

Pinnacle Mines Ltd.
(A development stage enterprise)
Consolidated Financial Statements
December 31, 2006 and 2005

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Management's Responsibility for Financial Reporting

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

The accompanying 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
March 13, 2007

Auditors' Report

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

We have audited the consolidated balance sheets of Pinnacle Mines Ltd. (a development stage enterprise) as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Vancouver, Canada
March 13, 2007

Chartered Accountants

Pinnacle Mines Ltd.
(A development stage enterprise)
Consolidated Balance Sheets

	December 31, 2006	December 31, 2005
Assets		
Current		
Cash and cash equivalents	\$ 2,650,661	\$ 1,877,422
Cash held in trust (Note 6)	932,066	-
Investments held in the short term (Note 3)	148,685	24,500
Receivables	298,729	56,376
Prepays	<u>30,942</u>	<u>40,949</u>
	4,061,083	1,999,247
Environmental reclamation deposits (Note 4)	15,000	10,000
Due from director (Note 5)	-	4,000
Mineral property interests (Note 6)	4,340,703	3,374,115
Equipment (Note 7)	<u>24,969</u>	<u>28,798</u>
	<u>\$ 8,441,755</u>	<u>\$ 5,416,160</u>
Liabilities		
Current		
Payables and accruals	<u>\$ 151,032</u>	<u>\$ 262,755</u>
Shareholders' Equity		
Share capital (Note 8)	21,430,270	16,978,870
Contributed surplus (Note 8)	916,463	767,234
Deficit	<u>(14,056,010)</u>	<u>(12,592,699)</u>
	<u>8,290,723</u>	<u>5,153,405</u>
	<u>\$ 8,441,755</u>	<u>\$ 5,416,160</u>

Nature of operations and going concern (Note 1)
 Commitments (Note 10)

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

Years Ended December 31	2006	2005
General and administrative expenses		
Amortization	\$ 8,092	\$ 5,290
Consulting services (Note 11)	201,018	101,896
Foreign exchange loss (gain)	103,422	(3,406)
Management services (Note 11)	126,776	189,000
Investor relations	275,609	141,209
Professional fees		
Accounting and audit	54,815	43,804
Legal	58,689	40,016
Office (Note 11)	102,736	149,962
Rent (Note 11)	43,620	41,303
Salaries and benefits	83,431	77,127
Shareholder services	53,893	36,038
Stock-based compensation (Note 8)	203,164	518,969
Travel	173,956	67,613
	<u>1,489,221</u>	<u>1,408,821</u>
Other items		
Write-down of mineral property interests (Note 6)	(18,942)	-
Property investigations	(41,187)	(1,363)
Interest income	85,339	14,463
Other income	700	1,750
	<u>25,910</u>	<u>14,850</u>
Loss before income taxes	(1,463,311)	(1,393,971)
Future income tax recovery (Note 12)	-	156,889
Net loss	<u>\$ (1,463,311)</u>	<u>\$ (1,237,082)</u>
Loss per share, basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.10)</u>
Weighted average common shares outstanding	<u>18,140,136</u>	<u>12,322,743</u>
Deficit, beginning of year	\$ (12,592,699)	\$ (11,355,617)
Net loss	<u>(1,463,311)</u>	<u>(1,237,082)</u>
Deficit, end of year	<u>\$ (14,056,010)</u>	<u>\$ (12,592,699)</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

(A development stage enterprise)

Consolidated Statements of Cash Flows

Years Ended December 31	2006	2005
Cash derived from (used in)		
Operating activities		
Net loss for the year	\$ (1,463,311)	\$ (1,237,082)
Amortization	8,092	5,290
Stock-based compensation	203,164	518,969
Future income taxes	-	(156,889)
Write-down of mineral properties	18,942	-
Change in non-cash operating working capital (Note 9)	(390,413)	(23,341)
	(1,623,526)	(893,053)
Financing activities		
Shares issued for cash, net of costs	4,286,465	3,205,403
Investing activities		
Mineral property expenditures		
Environmental reclamation deposit	(5,000)	(10,000)
Exploration expenditures	(1,955,140)	(1,508,231)
Acquisition costs	-	(568,599)
Recovery of acquisition costs	1,080,610	-
Purchase of equipment	(4,263)	(28,675)
Due from director	4,000	-
Change in working capital item related to investing transactions	(77,841)	73,609
	(957,634)	(2,041,896)
Net increase in cash and cash equivalents	1,705,305	270,454
Cash and cash equivalents		
Beginning of year	1,877,422	1,606,968
End of year	\$ 3,582,727	\$ 1,877,422
Cash and cash equivalents comprises:		
Cash	\$ 1,400,661	\$ 227,422
Cashable guaranteed investment certificates	1,250,000	1,650,000
	2,650,661	1,877,422
Cash held in trust	932,066	-
	\$ 3,582,727	\$ 1,877,422
Non-cash investing and financing transactions not included in cash flows:		
Investments held in the short term received to settle debt	\$ 124,185	\$ -
Shares issued for acquisition of mineral property	\$ 111,000	\$ 122,000
Investments held in the short term received as option proceeds	\$ -	\$ 24,500

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

(A development stage enterprise)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

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 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 \$1,463,311 for the year ended December 31, 2006 and has an accumulated deficit of \$14,056,010 at December 31, 2006. 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 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. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of consolidation and acquisitions

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary company, Pinnacle Mexico. As of December 31, 2006, Pinnacle Mexico was not active. There were no significant transactions or balances.

Use of estimates and measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of expenses during the reporting period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property interests and the determination of fair value for stock based transactions. By their nature, these estimates are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

Pinnacle Mines Ltd.

(A development stage enterprise)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

2. Summary of significant accounting policies (Continued)

Investments held in the short term

Investments held in the short term consist of shares in a listed mineral exploration company and are carried at the lower of cost and market value.

Mineral property interests

Mineral interests represent acquisition and holding costs, and deferred exploration costs, less amounts written-off or written-down to date. Costs are reduced by amounts received from joint ventures or received as option payments related to each property. Gains are recognized on a property by property basis only when option payments received exceed costs. If production is attained, these costs will be amortized using the unit-of-production method based on estimated reserves. Costs related to properties which are abandoned or considered uneconomic in the foreseeable future are written down to their fair value. Some of the indicators that management considers for properties that could be uneconomic in the foreseeable future are when no work was performed on the property for several years, when contiguous properties are abandoned or where it is determined that commercial quantities of minerals are unlikely to be found.

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

The amounts shown for mineral properties and related costs represent acquisition, holding and exploration costs and do not necessarily represent present or future recoverable values. The recoverability of these amounts is dependent upon the confirmation of economically recoverable reserves, the ability of the company to obtain the necessary financing to successfully complete their development and to meet the requirements from time to time, of investors or lenders who are providing this financing, and upon future profitable production.

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

Asset retirement obligations

The company recognizes the fair value of liabilities for asset retirement obligations in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at December 31, 2006 and 2005, the company did not have any asset retirement obligations.

Pinnacle Mines Ltd.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

2. Summary of significant accounting policies (Continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and short term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase.

Equipment

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

Future income taxes

The company follows the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using enacted or substantively enacted income tax rates at each balance sheet date. Future income tax assets also include the benefit that may be derived from unused loss carry forwards and unclaimed other deductions. The carrying value of future income tax assets is limited to the amount that is more likely than not to be realized. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

Stock-based compensation

The company accounts for stock-based compensation, including stock options and warrants, using the fair value based method, as prescribed by CICA 3870 *Stock-based Compensation and Other Stock-based payments*. Under this method, the fair value of the stock options and warrants that is usually estimated at the date of grant is amortized over the vesting period, with the offsetting credit recorded as an increase in contributed surplus. If the stock options or warrants are exercised, the proceeds are credited to share capital and the fair value at the date of grant is reclassified from contributed surplus to share capital.

Capital stock issued for other than cash

Capital stock issued for other than cash is valued at the price at which the stock traded on the principal stock exchange at the time the agreement to issue the stock is made or, if such issuance is at the option of the company, at the time the company determines to issue such stock. Where capital stock is issued for other than cash and the number of shares is sufficiently large that the quoted market value per share may not represent an appropriate value to be assigned to such issue, the issued shares are valued at an amount equal to the fair market value of the consideration received for such issuance.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

2. Summary of significant accounting policies (Continued)

Flow-through shares

The company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. The proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to mineral property interests. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

Loss per share

Loss per common share is calculated using the weighted average number of common shares outstanding during each period. Diluted earnings per common share are calculated using the treasury stock method, which assumes that stock options are only exercised when the exercise price is below the average market price during the period, and that the company will use the proceeds to purchase its common shares at their average market price during the period. The purchased shares reduce the number of shares issued upon exercise of the options and this net number of shares is included in the denominator when calculating the diluted earnings per share. As the company incurred losses during the year, the stock options and warrants as disclosed in Note 8 were not included in the computation of loss per share as their inclusion would be anti-dilutive.

Foreign currency translation

The Canadian dollar is the functional currency of the company. Foreign currency transactions are translated by the temporal method whereby monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; non-monetary assets are translated at rates prevailing when acquired; and, revenue and expenses are translated at average rates of exchange for the year. Translation gains and losses are included in the results of operations for the year.

3. Investments held in the short term

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>Carrying Value</u>
December 31, 2006				
Mountain Boy Minerals Ltd.	304,975	\$ 148,685	\$ 158,587	\$ 148,685
- traded on the TSX Venture Exchange				
December 31, 2005				
Mountain Boy Minerals Ltd.	98,000	\$ 24,500	\$ 54,880	\$ 24,500
- traded on the TSX Venture Exchange				

During 2006, the company entered into an agreement with Mountain Boy Minerals Ltd. ("Mountain Boy") whereby the company agreed to accept 206,975 common shares of Mountain Boy in settlement of an outstanding receivable owed the company by Mountain Boy in the amount of \$124,185.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

4. Environmental reclamation deposits

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

	2006	2005
Silver Coin reclamation bond	\$ 10,000	\$ 10,000
Surprise Creek reclamation bond	<u>5,000</u>	<u>-</u>
	<u>\$ 15,000</u>	<u>\$ 10,000</u>

5. Due from director

The amount due from a director bore interest at 5% per annum and was repaid in full during 2006.

Pinnacle Mines Ltd.

(A development stage enterprise)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

6. Mineral property interests

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

	Canada	China	Mexico	Total
Balance, December 31, 2004	\$ 687,774	\$ 512,011	\$ -	\$ 1,199,785
Acquisition costs	122,000	568,599	-	690,599
Exploration expenditures				
Geochemistry	10,116	-	-	10,116
Drilling and metallurgical	842,585	-	-	842,585
Geological & engineering	301,165	-	-	301,165
Helicopter	25,801	-	-	25,801
General administration	4,442	-	-	4,442
Geologic mapping	23,182	-	-	23,182
Maintenance	15,426	-	-	15,426
Field supplies	128,182	-	-	128,182
Resource estimation	2,046	-	-	2,046
Shipping	26,577	-	-	26,577
Travel and accommodation	91,149	-	-	91,149
Trenching & underground	37,560	-	-	37,560
Options proceeds	(24,500)	-	-	(24,500)
Balance, December 31, 2005	2,293,505	1,080,610	-	3,374,115
Acquisition costs	-	-	111,000	111,000
Exploration expenditures				
Geochemistry	3,476	-	-	3,476
Drilling and metallurgical	1,450,347	-	-	1,450,347
Geological & engineering	205,752	-	452	206,204
Helicopter	77,759	-	-	77,759
General administration	61,585	-	1,356	62,941
Geologic mapping	7,074	-	-	7,074
Maintenance	20,201	-	-	20,201
Field supplies	66,461	-	-	66,461
Imagery	11,686	-	-	11,686
Resource estimation	59,660	-	-	59,660
Shipping	45,525	-	-	45,525
Travel and accommodation	108,145	-	-	108,145
Trenching & underground	28,335	-	-	28,335
New Cantech advance	(147,674)	-	-	(147,674)
Recovery of acquisition costs	-	(1,080,610)	-	(1,080,610)
Proceeds from transfer of partial interest	(45,000)	-	-	(45,000)
Properties written-down	(18,942)	-	-	(18,942)
Balance, December 31, 2006	\$ 4,227,895	\$ -	\$ 112,808	\$ 4,340,703

Pinnacle Mines Ltd.
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Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2006 and 2005

6. Mineral property interests (Continued)

Canada

	Silver Coin and Kansas	Surprise Creek	BA	Other	Total
Balance, December 31, 2004	\$ 477,119	\$ 208,362	-	\$ 2,293	\$ 687,774
Acquisition costs	-	122,000	-	-	122,000
Exploration expenditures					
Geochemistry	-	10,116	-	-	10,116
Drilling and metallurgical	842,585	-	-	-	842,585
Geological & engineering	279,664	21,501	-	-	301,165
Helicopter	17,302	8,499	-	-	25,801
General administration	3,713	129	-	600	4,442
Geologic mapping	17,035	6,147	-	-	23,182
Maintenance	11	15,415	-	-	15,426
Field supplies	125,253	1,785	-	1,144	128,182
Resource estimation	2,046	-	-	-	2,046
Shipping	26,164	413	-	-	26,577
Travel and accommodation	87,999	3,150	-	-	91,149
Trenching & underground	37,560	-	-	-	37,560
Options proceeds	(24,500)	-	-	-	(24,500)
Balance, December 31, 2005	1,891,951	397,517	-	4,037	2,293,505
Exploration expenditures					
Geochemistry	-	-	1,604	1,872	3,476
Drilling and metallurgical	1,448,596	1,747	4	-	1,450,347
Geological & engineering	130,044	20,421	49,287	6,000	205,752
Helicopter	44,528	24,708	5,218	3,305	77,759
General administration	60,670	860	-	55	61,585
Geologic mapping	2,907	-	667	3,500	7,074
Maintenance	4,911	11,766	1,940	1,584	20,201
Field supplies	63,328	2,019	56	1,058	66,461
Imagery	11,686	-	-	-	11,686
Resource estimation	59,660	-	-	-	59,660
Shipping	44,709	816	-	-	45,525
Travel and accommodation	91,966	9,897	3,779	2,503	108,145
Trenching & underground	28,335	-	-	-	28,335
New Cantech advance	(147,674)	-	-	-	(147,674)
Proceeds from transfer of partial interest	-	-	(45,000)	-	(45,000)
Properties written-down	-	-	-	(18,942)	(18,942)
Balance, December 31, 2006	\$ 3,735,617	\$ 469,751	\$ 17,555	\$ 4,972	\$ 4,227,895

Pinnacle Mines Ltd.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

6. Mineral property interests (Continued)

(a) Silver Coin Property

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

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

On March 1, 2006 the company received written confirmation from Mountain Boy that \$1,750,000 exploration expenditures were achieved during 2005 and that the company has therefore earned a 51% interest in the Silver Coin property.

(b) Kansas Property

On October 13, 2004 the company entered into an option agreement with Tenajon Resources Corp. ("Tenajon") whereby the company can earn up to a 60% interest of Tenajon's 100% owned Kansas property by making a cash payment of \$50,000 (\$25,500 of which was paid by the company and \$24,500 of which was paid by the joint venture partner Mountain Boy) on signing and issuing 77,000 common shares (issued) and by spending \$1.0 million on exploration and development over a 4 year period as follows:

	<u>Exploration Expenditures</u>	
by Oct 13, 2005	\$	100,000 (incurred)
by Oct 13, 2006		200,000 (incurred)
by Oct 13, 2007		300,000 (incurred)
by Oct 13, 2008		400,000 (incurred)
	\$	<u>1,000,000</u>

In addition, the company has the right to earn an additional 10% in the Kansas property by bringing it through a positive feasibility study within 4 years of earning its 60% interest.

The Kansas property is a crown grant claim, 19.5 hectares in size, and is surrounded by the Silver Coin project. The expenditures incurred on the Kansas property are included in the Silver Coin property expenditures and are eligible for the expenditures required for that property. Pursuant to an option agreement dated July 29, 2004 Mountain Boy will be participating in the Kansas property and is entitled to a 49% interest of the company's interest. This carried interest was acquired by making a cash payment of \$24,500 upon the signing of the agreement and issuing to the company 98,000 shares of Mountain Boy stock (received). If the company elects to put the Kansas property or any adjoining property into production, Mountain Boy would be reduced to owning 40% of the company's interest.

Pinnacle Mines Ltd.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

6. Mineral property interests (Continued)

(c) Surprise Creek Property

On April 14, 2005 the company optioned the Surprise Creek property to Pallaum Minerals Ltd. ("Pallaum"), whereby Pallaum can earn up to a 50% interest in the Surprise Creek property by spending \$1,025,000 on exploration and issuing to the company 400,000 common shares over a four year period.

Since Pallaum did not make the required exploration expenditures by August 9, 2005 the option agreement was terminated at that time.

On July 30, 2005 the company entered into an agreement to acquire a 100% interest in three more mineral claims in the Surprise Creek property area by issuing 200,000 shares valued at \$0.61 per share which was the trading price of the company's shares at the time this agreement was entered into.

(d) BA Claims

On September 21, 2006 the company signed an agreement to acquire a 100% interest in the BA 1 - 4 claims from an unrelated third party 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.

Subsequent to year end, 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.

China

Yang Wen Chong

On November 7, 2006 the company chose to terminate the joint venture contract signed on June 25, 2005 with Yunnan Geology and Mineral Resources Co., Ltd. ("YGM"). As a result of terminating the contract, the company requested that YGM return the \$1,080,610 (7,000,000 RMB) paid in 2004 and 2005 by the company towards the purchase of the Yang Wen Chong project ("YWC"). YGM repaid the amounts in December 2006 and at December 31, 2006 the amounts were on deposit at the company's legal counsel in mainland China.

Subsequent to year end, the company repatriated these funds. The net amount received after legal and consulting expenses was approximately \$932,066 which has been presented as cash held in trust in the consolidated financial statements.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

6. Mineral property interests (Continued)

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:

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
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\$	<u>3,500,000</u>		<u>700,000</u> 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\$	<u>2,500,000</u>		<u>300,000</u> shares

7. Equipment

	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>
	December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 22,335	\$ 4,974	\$ 17,361
Other equipment	12,708	1,271	11,437
	<u>\$ 35,043</u>	<u>\$ 6,245</u>	<u>\$ 28,798</u>

Pinnacle Mines Ltd.
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Notes to the Consolidated Financial Statements
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8. Share capital and contributed surplus

	<u>Common Shares</u>	
Authorized:		
Unlimited number of common shares without par value		
	<u>Number</u>	<u>Amount</u>
Issued:		
Balance, December 31, 2004	10,165,461	\$ 13,783,369
Future income tax relating to renounced exploration expenditures applicable to flow-through shares	-	(156,889)
Exercise of warrants	2,353,423	1,072,103
Private placement	93,000	55,800
Private placement (Note 10(b))	3,000,000	1,950,000
Private placement	117,647	100,000
Issued for mineral properties (Note 6)	200,000	122,000
Exercise of options	55,000	27,500
Fair value of options exercised	-	24,987
	<hr/>	<hr/>
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 (Note 6)	100,000	111,000
	<hr/>	<hr/>
Balance, December 31, 2006	<u>20,573,647</u>	<u>\$ 21,430,270</u>

Private placements

On July 7, 2006 the company closed a funding through a non-brokered private placement and a brokered private placement consisting in total of 2,804,021 units at a price of \$1.15 per unit for net proceeds of \$2,976,984. Each unit entitles the holder to one common share and one-half share purchase warrant with one whole warrant being exercisable into one additional common share for a period of one year at a price of \$1.40 per share. The company paid an agent fee of 8% of the gross proceeds on the brokered private placement in a combination of cash and 18,000 units. In addition, the agent received a corporate finance fee of 40,000 units and 170,500 agent's warrants with the same terms as the warrants in the private placements. The total fair value of the share purchase warrants issued for the non-brokered and brokered private placements was estimated at \$542,406 or \$0.38 per share purchase warrant. The fair value of the 170,500 agent's warrants was estimated at \$69,363. The company paid a finder's fee on the non-brokered private placement of approximately 8% cash commission on the gross proceeds received from the sale of the units in the non-brokered private placement.

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8. Share capital and contributed surplus (Continued)

On February 1, 2006, the company closed a private placement consisting of 353,117 units at a price of \$0.85 per unit for net proceeds of \$287,650 of which \$100,000 was received in 2005. Each unit consisted of one common share and one share purchase warrant, every two warrants being exercisable into one additional common share for a period of two years at a price of \$1.00 per share in the first year and \$1.20 per share in the second year. The fair value of the share purchase warrants issued was estimated at \$134,186 or \$0.76 per share purchase warrant. A finder's fee of \$12,500 was paid.

During the third quarter of 2005 the company completed a private placement. The private placement consisted of 3,000,000 units at a price of \$0.65 per unit for net proceeds of \$1,950,000. Each unit consisted of one common share and one-half share purchase warrant with one whole warrant being exercisable into one additional common share for a period of two years at a price of \$0.83 per share.

During the second quarter of 2005 the company completed a private placement. The private placement consisted of 93,000 units at a price of \$0.60 per unit for net proceeds of \$55,800. Each unit consisted of one common share and one share purchase warrant, every two warrants being exercisable into one additional common share for a period of two years at a price of \$0.60 per share in the first year and \$0.75 per share in the second year.

The fair value of the share purchase warrants issued in 2005 under the private placements was estimated at \$1,277,916.

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.

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For the Years Ended December 31, 2006 and 2005

8. Share capital and contributed surplus (Continued)

Stock options (Continued)

Stock option activity for the respective years is as follows:

	December 31, 2006		December 31, 2005	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Options outstanding, beginning of year	1,300,000	\$ 0.59	530,000	\$ 0.47
Granted	325,000	\$ 1.26	825,000	\$ 0.66
Exercised	(125,000)	\$ 0.44	(55,000)	\$ 0.50
Cancelled	(15,000)	\$ 0.50	-	-
Options outstanding, end of year	<u>1,485,000</u>	\$ 0.75	<u>1,300,000</u>	\$ 0.59
Options exercisable, end of year	<u>1,372,500</u>	\$ 0.66	<u>1,300,000</u>	\$ 0.59

The weighted average remaining contractual life of the options outstanding at December 31, 2006 was 2.88 years (2005 – 3.86 years).

The weighted average grant date fair value of options granted during the year was \$0.93 (2005 - \$0.60). The exercise price of the options granted during the years ended December 31, 2006 and 2005 equals the market price of the company's stock on the date of grant.

During the year ended December 31, 2006 the company recognized \$203,164 (2005 - \$518,969) 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:

	2006	2005
Risk-free interest rate	4.0%	4.0%
Dividend yield	Nil	Nil
Expected volatility	139%	173%
Expected option life	3.31 years	5 years

Warrants

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

	2006	2005
Warrants outstanding, beginning of year	3,477,850	4,347,269
Issued	1,778,068	1,546,500
Exercised	(1,266,625)	(2,353,423)
Expired	(701,925)	(62,496)
Warrants outstanding, end of year	<u>3,287,368</u>	<u>3,477,850</u>

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8. Share capital and contributed surplus (Continued)

Full share equivalent warrants outstanding and exercisable at December 31, 2006:

<u>Description</u>	Number of Full Share Equivalent Warrants	Price Per Share	Expiry Date	Year of Grant	Average Remaining Contractual Life (Years)
Warrants	9,300	\$ 0.60	April 20, 2007	2005	0.30
Warrants	1,500,000	0.83	September 25, 2007	2005	0.73
Warrants	176,559	1.00	February 1, 2008	2006	1.09
Warrants	<u>1,601,509</u>	1.40	July 7, 2007	2006	0.52
	<u>3,287,368</u>	<u>\$ 1.12</u>			<u>0.59</u>

Contributed surplus	2006	2005
Balance, beginning of year	\$ 767,234	\$ 273,252
Stock-based compensation	203,164	518,969
Fair value of of options exercised	<u>(53,935)</u>	<u>(24,987)</u>
Balance, end of year	<u>\$ 916,463</u>	<u>\$ 767,234</u>

9. Change in non-cash operating working capital	2006	2005
Receivables	\$ (366,538)	\$ (38,325)
Prepays	10,007	(35,330)
Payables and accruals	<u>(33,882)</u>	<u>50,314</u>
	<u>\$ (390,413)</u>	<u>\$ (23,341)</u>

10. 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.

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10. Commitments (Continued)

This Cooperation Agreement was entered as part of Gold Mountain's 2005 investment of \$1,950,000 in the Company (Note 8).

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.

11. Related party transactions

During 2006, the company incurred fees of \$188,000 (2005 - \$189,000) with directors for management consulting services. \$126,776 of this amount has been included in management services expense on the statement of operations and deficit and \$61,224 included in the Silver Coin project general administration expense.

During 2006, the company incurred consulting fees of \$45,209 (2005 - \$30,411) with directors for geological and mining engineering services. This amount has been included in consulting services expense on the statement of operations and deficit.

Included in payables is an amount of \$4,213 (2005 - \$586) owed to directors of the company.

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. During 2006, these reimbursements totaled \$75,000 (2005: \$62,500). Lincoln and the company have three directors in common.

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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Notes to the Consolidated Financial Statements

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12. Income taxes

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

	2006	2005
Loss before income taxes	\$ <u>(1,463,311)</u>	\$ <u>(1,237,082)</u>
Effective tax rate	<u>34.12%</u>	<u>34.9%</u>
Expected tax (recovery) provision	\$ (499,000)	\$ (431,000)
Resource loss	31,000	24,000
Other	(1,000)	-
Stock-based compensation	69,000	185,000
Change in valuation allowance	<u>400,000</u>	<u>65,111</u>
	\$ <u>-</u>	\$ <u>(156,889)</u>

Future income tax assets are calculated as follows:

	2006	2005
Future income tax assets relate to:		
Loss carryforwards	\$ 1,017,000	\$ 648,000
Expenses deductible in the following taxation year	39,000	-
Accumulated mineral property expenditures	94,000	177,000
Capital assets and other	25,000	2,000
Financing costs	<u>150,000</u>	<u>70,000</u>
	1,325,000	897,000
Valuation allowance	<u>(1,325,000)</u>	<u>(897,000)</u>
	\$ <u>-</u>	\$ <u>-</u>

As at December 31, 2006, the company has non-capital loss carry forwards of \$2,981,000 (2005: \$1,900,000) available to reduce income otherwise taxable in future years. These losses if not used will expire as follows:

December 31, 2007	\$ 231,000
December 31, 2008	37,000
December 31, 2010	14,000
December 31, 2014	668,000
December 31, 2015	867,000
December 31, 2026	<u>1,164,000</u>
	\$ <u>2,981,000</u>

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006 and 2005

12. Income taxes (Continued)

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

13. 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 and China expose the company to foreign exchange risk. The company does not enter into derivative financial instruments to mitigate this risk.

14. 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 China and Mexico as disclosed in Note 6.

The company operates in three geographical segments: Canada, China and Mexico. Corporate administrative activities are conducted from Canada. The expenses for the years ended December 31, 2006 and December 31, 2005 and the assets at the end of those years identifiable to these segments are as follows:

	<u>Canada</u>	<u>China</u>	<u>Mexico</u>	<u>Corporate</u>	<u>Total</u>
Assets					
December 31, 2006	\$ 4,227,895	\$ 932,066	\$ 112,808	\$ 3,168,986	\$ 8,441,755
December 31, 2005	2,293,505	1,080,610	-	2,042,045	5,416,160
Net loss					
Year ended					
December 31, 2006	-	(148,544)	-	(1,314,767)	(1,463,311)
Year ended					
December 31, 2005	-	-	-	(1,237,082)	(1,237,082)

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15. Comparative amounts

Certain comparative amounts have been reclassified from statements previously presented to conform to the presentation adopted in the current year.