

**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Consolidated Financial Statements**  
December 31, 2007 and 2006

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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 principles 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  
April 29, 2008

## 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, 2007 and 2006 and the consolidated statements of operations, deficit and comprehensive loss 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, 2007 and 2006 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 11, 2008, except for note 16 which is as of  
April 24, 2008

Chartered Accountants

# Pinnacle Mines Ltd.

## (A development stage enterprise)

### Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 2,220,087	\$ 2,650,661
Cash held in trust (Note 6)	-	932,066
Investments held in the short term (Note 3)	286,803	148,685
Receivables (Note 4)	610,963	298,729
Prepays	45,813	30,942
	<u>3,163,666</u>	<u>4,061,083</u>
Environmental reclamation deposits (Note 5)	40,000	15,000
Mineral property interests (Note 6)	6,104,241	4,340,703
Equipment (Note 7)	107,217	24,969
	<u>\$ 9,415,124</u>	<u>\$ 8,441,755</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 443,291	\$ 151,032
<b>Shareholders' Equity</b>		
Share capital (Note 8)	23,547,649	21,430,270
Contributed surplus (Note 8)	1,269,878	916,463
Accumulated other comprehensive loss (Note 9)	(175,997)	-
Deficit	(15,669,697)	(14,056,010)
	<u>8,971,833</u>	<u>8,290,723</u>
	<u>\$ 9,415,124</u>	<u>\$ 8,441,755</u>

Nature of operations and going concern (Note 1)

Commitments (Note 11)

Subsequent events (Note 16)

#### 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,**  
**Deficit and Comprehensive Loss**

Years ended December 31	2007	2006
General and administrative expenses		
Amortization	\$ 25,390	\$ 8,092
Consulting services (Note 12)	127,002	201,018
Foreign exchange loss	151,387	103,422
Management services (Note 12)	205,294	126,776
Investor relations	197,778	275,609
Professional fees		
Accounting and audit	89,670	54,815
Legal	68,624	58,689
Office (Note 12)	117,079	102,736
Rent (Note 12)	48,264	43,620
Salaries and benefits	87,728	83,431
Shareholder services	41,094	53,893
Stock-based compensation (Note 8)	355,795	203,164
Travel	81,714	173,956
	<u>1,596,819</u>	<u>1,489,221</u>
Loss before undernoted income (expenses)	<u>(1,596,819)</u>	<u>(1,489,221)</u>
Write-down of mineral property interests (Note 6)	(259,038)	(18,942)
Property investigations	(31,170)	(41,187)
Loss on sale of investments held in the short term	(6,096)	-
Interest and miscellaneous income	60,108	86,039
Gain on sale of mineral property interests (Note 6(d))	219,328	-
	<u>(16,868)</u>	<u>25,910</u>
Net loss	<u>\$ (1,613,687)</u>	<u>\$ (1,463,311)</u>
Loss per share, basic and diluted	<u>\$ (0.07)</u>	<u>\$ (0.08)</u>
Weighted average common shares outstanding	<u>21,809,620</u>	<u>18,140,136</u>
Deficit, beginning of year	\$ (14,056,010)	\$ (12,592,699)
Net loss	<u>(1,613,687)</u>	<u>(1,463,311)</u>
Deficit, end of year	<u>\$ (15,669,697)</u>	<u>\$ (14,056,010)</u>
Net loss	\$ (1,613,687)	\$ (1,463,311)
Other comprehensive loss		
Unrealized loss on available-for-sale investments	<u>(185,899)</u>	<u>-</u>
Comprehensive loss	<u>\$ (1,799,586)</u>	<u>\$ (1,463,311)</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	2007	2006
Cash derived from (used in)		
<b>Operating activities</b>		
Net loss for the year	\$ (1,613,687)	\$ (1,463,311)
Amortization	25,390	8,092
Loss on investments held in short term	6,096	-
Gain on disposition of mineral property interests	(219,328)	-
Stock-based compensation	355,795	203,164
Write-down of mineral properties	259,038	18,942
Change in non-cash operating working capital (Note 10)	6,134	(390,413)
	<u>(1,180,562)</u>	<u>(1,623,526)</u>
<b>Financing activities</b>		
Shares issued for cash, net of costs	1,899,499	4,286,465
<b>Investing activities</b>		
Mineral property expenditures		
Environmental reclamation deposit	(25,000)	(5,000)
Exploration expenditures	(2,182,959)	(1,955,140)
Acquisition costs	(109,000)	-
Recovery of acquisition costs	-	1,080,610
Proceeds on sale of investments held in short term	24,789	-
Purchase of equipment	(107,638)	(4,263)
Due from director (Note 5)	-	4,000
Change in working capital item related to investing transactions	318,231	(77,841)
	<u>(2,081,577)</u>	<u>(957,634)</u>
Net (decrease) increase in cash and cash equivalents	(1,362,640)	1,705,305
Cash and cash equivalents		
Beginning of year	3,582,727	1,877,422
End of year	<u>\$ 2,220,087</u>	<u>\$ 3,582,727</u>
<b>Cash and cash equivalents comprises:</b>		
Cash	\$ 1,970,087	\$ 1,400,661
Cashable guaranteed investment certificates	250,000	1,250,000
	<u>\$ 2,220,087</u>	<u>\$ 2,650,661</u>
Cash held in trust	-	932,066
	<u>\$ 2,220,087</u>	<u>\$ 3,582,727</u>
<b>Non-cash investing and financing transactions not included in cash flows:</b>		
Investments held in the short term received to settle debt	\$ -	\$ 124,185
Investments held in the short term received upon sale of mineral property interests	\$ 345,000	\$ -
Mineral exploration tax credit accrued	\$ 359,211	\$ -
Shares issued for acquisition of mineral property	\$ 215,500	\$ 111,000

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**

For the Years Ended December 31, 2007 and 2006

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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 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 \$1,613,687 for the year ended December 31, 2007 and has an accumulated deficit of \$15,669,697 at December 31, 2007. The recoverability of the amounts shown for mineral property interests in the company's consolidated 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.

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#### **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. All material intercompany accounts and transactions between the company and its subsidiary have been eliminated.

##### **Use of estimates**

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.

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **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 fair market value. Changes in fair market value are recognized in the statement of operations and the statement of comprehensive income.

##### **Changes in accounting policies**

Effective January 1, 2007, the company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income, CICA Handbook Section 3251, Equity, CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation and CICA Handbook Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, non-financial derivatives and hedge accounting.

Handbook Section 1530, Comprehensive Income, establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Handbook Section 3251, Equity, establishes standards for the presentation of equity in the reporting period.

Handbook Section 3855, Financial Instruments - Recognition and Measurement, establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and non-financial derivatives. It requires that financial instruments be classified into one of following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification.

The Company has implemented the following classifications:

- i) Cash and cash equivalents are classified as held for trading and are measured at fair value.
- ii) Investments held in the short term are classified as available-for-sale and are measured at fair value.
- iii) Receivables are classified as loans and receivables and are measured at amortized cost.
- iv) Payables and accruals are classified as other financial liabilities and are recorded at amortized cost.

Handbook Section 3861, Financial Instruments – Disclosures and Presentation, establishes standards for presentation of financial instruments, namely financial assets, financial liabilities and non-financial derivatives.

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **2. Summary of significant accounting policies (Continued)**

Handbook Section 3865, Hedges, specifies how to apply hedge accounting and the needed disclosures when it is applied.

These new standards have been adopted with no restatement of prior periods.

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.

#### **Comprehensive Income**

Handbook Section 1530 "Comprehensive Income" requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings. 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 \$9,902 has been included in accumulated other comprehensive income.

#### **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.

#### **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.

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **2. Summary of significant accounting policies (Continued)**

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

The amounts shown for mineral properties and related costs represent acquisition, holding and exploration costs and 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 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 practice for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

#### **Asset retirement obligations**

The company recognizes the fair value of 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, 2007 and 2006, the company did not have any asset retirement obligations.

#### **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.

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **2. Summary of significant accounting policies (Continued)**

##### **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 value of the net assets or equity interests acquired for such issuance.

##### **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 and increase future income taxes.

##### **Loss per share**

Loss per common share is calculated by dividing the net loss for the year by the denominator representing the weighted average number of common shares outstanding during the year. 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 year, and that the company will use the proceeds to purchase its common shares at their average market price during the year. The purchased shares reduce the number of shares issued upon exercise of the options and this net number of shares is included in the initial 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.

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **2. Summary of significant accounting policies (Continued)**

##### **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.

##### **Recent pronouncements in accounting standards**

- (i) Handbook Section 1400, General Standards of Financial Statement Presentation, was amended to include the requirements for assessing and disclosing an entity's ability to continue as a going concern.

This section is applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier adoption encouraged. The company will adopt this Section in fiscal 2008 but this will not have an impact on the financial statement disclosures as the company is currently complying with this requirement.

- (ii) Handbook Section 1535, Capital Disclosures, requires additional disclosure about capital. The standard is applicable to all entities, regardless of whether they have financial instruments.

Entities are required to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements, where they may exist.

This section is applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, with earlier adoption encouraged. The company will adopt this Section in fiscal 2008. Additional disclosure will be provided in the company's financial statements upon adoption of this section.

- (iii) Handbook Section 3031, Inventories, replaces Handbook Section 3030, Inventories.

This Section provides guidance on the determination of cost, including allocation of overheads and other costs to inventory, allocation of fixed production overhead based on normal capacity levels, with unallocated overhead expensed as incurred. The Section requires the consistent use (by type of inventory with similar nature and use) of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories. The use of the last-in, first-out (LIFO) formula to measure the cost of inventories is no longer acceptable. Under this Section, when the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed, but the reversal is limited to the amount of the original write-down. This Section also includes expanded disclosure requirements.

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **2. Summary of significant accounting policies (Continued)**

This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. When applying this Section for the first time, an entity can either apply this Section to the opening inventory for the period and adjusts opening retained earnings by the difference in the measurement of opening inventory (prior periods are not restated) or to retrospectively and restates prior periods in accordance with Handbook Section 1506, Accounting Changes. The company will adopt this Section in fiscal 2008.

The impact that this Section will have on the company's financial position and results of operations is not known.

- (iv) Handbook Section 3064, Goodwill and Intangible Assets, replaces Handbook Sections 3062, Goodwill and Other Intangible Assets and 3450, Research and Development Costs

This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Certain items are specifically excluded from the scope of the Section including the initial recognition, measurement and disclosure of goodwill and intangible assets acquired in a business combination, the establishment of a new cost basis for intangible assets as part of a comprehensive revaluation, intangible assets held by an entity for sale in the ordinary course of business, non-current intangible assets classified as held for sale or included in a disposal group that is classified as held for sale, etc.

Rights under licensing agreements for items such as patents and copyrights are within the scope of this Section. This Section also applies to, among other things, expenditure on advertising, training, start-up and research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance, for example, a prototype, the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.

This Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Earlier adoption is encouraged. The company will adopt this Section in fiscal 2009.

The impact that this Section will have on the company's financial position and results of operations is not known.

- (v) Handbook Section 3862, Financial Instruments – Disclosures

Section 3862 replaces the disclosure requirements of previous Section 3861 *Financial Instruments – Disclosure and Presentation*. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The company will adopt this Section in fiscal 2008.

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# Pinnacle Mines Ltd.

## (A development stage enterprise)

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2007 and 2006

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#### 2. Summary of significant accounting policies (Continued)

(vi) Handbook Section 3863, Financial Instruments – Presentation

Section 3863 is consistent with previous Section 3861. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The company will adopt this Section in fiscal 2008.

(vii) EIC-166 – Accounting Policy Choice for Transaction Costs

Handbook Paragraph 3855.57 requires that when an entity acquires a financial asset or incurs a financial liability classified other than as held for trading, it adopts an accounting policy for transaction costs of either:

- (a) recognizing all transaction costs in net income; or
- (b) adding transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to its initial carrying amount.

The accounting treatment from this abstract is that the same accounting policy choice should be made for all similar financial instruments classified as other than held for trading, but that a different accounting policy choice might be made for financial instruments that are not similar.

This Abstract applies retrospectively to transaction costs accounted for in accordance with Section 3855 in financial statements issued for interim and annual periods ending on or after September 30, 2007, with earlier adoption encouraged.

The impact that this Abstract will have on the company's financial position and results of operations is not known.

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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>Fair Value</u>
December 31, 2007			
Mountain Boy Minerals Ltd.	988,975	\$ <u>462,800</u>	\$ <u>286,803</u>
December 31, 2006			
Mountain Boy Minerals Ltd.	304,975	\$ <u>148,685</u>	\$ <u>158,587</u>

During 2007, the company received 750,000 shares of Mountain Boy Minerals Ltd. ("Mountain Boy") as consideration for the sale of the company's BA property (See Note 6(d)).

During 2006, the company entered into an agreement with 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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**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
**Notes to the Consolidated Financial Statements**  
For the Years Ended December 31, 2007 and 2006

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**4. Receivables**

Included in receivables is mineral exploration tax credits of \$359,211 (2006-nil).

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**5. Environmental reclamation deposits**

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

	<u>2007</u>	<u>2006</u>
Silver Coin reclamation bond	\$ 30,000	\$ 10,000
Surprise Creek reclamation bond	<u>10,000</u>	<u>5,000</u>
	<u>\$ 40,000</u>	<u>\$ 15,000</u>

# Pinnacle Mines Ltd.

## (A development stage enterprise)

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2007 and 2006

#### 6. Mineral property interests

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

	Canada	China	Mexico	Total
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 and imagery	18,760	-	-	18,760
Maintenance	20,201	-	-	20,201
Field supplies	66,461	-	-	66,461
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
Acquisition costs	109,000	-	215,500	324,500
Exploration expenditures				
Geochemistry	924	-	22,379	23,303
Drilling and metallurgical	525,036	-	651,571	1,176,607
Environmental permitting	7,735	-	17,410	25,145
Geological & engineering	107,909	-	211,464	319,373
Helicopter	127,545	-	-	127,545
General administration and shipping	16,657	-	141,348	158,005
Geologic mapping and imagery	5,198	-	1,082	6,280
Maintenance	14,890	-	49,375	64,265
Field supplies	23,810	-	14,870	38,680
Resource estimation	33,570	-	-	33,570
Reclamation	3,913	-	-	3,913
Travel and accommodation	45,705	-	160,568	206,273
Properties written-down	-	-	(259,038)	(259,038)
Mineral exploration tax credit	(359,211)	-	-	(359,211)
Sale of mineral property	(125,672)	-	-	(125,672)
Balance, December 31, 2007	\$ 4,764,904	\$ -	1,339,337	\$ 6,104,241

**Pinnacle Mines Ltd.**  
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**Notes to the Consolidated Financial Statements**  
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**6. Mineral property interests (Continued)**

**Canada**

	Silver Coin and Kansas	Surprise Creek	BA	Other	Total
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 and imagery	14,593	-	667	3,500	18,760
Maintenance	4,911	11,766	1,940	1,584	20,201
Field supplies	63,328	2,019	56	1,058	66,461
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
Acquisition costs	-	-	109,000	-	109,000
Exploration expenditures					
Geochemistry	924	-	-	-	924
Drilling and metallurgical	237,111	287,925	-	-	525,036
Environmental permitting	7,735	-	-	-	7,735
Geological & engineering	84,486	22,938	485	-	107,909
Helicopter	1,527	126,018	-	-	127,545
General admin and shipping	9,067	404	-	7,186	16,657
Geologic mapping and imagery	4,648	550	-	-	5,198
Maintenance	4,543	9,847	-	500	14,890
Field supplies	2,486	20,939	-	385	23,810
Resource estimation	33,570	-	-	-	33,570
Travel and accommodation	23,309	23,764	(1,368)	-	45,705
Reclamation	3,913	-	-	-	3,913
Mineral exploration tax credit	(359,211)	-	-	-	(359,211)
Sale of mineral property (Note 6(d))	-	-	(125,672)	-	(125,672)
Balance, December 31, 2007	\$ 3,789,725	\$ 962,136	\$ -	\$ 13,043	\$ 4,764,904

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# Pinnacle Mines Ltd.

## (A development stage enterprise)

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2007 and 2006

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#### 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 these 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 in 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 October 15, 2004	\$	250,000 (incurred)
by October 15, 2005		500,000 (incurred)
by October 15, 2006		1,000,000 (incurred)
	\$	<u>1,750,000</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 positive feasibility study has to be completed by April 24, 2010.

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 with Mountain Boy, Mountain Boy will be participating in the Kansas property and is entitled to a 49% interest in 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 (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.

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **6. Mineral property interests (Continued)**

##### **(c) Surprise Creek Property**

On July 30, 2005 the company entered into an agreement to acquire a 100% interest in three 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 through the issuance of 150,000 shares and payment of \$4,000 cash upon receiving regulatory approval.

At the same time the company agreed to sell a 50% interest in the BA 1 - 10 claims to Mountain Boy for a 50% interest in the Stro 1 - 3 claims and a net payment of \$45,000 to be received from Mountain Boy. The Stro claims are adjacent to the BA claims. Mountain Boy further agreed to carry out a limited drill program of 800 meters on the property. This drill program was completed in 2006.

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

On June 14, 2007 the company entered into an agreement to sell its interest in the BA claims to Mountain Boy in return for 750,000 shares of Mountain Boy which were valued at the quoted market price at the date of receipt. A gain on sale of mineral properties of \$219,328 was recognized as a result of this transaction.

#### **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.

In February 2007, 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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**Pinnacle Mines Ltd.**  
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**Notes to the Consolidated Financial Statements**  
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**6. Mineral property interests (Continued)**

**Mexico**

	Tuligtic	La Calavera	Rio Minas	Total
Balance, December 31, 2005	\$ -	\$ -	\$ -	\$ -
Acquisition costs	111,000	-	-	111,000
Exploration expenditures				
Geological & engineering	452	-	-	452
General administration	1,356	-	-	1,356
Balance, December 31, 2006	112,808	-	-	112,808
Acquisition costs	-	107,750	107,750	215,500
Exploration expenditures				
Geochemistry	2,953	-	19,426	22,379
Drilling and metallurgical	115	650,400	1,056	651,571
Environmental permitting	8,910	8,500	-	17,410
Geological & engineering	41,292	159,601	10,571	211,464
General admin and shipping	24,224	68,304	48,820	141,348
Geologic mapping and imagery	867	20	195	1,082
Maintenance	37,252	5,624	6,499	49,375
Field supplies	1,450	10,297	3,123	14,870
Travel and accommodation	29,167	102,910	28,491	160,568
Properties written-down	(259,038)	-	-	(259,038)
Balance, December 31, 2007	\$ -	\$ 1,113,406	\$ 225,931	\$ 1,339,337

**(e) Tuligtic Project**

On July 24, 2006 the company signed an option agreement with Almaden Minerals Ltd. ("Almaden") whereby the company can acquire up to a 60% interest in the Tuligtic Project located in the State of Puebla, Mexico by undertaking a work program on the Tuligtic Project aggregating US\$6,000,000 and issuing an aggregate of 1,000,000 shares. The exploration expenditures and share issuance agreed to are as follows:

# Pinnacle Mines Ltd.

## (A development stage enterprise)

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2007 and 2006

#### 6. Mineral property interests (Continued)

##### (e) Tuligtic Project (Continued)

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\$ 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

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

##### (f) 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 property located in Oaxaca, Mexico by undertaking a work program on the La Calavera – Rio Minas properties aggregating US\$6,000,000, paying US\$1,300,000 and issuing an aggregate of 500,000 shares. In order to earn a 51% interest in the property, the exploration expenditures, cash and share issuance agreed to are as follows:

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

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

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**Pinnacle Mines Ltd.**  
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**Notes to the Consolidated Financial Statements**

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

**(f) La Calavera and Rio Minas** (Continued)

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

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**7. Equipment**

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

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**Pinnacle Mines Ltd.**  
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**Notes to the Consolidated Financial Statements**  
For the Years Ended December 31, 2007 and 2006

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**8. Share capital and contributed surplus**

	<u>Common Shares</u>	
<b>Authorized:</b>		
Unlimited number of common shares without par value		
	<u>Number</u>	<u>Amount</u>
<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
Brokered Private placement, net of share issue costs \$192,621	4,060,000	1,837,379
Issued for mineral properties (Note 6)	<u>400,000</u>	<u>215,500</u>
Balance, December 31, 2007	<u>25,123,647</u>	<u>\$ 23,547,649</u>

**Private placements**

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 for net proceeds of \$1,837,379. 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 non flow-through share for a period of eighteen months at a price of \$1.00 per share. The fair value of the share purchase warrants was estimated at \$88,940. The agent received a commission of \$110,000 and 60,000 units with the same terms as the offering except that the agent's units are non flow-through. The fair value of the 30,000 agent's warrants was estimated at \$1,334. In addition, the agent received 320,000 compensation options with each agent's option exercisable into one common share at a price of \$0.60 for a period of eighteen months. The fair value of these options was estimated at \$26,120.

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **8. Share capital and contributed surplus (Continued)**

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.

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.

#### **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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**Pinnacle Mines Ltd.**  
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**8. Share capital and contributed surplus (Continued)**

**Stock options (Continued)**

Stock option activity for the respective years is as follows:

	December 31, 2007		December 31, 2006	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Options outstanding, beginning of year	1,485,000	\$ 0.75	1,300,000	\$ 0.59
Granted	1,000,000	\$ 0.40	325,000	\$ 1.26
Exercised	(90,000)	\$ 0.40	(125,000)	\$ 0.44
Expired	(50,000)	\$ 0.50	-	\$ -
Cancelled	(595,000)	\$ 0.99	(15,000)	\$ 0.50
Options outstanding, end of year	<u>1,750,000</u>	\$ 0.49	<u>1,485,000</u>	\$ 0.75
Options exercisable, end of year	<u>1,581,250</u>	\$ 0.50	<u>1,372,500</u>	\$ 0.66

The weighted average remaining contractual life of the options outstanding at December 31, 2007 was 3.56 years (2006 – 2.88 years).

The weighted average grant date fair value of options granted during the year was \$0.31 (2006 - \$0.93). The exercise price of the options granted during the years ended December 31, 2007 and 2006 equals the market price of the company's stock on the date of grant.

During the year ended December 31, 2007 the company recognized \$355,795 (2006 - \$203,164) 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>	<u>2006</u>
Risk-free interest rate	3.99%	4.0%
Dividend yield	Nil	Nil
Expected volatility	101.68%	139%
Expected option life	5.0 years	3.31 years

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**Pinnacle Mines Ltd.**  
**(A development stage enterprise)**  
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**8. Share capital and contributed surplus (Continued)**

**Warrants**

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

	December 31, 2007		December 31, 2006	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Warrants outstanding, beginning of year	3,287,368	\$ 1.12	3,477,850	\$ 0.84
Issued	2,030,000	\$ 1.00	1,778,068	\$ 1.34
Exercised	-	\$ -	(1,266,625)	\$ 0.85
Expired	(3,110,809)	\$ 1.12	(701,925)	\$ 0.85
Warrants outstanding, end of year	<u>2,206,559</u>	\$ 1.02	<u>3,287,368</u>	\$ 1.12

Full share equivalent warrants outstanding and exercisable at December 31, 2007:

<u>Description</u>	<u>Number of Full Share Equivalent Warrants</u>	<u>Price Per Share</u>	<u>Expiry Date</u>	<u>Year of Grant</u>	<u>Average Remaining Contractual Life (Years)</u>
Warrants	176,559	\$ 1.20	February 1, 2008	2006	0.09
Warrants	2,000,000	\$ 1.00	April 9, 2009	2007	1.27
Warrants	<u>30,000</u>	\$ 1.00	April 9, 2009	2007	1.27
	<u>2,206,559</u>				

**Agent's options**

The company had 320,000 agent's options outstanding and exercisable at December 31, 2007 (2006 – nil). Each option entitles the agent to acquire one common share of the company at \$0.60 until April 9, 2009. The fair value of these agent options was estimated at \$26,120.

<b>Contributed surplus</b>	<u>2007</u>	<u>2006</u>
Balance, beginning of period	\$ 916,463	\$ 767,234
Stock-based compensation	355,795	203,164
Fair value of agent's options	26,120	-
Fair value of of options exercised	<u>(28,500)</u>	<u>(53,935)</u>
Balance, end of period	<u>\$ 1,269,878</u>	<u>\$ 916,463</u>

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**Pinnacle Mines Ltd.**  
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**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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<b>9. Accumulated other comprehensive loss</b>	December 31,
	<u>2007</u>
Balance, beginning of year	\$ -
Unrealized gains on available-for-sale investments at January 1, 2007	9,902
Unrealized loss on available-for-sale investments in the year	<u>(185,899)</u>
Balance, end of year	\$ <u>(175,997)</u>

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<b>10. Change in non-cash operating working capital</b>	<u>2007</u>	<u>2006</u>
Receivables	\$ 46,977	\$ (366,538)
Prepays	(14,871)	10,007
Payables and accruals	<u>(25,972)</u>	<u>(33,882)</u>
	\$ <u>6,134</u>	\$ <u>(390,413)</u>

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**11. 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 2008 and 2009 of \$95,047 each year and in 2010 of \$15,842.
- (b) During 2005, the company entered into a Cooperation Agreement with Gold Mountain (H.K.) International Mining Co. Ltd. ("Gold Mountain") a Hong Kong based subsidiary of Zijin Mining Group Co. Ltd. ("Zijin"), a gold and copper producer in China.

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

Under the Cooperation Agreement, Gold Mountain and Zijin agree to offer and select as yet 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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**12. Related party transactions**

During 2007, the company incurred fees of \$205,294 (2006 - \$188,000) with directors for management consulting services. This amount has been included in management services expense on the statement of operations. In 2006 \$126,776 of the amount was included in management services expense on the statement of operations and \$61,224 was included in the Silver Coin project general administration expense.

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# Pinnacle Mines Ltd.

## (A development stage enterprise)

### Notes to the Consolidated Financial Statements

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#### 12. Related party transactions (Continued)

During 2007, the company incurred consulting fees of \$1,400 (2006 - \$45,209) with directors for geological and mining engineering services. This amount has been included in consulting services expense on the statement of operations.

Included in payables is an amount of \$9,313 (2006 - \$4,213) owed to directors and officers of the company.

The company shares office space with Lincoln Gold Corp and Southern Gold Resources Ltd. Lincoln and Southern Gold reimburse each month to the company a portion of the rent and office expenses. During 2007, these reimbursements totaled \$51,845 (2006: \$75,000). Lincoln and the company have two 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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#### 13. Income taxes

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

	2007	2006
Loss before income taxes	\$ (1,613,687)	\$ (1,463,311)
Effective tax rate	31.5%	34.1%
Expected tax recovery	\$ (508,000)	\$ (499,000)
Resource loss	-	31,000
Other	2,000	(1,000)
Stock-based compensation	112,000	69,000
Change in valuation allowance	394,000	400,000
	\$ -	\$ -

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**Pinnacle Mines Ltd.**  
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**Notes to the Consolidated Financial Statements**  
For the Years Ended December 31, 2007 and 2006

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**13. Income taxes** (Continued)

Future income tax assets are calculated as follows:

	2007	2006
Future income tax assets relate to:		
Loss carryforwards	\$ 1,242,000	\$ 1,017,000
Unrealized loss on investments held in the short term	28,000	-
Foreign exchange translation differences	(13,000)	39,000
Accumulated mineral property expenditures	240,000	94,000
Capital assets and other	23,000	25,000
Financing costs	<u>130,000</u>	<u>150,000</u>
	1,650,000	1,325,000
Valuation allowance	<u>(1,650,000)</u>	<u>(1,325,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 2007, the company has non-capital loss carry forwards of \$3,942,000 (2006: \$2,981,000) available to reduce income otherwise taxable in future years. These losses if not used will expire as follows:

December 31, 2008	37,000
December 31, 2010	14,000
December 31, 2014	668,000
December 31, 2015	867,000
December 31, 2026	1,164,000
December 31, 2027	<u>1,192,000</u>
	<u>\$ 3,942,000</u>

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.

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# Pinnacle Mines Ltd.

## (A development stage enterprise)

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2007 and 2006

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#### 14. Financial instruments

##### (a) Fair value

Carrying value and fair value of financial assets and liabilities at December 31, 2007 are summarized as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
Held-for-trading	\$ 2,220,087	\$ 2,220,087
Available-for-sale	286,803	286,803
Loans and receivables	610,963	610,963
Other financial liabilities	443,291	443,291

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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#### 15. Segmented disclosure

The company has one operating segment which is mineral exploration and all capital assets of the company are located in Canada except for certain of its mineral properties and equipment located in Mexico as disclosed in Note 6.

The company operates in two geographical segments: Canada and Mexico, and in 2006 China. Corporate administrative activities are conducted from Canada. The expenses for the years ended December 31, 2007 and December 31, 2006 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>
<b>Assets</b>					
December 31, 2007	\$ 4,764,904	\$ -	\$ 1,379,030	\$ 3,271,190	\$ 9,415,124
December 31, 2006	4,227,895	932,066	112,808	3,168,986	8,441,755
<b>Net loss</b>					
Year ended					
December 31, 2007	-	-	-	(1,613,687)	(1,613,687)
Year ended					
December 31, 2006	-	(148,544)	-	(1,314,767)	(1,463,311)

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# **Pinnacle Mines Ltd.**

## **(A development stage enterprise)**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006

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#### **16. Subsequent events**

- (a) On February 28, 2008 the Company granted 70,000 stock options to consultants vesting one-quarter immediately and one-quarter each six months thereafter exercisable for a term of one year.
- (b) On April 3, 2008 the company closed the first tranche of a funding through a non-brokered private placement and a brokered private placement consisting of 4,715,000 units at a price of \$0.20 per unit for gross proceeds of \$943,000. Each unit entitles the holder to one common share and one-half share purchase warrant with one whole warrant being exercisable into one additional common share for a period of one year at a price of \$0.30 per share. The company paid an agent fee of \$52,500 of the brokered placement and granted 350,000 agent compensation options. Each agent's option is exercisable into one additional unit at a price of \$0.20 for one year. The company also paid finders' fees of \$17,100 in cash and 80,250 compensation options with each compensation option exercisable into one additional unit at a price of \$0.20 for one year.

On April 24, 2008 the company revised the financing from the original announced financing of up to 8,500,000 units to the one tranche of 4,715,000 units and included the payment in connection with a financial advisory agreement to the Agent of 93,750 units with same terms as the private placement.

- (c) On April 15, 2008 the company entered into a binding letter agreement whereby the company will purchase Tenajon Resources Corp's ("Tenajon") wholly owned subsidiary, 0781639 B.C. Ltd. which holds an undivided 40% ownership interest in the Kansas property and a 100% ownership interest in the Summit Lake property. On closing the acquisition the company will issue to Tenajon 13,500,000 common shares of the company and reimburse Tenajon \$200,000 of reclamation deposits. The shares are subject to a four month hold period from the date of issuance. Tenajon has agreed to grant to the company a voting proxy on all the company shares issued to Tenajon which will expire on the completion of the distribution to the Tenajon shareholders. The company was also granted an option to purchase the 3% net smelter royalty held by Tenajon on the Summit Lake property by paying \$115,000.

Upon receiving regulatory approval the company will issue 93,750 units to the Agent with the same terms as the private placement discussed in Note 16(b) in connection with a financial advisory agreement.