

# **Pinnacle Mines Ltd.**

## **Consolidated Financial Statements**

December 31, 2009

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## AUDITORS' REPORT

To the Shareholders of  
Pinnacle Mines Ltd.

We have audited the consolidated balance sheets of Pinnacle Mines Ltd. as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 21, 2010



# Pinnacle Mines Ltd.

## Consolidated Balance Sheets

	December 31, 2009	December 31, 2008
<b>Assets</b>		
Current		
Cash	\$ 814,228	\$ 2,395,763
Short-term investments (Note 5)	37,622	38,249
Receivables	13,673	67,991
Prepays	23,069	24,426
	<u>888,592</u>	<u>2,526,429</u>
Reclamation deposits (Note 6)	40,000	55,000
Mineral property interests (Note 7)	9,626,907	9,885,663
Property and equipment (Note 8)	114,790	87,745
	<u>\$ 10,670,289</u>	<u>\$ 12,554,837</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 122,963	\$ 502,408
Future income tax liability (Note 14)	800,000	925,000
	<u>922,963</u>	<u>1,427,408</u>
<b>Shareholders' Equity</b>		
Share capital (Note 9)	28,601,336	28,601,336
Contributed surplus	1,391,851	1,327,153
Accumulated other comprehensive loss	(103,222)	(319,728)
Deficit	(20,142,639)	(18,481,332)
	<u>9,747,326</u>	<u>11,127,429</u>
	<u>\$ 10,670,289</u>	<u>\$ 12,554,837</u>

Ability to continue as a going concern (Note 2)  
 Commitments (Note 12)  
 Subsequent events (Note 19)

### Approved on Behalf of the Board

"Herrick Lau" Director  
 Herrick Lau

"Lawrence A. Dick" Director  
 Lawrence A. Dick

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# Pinnacle Mines Ltd.

## Consolidated Statements of Operations and Comprehensive Loss

Years ended December 31,	2009	2008
General and administrative expenses		
Amortization	\$ 18,018	\$ 33,520
Consulting services (Note 13)	227,040	88,484
Foreign exchange loss	(11,091)	(514)
Management services (Note 13)	76,223	75,834
Investor relations	41,732	92,047
Professional fees	99,191	138,393
Property investigations	24,989	-
Office (Note 13)	58,424	120,139
Rent (Note 13)	52,204	69,672
Salaries and benefits	63,358	124,739
Regulatory and shareholder services	36,153	37,460
Stock-based compensation (Note 10)	64,698	27,032
Travel	14,990	36,021
	<u>765,929</u>	<u>842,827</u>
Loss before undernoted income (expenses)	<u>(765,929)</u>	<u>(842,827)</u>
Write-off of mineral property interests (Note 7)	(919,946)	(2,582,819)
Write-off of reclamation deposits	(15,000)	-
Loss on sale of short-term investments	(71,427)	(67,330)
Interest and miscellaneous income	8,384	31,341
Loss on disposition of property and equipment	(22,389)	-
	<u>(1,020,378)</u>	<u>(2,618,808)</u>
Loss before income taxes	<u>(1,786,307)</u>	<u>(3,461,635)</u>
Future income tax recovery (Note 14)	<u>125,000</u>	<u>650,000</u>
Net loss for the year	<u>\$ (1,661,307)</u>	<u>\$ (2,811,635)</u>
Other comprehensive income		
Unrealized gain (loss) on available-for-sale investments	22,573	(183,594)
Reversal of unrealized losses on sale of short-term investments	<u>193,933</u>	<u>39,863</u>
Comprehensive loss	<u>\$ (1,444,801)</u>	<u>\$ (2,955,366)</u>
Loss per share, basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.07)</u>
Weighted average common shares outstanding	<u>91,576,134</u>	<u>37,999,719</u>

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## Pinnacle Mines Ltd.

### Consolidated Statement of Shareholders' Equity

	Number of Shares	Common Shares	Contributed Surplus	Other Comprehensive Loss	Deficit	Shareholders' Equity
<b>Balance - December 31, 2007</b>	25,123,647	\$ 23,547,649	\$ 1,269,878	\$ (175,997)	\$ (15,669,697)	\$ 8,971,833
Issued for mineral properties	250,000	42,500	-	-	-	42,500
Tax benefits reouced to flow-through share subscribers		(650,000)	-	-	-	(650,000)
Brokered private placement, net of share issue costs \$129,218	3,500,000	570,782	-	-	-	570,782
Non-brokered private placement, net of share issue costs \$22,750	1,215,000	220,250	-	-	-	220,250
Financial advisory units	187,500	37,500	-	-	-	37,500
Issued for mineral properties	13,500,000	2,430,000	-	-	-	2,430,000
Non-brokered private placement, net of share issue costs \$226,345	47,800,000	2,402,655	-	-	-	2,402,655
Other comprehensive loss	-	-	-	(143,731)	-	(143,731)
Stock-based compensation	-	-	57,275	-	-	57,275
Loss for the year	-	-	-	-	(2,811,635)	(2,811,635)
<b>Balance - December 31, 2008</b>	91,576,147	28,601,336	1,327,153	(319,728)	(18,481,332)	11,127,429
Fractional rounding	(13)	-	-	-	-	-
Other comprehensive income	-	-	-	216,506	-	216,506
Stock-based compensation	-	-	64,698	-	-	64,698
Loss for the year	-	-	-	-	(1,661,307)	(1,661,307)
<b>Balance - December 31, 2009</b>	91,576,134	\$ 28,601,336	\$ 1,391,851	\$ (103,222)	\$ (20,142,639)	\$ 9,747,326

# Pinnacle Mines Ltd.

## Consolidated Statements of Cash Flows

Years ended December 31,	2009	2008
Cash derived from (used in):		
<b>Operating activities</b>		
Net loss for the year	\$ (1,661,307)	\$ (2,811,635)
Amortization	18,018	33,520
Loss on sale of short-term investments	71,427	67,330
Loss on disposition of property and equipment	22,389	-
Stock-based compensation	64,698	27,032
Future income tax recovery	(125,000)	(650,000)
Write-off of mineral property interests	919,946	2,582,819
Write-off of reclamation deposits	15,000	-
Changes in non-cash operating working capital (Note 15)	(43,512)	105,380
	<u>(718,341)</u>	<u>(645,554)</u>
<b>Financing activities</b>		
Shares issued for cash	-	3,418,000
Share issue costs	-	(194,070)
	<u>-</u>	<u>3,223,930</u>
<b>Investing activities</b>		
Mineral property interests		
Reclamation deposits	-	(15,000)
Expenditures	(1,263,106)	(2,411,143)
Recoveries and sales proceeds	321,658	-
Proceeds on sale of short-term investments	145,706	37,493
Proceeds on sale of equipment	31,931	2,803
Purchase of property and equipment	(99,383)	(16,853)
	<u>(863,194)</u>	<u>(2,402,700)</u>
Net change in cash	(1,581,535)	175,676
Cash		
Beginning of year	<u>2,395,763</u>	<u>2,220,087</u>
End of year	<u>\$ 814,228</u>	<u>\$ 2,395,763</u>
<b>Supplementary disclosure with respect to cash flows</b>		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

Supplementary cash flow information (Note 15)

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **1. Nature of operations**

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. To date, the Company has not generated significant revenues and is considered to be in the exploration stage.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations, and the recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

The business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations.

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### **2. Ability to Continue as a Going Concern**

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material. As at December 31, 2009 the Company has no source of operating cash flow and has an accumulated deficit of \$20,142,639. Operations for the year ended December 31, 2009 have been funded primarily from the issuances of capital stock and net changes in working capital balances.

Continued operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures.

Subsequent to December 31, 2009, the Company issued to its shareholders a rights offering to raise gross proceeds of \$4,578,807 to be used for operating activities (Note 19).

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **3. Significant accounting policies**

The Company's significant accounting policies are as follows:

#### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minera Pinnacle de Mexico S.A. de C.V. ("Pinnacle Mexico") and 0781639 B.C.Ltd. All significant intercompany transactions and balances have been eliminated upon consolidation.

#### **Use of estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, stock-based compensation, asset retirement obligations, the useful lives estimate and valuation allowances on future income tax assets. Actual results could differ from these estimates.

#### **Presentation**

Where applicable, comparative figures have been reclassified to conform with the presentation used in the current year.

#### **Short-term investments**

Short-term investments consist of shares in publicly listed companies which are carried at fair value.

#### **Property and equipment**

Property and equipment is recorded at cost less amortization. Amortization is calculated using the declining balance method at rates ranging from 4% to 100%.

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **3. Significant accounting policies (continued...)**

#### **Mineral property interests**

Mineral interests represent acquisition, property holding and deferred exploration costs, amounts recovered, depleted, written-off or written-down. 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. Accumulated costs related to properties which are abandoned or considered uneconomic in the foreseeable future are written down to their fair value.

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 development expenditures. The amounts shown for mineral properties do not necessarily represent present or future recoverable values. The recoverability of amounts is dependent upon the confirmation of economically recoverable reserves from exploration properties, the ability of the Company to obtain the necessary financing to successfully complete development and upon future profitable production. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

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 a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company did not have any significant asset retirement obligations at December 31, 2009 and 2008.

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **3. Significant accounting policies (continued...)**

#### **Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Loss per share is calculated using the weighted average number of common shares outstanding during the year.

#### **Foreign currency translation**

The operations of the Company's foreign subsidiary, which is considered to be an integrated foreign operation, are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenues and expenses are translated at exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses on translation are included in operating results.

#### **Stock-based compensation**

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation over the vesting period of the stock options.

#### **Income taxes**

Future income taxes are recorded using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

#### **Flow-through shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

When flow-through expenditures are renounced, a portion of the future income tax assets not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of income taxes in the statement of operations.

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# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

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### 3. Significant accounting policies (continued...)

#### Financial instruments – recognition and measurement

Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Held-for-trading instruments are measured at fair value with unrealized gains and losses recognized in results of operations. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost.

The Company has implemented the following classifications for its financial instruments:

- a) Cash has been classified as held-for-trading.
- b) Short-term investments have been classified as available-for-sale.
- c) Receivables have been classified as loans and receivables.
- d) Payables and accruals have been classified as other financial liabilities.

The Company follows CICA Handbook Section 3862, *Financial instruments – disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages such risks.

The Company also follows CICA Handbook Section 3863, *Financial instruments – presentation*, which establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

#### Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

#### Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

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# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

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### Adoption of new accounting policies:

The Company adopted the following new accounting policies effective January 1, 2009:

#### (a) Goodwill and intangible assets

The Company has adopted the new standard *Goodwill and Intangible Assets* (Section 3064) for its fiscal year beginning January 1, 2009. This Section replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in *Section 3062*. The adoption of this section has had no significant impact on the Company's financial statements.

#### (b) Fair Value Hierarchy Disclosures

Effective October 1, 2009, CICA Section 3862 "Financial Instruments - Disclosures" was amended to require disclosures about the relative inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of fair value are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for assets or liabilities either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The effects of the adoption of this section have been disclosed in Note 17.

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## 4. Recent accounting pronouncements

#### (a) Business combinations, non-controlling interest and consolidated financial statements

In January 2009, the CICA issued Handbook Section 1582 *Business Combinations*, 1601 *Consolidated Financial Statements* and 1602 *Non-controlling Interests* which replace CICA Handbook Sections 1581 *Business Combinations* and 1600 *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

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# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

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#### 4. Recent accounting pronouncements (continued...)

##### (b) International financial reporting standards ("IFRS")

In addition to the above new accounting pronouncements the Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over a five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-accountable enterprises to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 would require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company is currently in the process of applying for early adoption of IFRS starting January 1, 2010. The Company's transition date for converting to IFRS will be January 1, 2007 (the "transition date"). The Company has substantially completed the process of transitioning from current Canadian GAAP to IFRS. It has established a formal project plan, allocated internal resources to manage the transition from GAAP to IFRS reporting. The Audit Committee and Board of Directors have been updated regularly with the progress of convergence project through communication and meetings.

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#### 5. Short-term investments

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

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
December 31, 2009			
Mountain Boy Minerals Ltd.	300,975	\$ 140,844	\$ 37,622
December 31, 2008			
Mountain Boy Minerals Ltd.	764,975	\$ 357,977	\$ 38,249

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#### 6. Reclamation deposits

The deposits represent term deposits pledged in favour of regulatory authorities as security towards future site restoration work and will be released to the Company upon satisfactory completion of that work.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Silver Coin reclamation bond	\$ 30,000	\$ 30,000
Surprise Creek reclamation bond	10,000	10,000
Summit Lake reclamation bond	-	15,000
	<u>\$ 40,000</u>	<u>\$ 55,000</u>

# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

### 7. Mineral property interests

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

	Canada	Mexico	Total
Balance, December 31, 2007	\$ 4,764,904	\$ 1,339,337	\$ 6,104,241
Acquisition costs	3,557,500	42,500	3,600,000
Exploration expenditures			
Geochemistry	-	39,868	39,868
Drilling	1,211,749	373,074	1,584,823
Metallurgy	100,588	-	100,588
Environmental permitting	-	6,272	6,272
Geological & engineering	238,371	235,363	473,734
Helicopter	495	-	495
General administration	23,346	165,126	188,472
Geologic mapping and imagery	21,671	160	21,831
Geophysics	-	69,839	69,839
Maintenance	-	2,763	2,763
Field supplies	29,672	7,147	36,819
Resource estimation	102,397	-	102,397
Shipping	21,467	5,157	26,624
Reclamation	15,484	-	15,484
Travel and accommodation	24,994	69,238	94,232
Properties written-off	(962,211)	(1,620,608)	(2,582,819)
Balance, December 31, 2008	9,150,427	735,236	9,885,663
Acquisition costs	340,000	-	340,000
Exploration expenditures			
Drilling	1,119	-	1,119
Metallurgy	120,405	-	120,405
Environmental permitting	46,697	-	46,697
Geological & engineering	243,071	14,600	257,671
General administration	11,023	54,836	65,859
Geologic mapping and imagery	78	-	78
Field supplies	1,875	2,319	4,194
Maintenance	1,270	5,656	6,926
Resource estimation	120,204	-	120,204
Site office	5,699	-	5,699
Travel and accommodation	13,996	-	13,996
Recovery of IVA taxes	-	(121,658)	(121,658)
	905,437	(44,247)	861,190
Sale of mineral property	(200,000)	-	(200,000)
Properties written-off	(228,957)	(690,989)	(919,946)
Balance, December 31, 2009	\$ 9,626,907	\$ -	\$ 9,626,907

# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

### 7. Mineral property interests (continued...)

#### Canada

	Silver Coin and Kansas	Surprise Creek	Summit Lake	Other	Total
Balance, December 31, 2007	\$ 3,789,725	962,136	\$ -	\$ 13,043	\$ 4,764,904
Acquisition costs	3,215,500	-	342,000	-	3,557,500
Exploration expenditures					
Drilling	1,211,749	-	-	-	1,211,749
Metallurgy	100,588	-	-	-	100,588
Geological & engineering	153,296	75	85,000	-	238,371
Helicopter	495	-	-	-	495
General administration	19,438	-	-	3,908	23,346
Geologic mapping and imagery	21,671	-	-	-	21,671
Field supplies	29,672	-	-	-	29,672
Resource estimation	102,397	-	-	-	102,397
Shipping	21,467	-	-	-	21,467
Travel and accommodation	24,994	-	-	-	24,994
Reclamation	15,484	-	-	-	15,484
Properties written-off	-	(962,211)	-	-	(962,211)
Balance, December 31, 2008	8,706,476	-	427,000	16,951	9,150,427
Acquisition costs	340,000	-	-	-	340,000
Exploration expenditures					
Drilling	1,119	-	-	-	1,119
Metallurgy	120,405	-	-	-	120,405
Environmental permitting	46,697	-	-	-	46,697
Geological & engineering	243,071	-	-	-	243,071
General administration	10,012	-	711	300	11,023
Geologic mapping and imagery	78	-	-	-	78
Maintenance	24	-	1,246	-	1,270
Field supplies	1,875	-	-	-	1,875
Resource estimation	120,204	-	-	-	120,204
Site office	5,699	-	-	-	5,699
Travel and accommodation	13,996	-	-	-	13,996
	903,180	-	1,957	300	905,437
Sale of mineral property	-	-	(200,000)	-	(200,000)
Properties written-off	-	-	(228,957)	-	(228,957)
	-	-	(428,957)	-	(428,957)
Balance, December 31, 2009	\$ 9,609,656	\$ -	\$ -	\$ 17,251	\$ 9,626,907

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **7. Mineral property interests (continued...)**

#### **(a) Silver Coin Property**

In 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 (collectively, the "Silver Coin" property) by spending \$1.75 million on exploration on the Silver Coin Property over a three year period (incurred). In 2006, the Company earned a 51% interest in the Silver Coin property.

In July 2009, the Company entered into an agreement with Mountain Boy to increase its ownership in the Silver Coin Property to 70% and to purchase land and buildings in Stewart, BC in return for a payment of \$440,000 (paid) of which \$340,000 was allocated to the Silver Coin property and \$100,000 to land and buildings inclusive of GST. The Company can further increase its ownership to 80% after spending \$4,000,000 on exploration and development expenditures on any or all of the Silver Coin and Kansas properties by July 2014. The agreement gives the Company the exclusive right to manage the project through feasibility and also to negotiate on behalf of both parties the sale of the Silver Coin and Kansas properties.

#### **(b) Kansas Property and Summit Lake Property**

In 2004, the Company entered into an option agreement with Tenajon Resources Corp. ("Tenajon") whereby the Company earned a 60% interest in Tenajon's 100% owned Kansas property by making a cash payment of \$50,000 (\$25,500 paid by the Company and \$24,500 paid by the joint venture partner Mountain Boy) on signing, issuing 77,000 common shares and spending \$1.0 million on exploration and development.

The Kansas property adjoins 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 2004 with Mountain Boy, Mountain Boy will be participating in the Kansas property and earned a 49% interest in the Company's 60% interest 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. 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.

In April 2008, the Company entered into a binding letter agreement whereby the Company purchased Tenajon's 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. Since 0781639 B.C. Ltd.'s only asset is mineral properties and it is not considered a business, the transaction was accounted for as an asset acquisition. As a result of the difference between the carrying amount and the tax bases of the properties at acquisition the Company recorded a future income tax liability of \$925,000 on the purchase and included the amount in the asset acquisition.

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **7. Mineral property interests (continued...)**

On closing, the Company issued to Tenajon 13,500,000 common shares at a value of \$2,430,000 and incurred related costs totalling \$165,000. The Company also issued 187,500 units with a value of \$37,500 in relation to this acquisition. In addition, the Company reimbursed Tenajon \$15,000 for a reclamation deposit which the Company assumed and \$85,000 for geological and exploration work on the Summit Lake property. The Company was also granted an option to purchase the 3% net smelter royalty ("NSR") held by Tenajon on the Summit Lake property by paying \$115,000 which the Company declined.

During the current fiscal year, the Company sold the Summit Lake property and transferred the 3% NSR for a payment of \$200,000 and wrote off the remaining carrying value of \$228,957 and reclamation deposit of \$15,000.

The July 2009 agreement with Mountain Boy sets the Company's interest in the Kansas Property at 70% with Mountain Boy at 30%. The Company can further increase its ownership to 80% after spending \$4,000,000 on exploration and development expenditures on any or all of the Silver Coin and Kansas properties by July 2014.

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

In July 2005, the Company entered into an agreement to acquire a 100% interest in three additional mineral claims in the Surprise Creek area. After assessing the drilling results of the property the Company decided not to proceed with any further programs on the property and as such has written off all expenditures during the year ended December 31, 2008.

# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

### 7. Mineral property interests (continued...)

#### Mexico

	La Calavera	Rio Minas
Balance, December 31, 2007	\$ 1,113,406	\$ 225,931
Acquisition costs	-	42,500
Exploration expenditures		
Geochemistry	-	39,868
Drilling and metallurgical	362,891	10,183
Environmental permitting	5,951	321
Geological & engineering	41,791	193,572
Geophysics	69,839	-
General administration	3,127	161,999
Geologic mapping and imagery	-	160
Maintenance	(2,236)	4,999
Field supplies	2,641	4,506
Shipping	3,230	1,927
Travel and accommodation	19,968	49,270
Properties written-off	<u>(1,620,608)</u>	<u>-</u>
Balance, December 31, 2008	-	735,236
Exploration expenditures		
Geological & engineering	-	14,600
General administration	-	54,836
Maintenance	-	5,656
Field supplies	-	2,319
Recovery of IVA taxes	-	(121,658)
Properties written-off	<u>-</u>	<u>(690,989)</u>
Balance, December 31, 2009	<u>\$ -</u>	<u>\$ -</u>

#### (d) La Calavera and Rio Minas

In May 2007, the Company signed an option and joint venture agreement with Chesapeake Gold Corp ("Chesapeake"), a company related by way of a common former director, whereby the Company could acquire up to a 70% interest in the La Calavera property and Rio Minas property located in Oaxaca, Mexico. In order to earn the initial 51% interest, the Company was required to undertake a work program on the La Calavera – Rio Minas properties aggregating US\$6,000,000 (\$2,424,508 expended), pay US\$1,300,000 (US\$100,000 paid) and issue an aggregate of 500,000 shares (issued) by March 2012.

Chesapeake had given notice to the Company that it has terminated its underlying option agreement with the La Calavera property owner. As of December 31, 2008, all costs relating to the La Calavera property were written off to operations. During the current fiscal year, the Company made the decision to close its operations in Mexico and, though the process is not complete, has written-off the Rio Minas property to reflect this decision.

# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

### 8. Property and equipment

	Computer equipment	Other equipment	Software	Vehicle	Mining equipment	Building	Land	Total
<b>Cost</b>								
At December 31, 2007	\$ 38,705	\$ 53,259	\$ -	\$ 41,617	\$ 13,363	\$ -	\$ -	146,944
Additions	-	-	-	14,048	-	-	-	14,048
At December 31, 2008	38,705	53,259	-	55,665	13,363	-	-	160,992
Additions	-	-	4,145	-	-	59,100	36,138	99,383
Disposals	(38,705)	(28,662)	-	(55,665)	(6,429)	-	-	(129,461)
At December 31, 2009	-	24,597	4,145	-	6,934	59,100	36,138	130,914
<b>Accumulated Amortization</b>								
At December 31, 2007	17,174	9,597	-	11,860	1,096	-	-	39,727
Charge for the year	6,675	8,732	-	14,936	3,177	-	-	33,520
At December 31, 2008	23,849	18,329	-	26,796	4,273	-	-	73,247
Charge for the year	2,544	5,264	2,071	5,493	1,464	1,182	-	18,018
Disposals	(26,393)	(13,163)	-	(32,289)	(3,296)	-	-	(75,141)
At December 31, 2009	-	10,430	2,071	-	2,441	1,182	-	16,124
<b>Net book value</b>								
At December 31, 2007	21,531	43,662	-	29,757	12,267	-	-	107,217
At December 31, 2008	14,856	34,930	-	28,869	9,090	-	-	87,745
At December 31, 2009	\$ -	\$ 14,167	\$ 2,074	\$ -	\$ 4,493	\$ 57,918	\$ 36,138	\$ 114,790

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **9. Share capital**

#### a) Authorized share capital

Authorized share capital comprises an unlimited number of common shares with no par value.

#### b) Issued share capital

At December 31, 2009 there were 91,576,134 common shares issued and outstanding (December 31, 2008 – 91,576,147 common shares).

In April 2008, the Company closed a partially 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 entitled 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 and granted 350,000 agent compensation options with a value of \$24,602. Each agent's option was exercisable into one additional unit at a price of \$0.20 per unit for one year. The Company also paid finders' fees of \$17,100 in cash and 80,250 compensation options with a value of \$5,641 with each compensation option exercisable into one additional unit at a price of \$0.20 for one year. The agents' compensation options were valued using the Black-Scholes pricing model with an expected volatility of 108%, and expected term of one year, a risk free interest rate of 2.85% and a dividend yield of 0%.

In April and August 2008, the Company issued 93,750 units each pursuant to a financial advisory agreement relating to the acquisition of the Kansas and Summit Lake properties (Note 7). The units have the same terms and conditions as the units issued in the April 2008 private placement

In December 2008, the Company closed a non-brokered private placement consisting of 45,000,000 units at a price of \$0.055 per unit for gross proceeds of \$2,475,000. Each unit entitles the holder to one common share and one share purchase warrant which is exercisable into one additional common share for a period of two years at a price of \$0.07 during the first year and \$0.15 during the second year. The Company paid a finder's fee of \$198,000 of which \$44,000 was paid in cash and \$154,000 was paid in 2,800,000 common shares.

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### **10. Stock options**

The Company has a stock option plan whereby 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 and 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  $\frac{1}{4}$  of the options vesting in any three month period. The exercise price shall be no less than the greater of \$0.10 per share and the last closing price of the Company's shares. The stock option plan also provides option holders with the right to exercise options in the event of certain change of control events, including in respect of unvested options at that time.

# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

### 10. Stock options (continued...)

Stock option activity for the respective years is as follows:

	December 31, 2009		December 31, 2008	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Options outstanding, beginning of year	1,030,000	\$ 0.45	1,750,000	\$ 0.49
Granted	550,000	0.15	70,000	0.20
Expired	(110,000)	0.66	(180,000)	0.40
Cancelled	(555,000)	0.44	(610,000)	0.46
Options outstanding, end of year	<u>915,000</u>	0.27	<u>1,030,000</u>	0.45
Options exercisable, end of year	<u>890,000</u>	\$ 0.27	<u>1,020,000</u>	\$ 0.45

The options outstanding and exercisable at December 31, 2009 are as follows:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Exercisable	Weighted Average Exercise Price
\$0.15-\$0.39	570,000	\$ 0.15	1.78	595,000	\$ 0.15
\$0.40-\$0.59	305,000	0.42	2.35	255,000	0.42
\$0.60-\$0.95	40,000	0.95	0.93	40,000	0.95
	<u>915,000</u>	\$ 0.27	1.93	<u>890,000</u>	\$ 0.27

During the year ended December 31, 2009 the Company recognized \$64,698 (2008 - \$27,032) of stock-based compensation expense. The weighted average grant date fair value of the options granted in the year ended December 31, 2009 was \$0.12 (2008 - \$0.07) per option. 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>2009</u>	<u>2008</u>
Risk-free interest rate	1.28%	3.44%
Dividend yield	Nil	Nil
Expected volatility	182%	104%
Expected option life	2.0 years	5.0 years

# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

### 11. Warrants

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

	December 31, 2009		December 31, 2008	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Warrants outstanding, beginning of year	49,481,250	\$ 0.12	2,206,559	\$ 1.02
Issued	-	-	47,451,250	0.08
Expired	(4,481,250)	0.62	(176,559)	1.20
Warrants outstanding, end of year	<u>45,000,000</u>	\$ 0.15	<u>49,481,250</u>	\$ 0.12

Full share equivalent warrants outstanding and exercisable at December 31, 2009:

<u>Description</u>	<u>Number of Full Share Equivalent Warrants</u>	<u>Price Per Share</u>	<u>Expiry Date</u>
Warrants	<u>45,000,000</u>	\$ 0.15	December 18, 2010
	<u>45,000,000</u>		

### Agent's options

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

	December 31, 2009		December 31, 2008	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Agent options outstanding, beginning of year	750,250	\$ 0.37	320,000	\$ 0.60
Issued	-	-	430,250	0.20
Expired	(750,250)	0.37	-	-
Agent options outstanding, end of year	<u>-</u>	\$ -	<u>750,250</u>	\$ 0.37

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **12. Commitments**

- (a) 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 undetermined 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.

- (b) As of August 2009 the Company entered into a service agreement with the former president, whereby the Company agreed to pay a monthly fee of \$6,125 for a term of 2 years in return for transitional consulting.
- (c) On December 15, 2009, the Company entered into an agreement with Baron Consulting Services Limited ("Baron Consulting") for certain investment banking services for a term of 24 months. The engagement for services is strictly on a best efforts basis and, accordingly, Baron Consulting will receive no direct compensation for the engagement but will be reimbursed for all reasonable expenses incurred.

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### **13. Related party transactions**

During the year ended December 31, 2009, the Company incurred fees of \$119,638 (2008 - \$75,834) with companies controlled by directors for management consulting services and geological consulting services of which \$56,723 (2008 - \$75,834) has been included in management services expense on the statement of operations and \$62,915 (2008 - \$nil) has been included in mineral property expenditures on the balance sheet.

During the year ended December 31, 2009, pursuant to a management and advisory agreement with Baron Global Financial Canada Ltd. ("Baron"), Baron agreed to act as corporate advisor and one of Baron's employees will act as Chief Financial Officer in return for a monthly fee of \$10,000. The Company has recorded \$90,000 in consulting fees, \$19,500 in management fees, \$9,000 in rent and \$1,500 in office expense to Baron.

Included in payables is an amount of \$nil (2008 - \$10,686) owed to directors and officers of the Company. Included in receivables is \$nil (2008 - \$43,281) owed by Lincoln Gold Corp ("Lincoln"), a company related by way of a common former director.

The Company has stopped sharing office space with Lincoln who was reimbursing each month to the Company a portion of the rent and office expenses. During the year ended December 31, 2009, these reimbursements totalled \$51,416 (2008 - \$78,308).

All related party transactions have been recorded at the exchange amount, which is the amount of consideration established and agreed to between the related parties.

# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

### 14. Income taxes

During fiscal 2007, the Company issued 4,000,000 common shares on a flow-through basis for gross proceeds of \$2,000,000. During fiscal 2008, the Company renounced exploration expenditures of \$2,000,000 which resulted in a future income tax recovery and a charge against capital stock of \$650,000.

The future income tax liability of \$800,000 (2008 - \$925,000) is a result of the difference between the carrying amount and the tax bases of the Company's Kansas and Summit Lake mineral property interests (Note 7).

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:

	2009	2008
Loss before income taxes	\$ (1,786,307)	\$ (3,461,635)
Effective tax rate	<u>30.0%</u>	<u>31.0%</u>
Expected tax recovery	\$ (535,892)	\$ (1,073,107)
Resource loss	279,332	766,412
Other	(35,111)	(49,532)
Stock-based compensation	19,409	8,380
Change in valuation allowance	<u>147,262</u>	<u>(302,153)</u>
Future income tax recovery	\$ <u>(125,000)</u>	\$ <u>(650,000)</u>

Future income tax assets (liabilities) are calculated as follows:

	2009	2008
Future income tax assets (liabilities) relate to:		
Loss carryforwards	\$ 1,374,000	\$ 1,329,000
Short-term investments	13,000	42,000
Resource tax credits	12,000	14,000
Capital assets and other	89,000	36,000
Financing costs	<u>95,000</u>	<u>150,000</u>
Future income tax assets	1,583,000	1,571,000
Valuation allowance	<u>(1,583,000)</u>	<u>(1,571,000)</u>
	-	-
Mineral properties	<u>(800,000)</u>	<u>(925,000)</u>
Future income tax liabilities	\$ <u>(800,000)</u>	\$ <u>(925,000)</u>

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# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

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### 14. Income taxes (continued...)

As at December 31, 2009, the Company has non-capital loss carry forwards of approximately \$5,500,000 available to reduce income otherwise taxable in future years expiring through 2029.

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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### 15. Supplementary cash flow information

Changes in non-cash operating working capital	December 31, 2009	December 31, 2008
Receivables	\$ 54,318	\$ (14,088)
Prepays	1,357	21,387
Payables and accruals	(99,187)	98,081
	<u>\$ (43,512)</u>	<u>\$ 105,380</u>

Non-cash financing and investing activities included the following:

	December 31, 2009	December 31, 2008
Shares issued for mineral property	\$ -	\$ 2,472,500
Agent compensation options	\$ -	\$ 30,244
Financial advisory units for mineral property	\$ -	\$ 37,500
Finders' fees on private placement	\$ -	\$ 154,000
Mineral property expenditures included in accounts payable	\$ 75,820	\$ 356,078

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### 16. Capital management

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Company defines capital that it manages as its shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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# **Pinnacle Mines Ltd.**

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

For the Year Ended December 31, 2009

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### **16. Capital management (continued...)**

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company has historically relied on the equity markets to fund its activities. In addition, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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### **17. Financial instruments and risk management**

#### **(a) Fair value**

The fair value of short-term investments, receivables, and payables and accruals, approximates their carrying values due to the short-term nature of these instruments. Cash and marketable securities, which are measured at their fair value, have been determined using Level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and commodity price risk.

#### **(b) Foreign exchange risk**

Cash held in foreign currencies other than the Canadian dollar is subject to currency risk. The Company's operations in Mexico exposed the Company to foreign exchange risk, however, the Company is in the process of withdrawing from Mexico and has significantly reduced its operations as at year end. The Company does not enter into derivative financial instruments to mitigate this risk but the Company does not believe its net exposure to foreign exchange risk is significant.

#### **(c) Credit risk**

The Company's cash is held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company's receivables consist mainly of GST receivable due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to its financial instruments is minimal.

#### **(d) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

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# Pinnacle Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

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### 17. Financial instruments and risk management (continued...)

#### (e) Liquidity risk

The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

#### (f) Price risk

The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of precious metals. The Company monitors precious metal prices to determine the appropriate course of action to be taken by the Company.

The Company's short-term investments are subject to ongoing fair value fluctuations from changes in equity and commodity markets.

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### 18. 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 as follows:

	<u>Canada</u>		<u>Mexico</u>		<u>Total</u>
<b>Capital assets</b>					
December 31, 2009	\$ 9,741,697	\$	-	\$	9,741,697
December 31, 2008	\$ 9,202,684	\$	770,724	\$	9,973,408

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### 19. Subsequent events

Subsequent to December 31, 2009, the Company issued to its shareholders a rights offering to raise gross proceeds of \$4,578,807. One right will be issued for each share held, being 91,576,134 common shares, where each right will entitle the holder to acquire an additional common share for \$0.05. The rights became exercisable on April 8, 2010 and expire on April 30, 2010.

Progress Advanced Holdings Ltd. ("Progress Advanced") has agreed to provide a standby commitment under which it will purchase any common shares that are not otherwise subscribed for under the rights offering prior to the expiry time. In consideration, Progress Advanced has been granted a warrant to purchase up to 22,894,033 additional common shares at \$0.05 for a period of six months from the closing.