-	-	-	14,814
Environmental permitting	4,108	-	-	-	4,108
Geological & engineering	72,372	15,050	485	-	87,907
Helicopter	1,528	126,018	-	-	127,546
General administration	6,128	-	-	3,248	9,376
Geologic mapping	-	440	-	-	440
Maintenance	3,011	9,847	-	-	12,858
Field supplies	581	20,293	-	-	20,874
Imagery	1,420	-	-	-	1,420
Resource estimation	33,570	-	-	-	33,570
Shipping	601	366	-	-	967
Travel and accommodation	12,607	23,299	(1,368)	-	34,538
Reclamation	3,913	-	-	-	3,913
	165,785	482,132	130,617	3,248	781,782
Shares for sale of mineral property	-	-	(148,172)	-	(148,172)
	165,785	482,132	(17,555)	3,248	633,610
Balance, September 30, 2007	\$ 3,901,402	\$ 951,883	\$ -	\$ 8,220	\$ 4,861,505

(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 Minerals Ltd. 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.

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

4. Mineral property interests (Continued)

(a) BA Claims (Continued)

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 (received) of the purchasing company. A gain on sale of mineral properties of \$196,928 was recognized during the period ended September 30, 2007.

Mexico

	La			
	Tuligtic	Calavera	Rio Minas	Total
Balance, December 31, 2006	\$ 112,808	\$ -	\$ -	\$ 112,808
Acquisition costs	-	83,000	83,000	166,000
Exploration expenditures				
Geochemistry	2,953	-	4,532	7,485
Drilling	115	6,250	-	6,365
Environmental permitting	8,910	8,019	-	16,929
Geological & engineering	41,292	50,014	7,766	99,072
General administration	24,082	31,922	24,809	80,813
Geologic mapping	867	20	195	1,082
Maintenance	37,252	168	4,236	41,656
Field supplies	1,450	2,725	565	4,740
Shipping	142	-	143	285
Travel and accommodation	29,167	59,170	16,137	104,474
	<u>146,230</u>	<u>241,288</u>	<u>141,383</u>	<u>528,901</u>
Properties written-down	<u>(259,038)</u>	<u>-</u>	<u>-</u>	<u>(259,038)</u>
	<u>(112,808)</u>	<u>241,288</u>	<u>141,383</u>	<u>269,863</u>
Balance, September 30, 2007	\$ -	\$ 241,288	\$ 141,383	\$ 382,671

(a) Tuligtic Project

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

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

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 (issued)
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	<u>1,500,000</u>	<u>-</u>	<u>-</u>
	US\$ <u>6,000,000</u>	US\$ <u>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.

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

5. Equipment

	September 30, 2007		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 34,911	\$ 15,065	\$ 19,846
Other equipment	53,259	8,109	45,150
Mining equipment	6,935	520	6,415
Vehicle	41,617	8,739	32,878
	<u>\$ 136,722</u>	<u>\$ 32,433</u>	<u>\$ 104,289</u>

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
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>

6. 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
Issued for mineral properties (Note 4)	<u>350,000</u>	<u>238,000</u>
Balance, September 30, 2007	<u>21,013,647</u>	<u>\$ 21,732,770</u>

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

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:

	September 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 September 30, 2007 was 1.97 years (2006 – 2.84 years).

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

6. Share capital and contributed surplus (Continued)

Stock options (Continued)

During the nine months ended September 30, 2007 the company recognized \$100,133 (2006 - \$153,097) 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>September 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	<u>(3,287,368)</u>	\$ 1.11	<u>(701,925)</u>	\$ 0.85
Warrants outstanding, end of period	<u>-</u>	\$ -	<u>3,287,368</u>	\$ 1.11

The weighted average remaining contractual life of the options outstanding at September 30, 2007 was Nil years (2006 – 0.99 years).

	<u>September 30, 2007</u>		<u>December 31, 2006</u>	
Balance, beginning of period	\$	916,463	\$	767,234
Stock-based compensation		100,133		203,164
Fair value of of options exercised		<u>(28,501)</u>		<u>(53,935)</u>
Balance, end of period	\$	<u>988,095</u>	\$	<u>916,463</u>

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

7. Accumulated other comprehensive income		September 30, 2007
		<u> </u>
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>50,628</u>
Balance, end of period	\$	<u>57,151</u>

8. Change in non-cash operating working capital					
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2007	2006	2007	2006
Receivables	\$	(18,693)	\$ (293,848)	\$ 68,421	\$ (745,395)
Prepays		(37,977)	26,059	(22,458)	2,351
Payables and accruals		<u>27,367</u>	<u>6,283</u>	<u>(13,107)</u>	<u>(45,351)</u>
	\$	<u>(29,303)</u>	\$ (261,506)	\$ 32,856	\$ (788,395)

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.

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

10. Related party transactions

During the nine months ended September 30, 2007, the company incurred fees of \$156,668 (2006 - \$143,000) 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 Lincoln Gold Corp. Starting March 2005 Lincoln reimburses 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.

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

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

12. Segmented disclosure (Continued)

	<u>Canada</u>	<u>China</u>	<u>Mexico</u>	<u>Corporate</u>	<u>Total</u>
Assets					
September 30, 2007	\$ 4,861,505	\$ -	\$ 382,671	\$ 2,512,742	\$ 7,756,918
December 31, 2006	4,227,895	932,066	112,808	3,168,986	8,441,755
Net loss					
Nine months ended					
September 30, 2007	-	-	-	(1,115,783)	(1,115,783)
Nine months ended					
September 30, 2006	-	-	-	(1,018,407)	(1,018,407)

13. Subsequent events

On October 3, 2007 the company granted 1,000,000 options to directors, consultants and employees exercisable at \$0.40 per option for a term of five years.

On October 9, 2007 the company completed a private placement of 4,000,000 flow-through units at a price of \$0.50 per unit to raise gross proceeds of \$2,000,000. Each flow-through unit consisted of one flow-through common share and one half of one transferable common share purchase warrant. Each whole warrant is exercisable to acquire one additional share for a period of eighteen months from the closing at an exercise price of \$1.00. The agent received a commission of 7.0% of the gross proceeds payable as \$110,000 and 60,000 units with the same terms as the offering except the units are non flow-through. In addition the agent received compensation options exercisable into 320,000 common shares at a price of \$0.60 for a period of eighteen months.