

Pinnacle Mines Ltd.
(A development stage enterprise)

Interim Consolidated Financial Statements

For the third quarter ended

September 30, 2008

(unaudited – prepared by management)

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NOTICE TO READER

These unaudited interim consolidated financial statements for the third financial quarter ended September 30, 2008 have not been reviewed by our auditors. They have been prepared by Pinnacle Mines Ltd.'s management in accordance with accounting principles generally accepted in Canada, consistent with previous quarters and years. These unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2007.

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Management's Responsibility for Financial Reporting

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

The accompanying unaudited interim consolidated financial statements of Pinnacle Mines Ltd. (a development stage enterprise) have been prepared in accordance with Canadian generally accepted accounting 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.

"Gerald Sneddon"
Gerald Sneddon
Director

"Paul F. Saxton"
Paul F. Saxton
Director

Vancouver, Canada
November 28, 2008

Pinnacle Mines Ltd.
(A development stage enterprise)
Consolidated Balance Sheets
(Unaudited, Prepared by Management)

	September 30, 2008	December 31, 2007
Assets		
Current		
Cash and cash equivalents	\$ 346,101	\$ 2,220,087
Short-term investments (Note 6)	94,677	286,803
Receivables	216,876	610,963
Prepays	19,169	45,813
	<u>676,823</u>	<u>3,163,666</u>
Environmental reclamation deposits (Note 7)	55,000	40,000
Mineral property interests (Note 8)	11,791,202	6,104,241
Equipment (Note 9)	98,764	107,217
	<u>\$ 12,621,789</u>	<u>\$ 9,415,124</u>
Liabilities		
Current		
Payables and accruals	\$ 197,507	\$ 443,291
Future income tax liability (Note 15)	900,000	-
	<u>1,097,507</u>	<u>443,291</u>
Shareholders' Equity		
Share capital (Note 10)	26,198,681	23,547,649
Contributed surplus (Note 10)	1,357,457	1,269,878
Accumulated other comprehensive loss (Note 11)	(274,531)	(175,997)
Deficit	(15,757,325)	(15,669,697)
	<u>11,524,282</u>	<u>8,971,833</u>
	<u>\$ 12,621,789</u>	<u>\$ 9,415,124</u>

Nature of operations and going concern (Note 1)
Commitments (Note 13)

Approved on Behalf of the Board

"Gerald Sneddon" Director
Gerald Sneddon

"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
(Unaudited, Prepared by Management)

	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
General and administrative expenses				
Amortization	\$ 9,294	\$ 7,162	\$ 25,305	\$ 18,096
Consulting services	17,710	30,232	72,876	103,696
Management services (Note 14)	17,500	66,668	58,334	156,668
Investor relations	14,675	43,311	77,426	152,956
Professional fees	27,868	32,285	153,433	71,865
Office	16,342	23,827	51,226	84,438
Rent	17,530	9,238	52,142	30,930
Salaries and benefits	25,110	21,916	86,014	52,012
Regulatory and shareholder services	1,271	3,567	35,569	28,710
Stock-based compensation (Note 10)	19,934	-	57,336	100,133
Foreign exchange loss	(3,409)	69,934	9,211	206,250
Travel	5,704	5,049	30,845	78,505
	<u>169,529</u>	<u>313,189</u>	<u>709,717</u>	<u>1,084,259</u>
Loss before undernoted income (expenses)	<u>(169,529)</u>	<u>(313,189)</u>	<u>(709,717)</u>	<u>(1,084,259)</u>
Write-down of mineral property interests	-	(259,038)	-	(259,038)
Property investigations	-	-	-	(30,250)
Gain (loss) on sale of short-term investments	(54,886)	6,165	(59,239)	8,367
Interest and miscellaneous income	30,098	13,206	31,328	52,469
Gain on sale of mineral property interests	-	196,928	-	196,928
	<u>(24,788)</u>	<u>(42,739)</u>	<u>(27,911)</u>	<u>(31,524)</u>
Loss before income taxes	<u>(194,317)</u>	<u>(355,928)</u>	<u>(737,628)</u>	<u>(1,115,783)</u>
Future income tax recovery (Note 15)	-	-	650,000	-
Net loss for the period	<u>\$ (194,317)</u>	<u>\$ (355,928)</u>	<u>\$ (87,628)</u>	<u>\$ (1,115,783)</u>
Other comprehensive income				
Unrealized gains (loss) on available-for-sale investments (Note 11)	6,810	50,584	(102,034)	50,628
Comprehensive loss	<u>\$ (187,507)</u>	<u>\$ (305,344)</u>	<u>\$ (189,662)</u>	<u>\$ (1,065,155)</u>
Deficit, beginning of period	\$ (15,563,008)	\$ (14,815,965)	\$ (15,669,697)	\$ (14,056,010)
Loss for the period	<u>(194,317)</u>	<u>(355,928)</u>	<u>(87,628)</u>	<u>(1,115,783)</u>
Deficit, end of period	<u>\$ (15,757,325)</u>	<u>\$ (15,171,893)</u>	<u>\$ (15,757,325)</u>	<u>\$ (15,171,793)</u>
Loss per share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>
Weighted average common shares outstanding	<u>43,733,908</u>	<u>20,964,190</u>	<u>33,966,758</u>	<u>20,826,651</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.
(A development stage enterprise)
Consolidated Statements of Cash Flows
(Unaudited, Prepared by Management)

	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cash derived from (applied to)				
Operating activities				
Loss for the period	\$ (194,317)	\$ (355,928)	\$ (87,628)	\$ (1,115,783)
Amortization	9,294	7,162	25,305	18,096
Loss (gain) on sale of short-term investments	54,886	(6,165)	59,239	(8,367)
Gain on disposition of mineral property interests	-	(196,928)	-	(196,928)
Stock-based compensation	19,934	-	57,336	71,632
Future income tax recovery	-	-	(650,000)	-
Write-down of mineral properties	-	259,038	-	259,038
Change in non-cash operating working capital (Note 12)	262,088	(29,303)	413,607	32,856
	<u>151,885</u>	<u>(322,124)</u>	<u>(182,141)</u>	<u>(939,456)</u>
Financing activities				
Shares issued for cash, net of costs	<u>6,757</u>	<u>-</u>	<u>821,275</u>	<u>64,500</u>
Investing activities				
Mineral property expenditures				
Project deposit	(15,000)	(20,000)	(15,000)	(25,000)
Exploration expenditures	(1,454,108)	(685,552)	(2,276,961)	(1,013,083)
Acquisition costs	-	-	-	(59,500)
Deposit	100,000	-	-	-
Sale of short-term investments	23,263	-	34,353	8,367
Purchase of equipment	(16,853)	(14,533)	(16,853)	(97,416)
Change in working capital items related to investing transactions	(44,433)	49,111	(238,659)	(16,630)
	<u>(1,407,131)</u>	<u>(670,974)</u>	<u>(2,513,120)</u>	<u>(1,203,262)</u>
Decrease in cash and cash equivalents	(1,248,489)	(993,098)	(1,873,986)	(2,078,218)
Cash and cash equivalents				
Beginning of period	<u>1,594,590</u>	<u>2,497,607</u>	<u>2,220,087</u>	<u>3,582,727</u>
End of period	<u>\$ 346,101</u>	<u>\$ 1,504,509</u>	<u>\$ 346,101</u>	<u>\$ 1,504,509</u>
Cash and cash equivalents comprise:				
Cash	\$ 346,101	\$ 358,751	\$ 346,101	\$ 358,751
Cashable guaranteed investment certificates	-	1,145,758	-	1,145,758
	<u>\$ 346,101</u>	<u>\$ 1,504,509</u>	<u>\$ 346,101</u>	<u>\$ 1,504,509</u>
Supplementary disclosure with respect to cash flows				
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -
Cash paid for interest	\$ -	\$ -	\$ -	\$ -

Supplementary cash flow information (Note 16)

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.
(A development stage enterprise)
Notes to the Consolidated Financial Statements
(Unaudited, Prepared by Management)
For the Period Ended September 30, 2008

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.

These unaudited interim consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss of \$87,628 for the nine-month period ended September 30, 2008 and has an accumulated deficit of \$15,757,325 at September 30, 2008. The recoverability of the amounts shown for mineral property interests in the Company's unaudited interim 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 unaudited interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company is unable to raise sufficient capital to fund its operations and continue explorations of its mineral properties.

2. Basis of presentation

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Pinnacle de Mexico, S.A. de C.V. ("Pinnacle Mexico") from the date of formation. All significant intercompany accounts and transactions between the Company and its subsidiary have been eliminated.

The consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada. They do not include all information and disclosures required for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2007.

The accounting policies followed by the Company are set out in note 2 to the audited consolidated financial statements for the year ended December 31, 2007, and have been consistently followed in the preparation of these interim consolidated financial statements except that the Company has adopted the CICA guidelines described in note 3, effective January 1, 2008.

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

Pinnacle Mines Ltd.
(A development stage enterprise)
Notes to the Consolidated Financial Statements
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3. Changes in accounting policies

The Company adopted the following new accounting policies effective January 1, 2008:

a) Financial instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments - Disclosures*, which requires an increased emphasis on disclosing the nature and the extent of risk arising from financial statements and how the entity manages those risks. This section, together with Section 3863, *Financial Instruments – Presentation*, replaced Section 3861, *Financial Instruments – Disclosure and Presentation*. Section 3863, *Financial Instruments - Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. Other than the additional disclosure in Note 17, the adoption of these Sections has had no significant impact on the Company's financial statements.

b) Capital disclosures

The AcSB issued CICA Handbook Section 1535, *Capital Disclosures*, which establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Other than the additional disclosure in Note 5, the adoption of this section has had no significant impact on the Company's financial statements.

c) Assessing going concern

The Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

4. Recent accounting pronouncements

a) Goodwill and intangible assets

The Company will adopt the new standard *Goodwill and Intangible Assets* (Section 3064) for its fiscal year beginning December 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 Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

Pinnacle Mines Ltd.

(A development stage enterprise)

Notes to the Consolidated Financial Statements

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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 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

5. 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 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.

The properties in which the Company currently has an interest are in the development 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.

6. 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>
September 30, 2008			
Mountain Boy Minerals Ltd.	788,975	\$ 369,208	\$ 94,677
December 31, 2007			
Mountain Boy Minerals Ltd.	988,975	\$ 462,800	\$ 286,803

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7. 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.

	September 30, 2008	December 31, 2007
Silver Coin reclamation bond	\$ 30,000	\$ 30,000
Surprise Creek reclamation bond	10,000	10,000
Summit Lake reclamation bond	15,000	-
	<u>\$ 55,000</u>	<u>\$ 40,000</u>

8. Mineral property interests

The Company's mineral property interests are comprised of properties located in Canada and Mexico. Refer to the audited consolidated financial statements of the Company for December 31, 2007 for comprehensive descriptions of the mineral property interests.

	Canada	Mexico	Total
Balance, December 31, 2007	\$ 4,764,904	1,339,337	\$ 6,104,241
Acquisition costs	3,467,500	42,500	3,510,000
Exploration expenditures			
Geochemistry	-	39,868	39,868
Drilling	1,033,570	348,662	1,382,232
Metallurgy	25,191	-	25,191
Environmental permitting	-	6,272	6,272
Geological & engineering	166,140	210,059	376,199
Helicopter	495	-	495
General administration	15,048	136,722	151,770
Geologic mapping and imagery	8,895	160	9,055
Maintenance	-	2,763	2,763
Field supplies	22,764	5,981	28,745
Resource estimation	40,374	-	40,374
Shipping	12,409	5,073	17,482
Reclamation	7,938	-	7,938
Travel and accommodation	22,237	66,340	88,577
	<u>4,822,561</u>	<u>864,400</u>	<u>5,686,961</u>
Balance, September 30, 2008	<u>\$ 9,587,465</u>	<u>2,203,737</u>	<u>\$ 11,791,202</u>

Pinnacle Mines Ltd.
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Notes to the Consolidated Financial Statements
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For the Period Ended September 30, 2008

8. 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	3,134,500	-	333,000	-	3,467,500
Exploration expenditures					
Drilling	1,033,570	-	-	-	1,033,570
Metallurgy	25,191	-	-	-	25,191
Geological & engineering	81,065	75	85,000	-	166,140
Helicopter	495	-	-	-	495
General admin	8,907	-	-	6,141	15,048
Geologic mapping and imagery	8,895	-	-	-	8,895
Field supplies	22,764	-	-	-	22,764
Resource estimation	40,374	-	-	-	40,374
Shipping	12,409	-	-	-	12,409
Travel and accommodation	22,237	-	-	-	22,237
Reclamation	7,938	-	-	-	7,938
	-	-	-	-	-
	<u>4,398,345</u>	<u>75</u>	<u>418,000</u>	<u>6,141</u>	<u>4,822,561</u>
Balance, September 30, 2008	\$ 8,188,070	\$ 962,211	\$ 418,000	\$ 19,184	\$ 9,587,465

Kansas Property and Summit Lake Property

On April 15, 2008 the Company entered into a binding letter agreement whereby the Company purchased 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. Since 0781639 B.C. Ltd.'s only asset is mineral properties and it is not considered a business, the transaction has been accounted for as an asset acquisition. As a result of the difference between the carrying amount and the tax bases of the properties the Company has recorded a future income tax liability of \$900,000 and included the amount in the asset acquisition.

On closing, the Company issued to Tenajon 13,500,000 common shares at a value of \$2,430,000 and has reimbursed Tenajon \$15,000 for reclamation deposits and \$185,000 for other expenses incurred by Tenajon. 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 of the shares held by Tenajon to its shareholders pursuant to a plan of arrangement. 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.

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8. Mineral property interests (continued)

Upon receiving regulatory approval the Company issued 93,750 units to the Agent with the same terms as the private placement discussed in Note 10 in connection with a financial advisory agreement. The Company issued a further 93,750 units to the Agent with the same terms as the first units issued upon completion of the purchase.

Mexico

	La		
	Calavera	Rio Minas	Total
	<u> </u>	<u> </u>	<u> </u>
Balance, December 31, 2007	\$ 1,113,406	\$ 225,931	\$ 1,339,337
Acquisition costs	-	42,500	42,500
Exploration expenditures			
Geochemistry	-	39,868	39,868
Drilling and metallurgical	338,479	10,183	348,662
Environmental permitting	5,951	321	6,272
Geological & engineering	41,791	168,268	210,059
General administration	3,127	133,595	136,722
Geologic mapping and imagery	-	160	160
Maintenance	(2,236)	4,999	2,763
Field supplies	2,641	3,340	5,981
Shipping	3,230	1,843	5,073
Travel and accommodation	19,968	46,372	66,340
	<u>412,951</u>	<u>451,449</u>	<u>864,400</u>
Balance, September 30, 2008	\$ 1,526,357	\$ 677,380	\$ 2,203,737

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8. Mineral property interests (continued)

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 (issued)
by March 31, 2008	500,000 (incurred)	-		-
by March 31, 2009	1,250,000	400,000		-
by March 31, 2010	1,250,000	400,000		-
by March 31, 2011	1,500,000	400,000		-
by March 31, 2012	1,500,000	-		-
	<u>US\$ 6,000,000</u>	<u>US\$ 1,300,000</u>		<u>500,000</u>

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

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.

Pinnacle Mines Ltd.
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Notes to the Consolidated Financial Statements
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For the Period Ended September 30, 2008

9. Equipment

	September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 38,705	\$ 22,180	\$ 16,525
Other equipment	53,259	16,146	37,113
Mining equipment	13,363	4,195	9,168
Vehicle	58,470	22,512	35,958
	<u>\$ 163,797</u>	<u>\$ 65,033</u>	<u>\$ 98,764</u>
	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>

10. Share capital and contributed surplus

	<u>Common Shares</u>	
	<u>Number</u>	<u>Amount</u>
Authorized:		
Unlimited number of common shares without par value		
Issued:		
Balance, December 31, 2007	25,123,647	\$ 23,547,649
Issued for mineral properties (Note 8)	250,000	42,500
Tax benefits renounced to flow-through share subscribers (Note 15)	-	(650,000)
Brokered private placement, net of share issue costs \$147,968	3,500,000	570,782
Non-brokered private placement, net of share issue costs \$22,750	1,215,000	220,250
Financial advisory units	187,500	37,500
Issued for mineral properties (Note 8)	13,500,000	2,430,000
	<u>43,776,147</u>	<u>\$ 26,198,681</u>
Balance, September 30, 2008	<u>43,776,147</u>	<u>\$ 26,198,681</u>

Pinnacle Mines Ltd.
(A development stage enterprise)
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10. Share capital and contributed surplus (continued)

Private placements

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 with a value of \$24,602. Each agent's option is 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 \$5,642 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%.

On April 24, 2008 the Company revised the financing from the originally 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 the same terms as the private placement.

On August 11, 2008 after completion of the Tenajon agreement the Company issued a further 93,750 units to the Agent with the same terms as the private placement in connection with a financial advisory agreement.

Stock options

During 1997 the Company established a share option plan whereby the board of directors may from time to time grant stock options to directors, officers, employees or consultants. This plan was revised on May 16, 2003 such that the maximum number of shares subject to the plan, in the aggregate, may not exceed 10% of the Company's issued shares.

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 five year.

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10. Share capital and contributed surplus (continued)

Stock option activity for the respective periods is as follows:

	September 30, 2008		December 31, 2007	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Options outstanding, beginning of period	1,750,000	\$ 0.46	1,485,000	\$ 0.75
Granted	70,000	0.20	1,000,000	0.40
Exercised	-	-	(90,000)	0.40
Expired	-	-	(50,000)	0.50
Cancelled	(275,000)	0.39	(595,000)	0.99
Options outstanding, end of period	<u>1,545,000</u>	0.46	<u>1,750,000</u>	0.46
Options exercisable, end of period	<u>1,510,000</u>	\$ 0.47	<u>1,581,250</u>	\$ 0.50

The options outstanding and exercisable at September 30, 2008 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
\$0.20-\$0.39	195,000	\$ 0.23	2.60	160,000	\$ 0.24
\$0.40-\$0.59	1,085,000	0.41	3.21	1,085,000	0.41
\$0.60-\$0.95	265,000	0.87	1.60	265,000	0.87
	<u>1,545,000</u>	\$ 0.46	2.86	<u>1,510,000</u>	\$ 0.47

During the nine-month period ended September 30, 2008 the Company recognized \$57,336 (2007 - \$100,133) of stock based compensation expense. The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date using the following weighted average assumptions:

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	3.44%	4.0%
Dividend yield	Nil	Nil
Expected volatility	104%	139%
Expected option life	5.0 years	3.31 years

The weighted average grant-date fair value of the options granted in the nine-month period ended September 30, 2008 is \$0.18 (2007 - \$0.31).

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10. Share capital and contributed surplus (continued)

Warrants

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

	September 30, 2008		December 31, 2007	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Warrants outstanding, beginning of period	2,206,559	\$ 1.02	3,287,368	\$ 1.12
Issued	2,451,250	0.30	2,030,000	1.00
Expired	(176,559)	0.83	(3,110,809)	1.12
Warrants outstanding, end of period	<u>4,481,250</u>	\$ 0.62	<u>2,206,559</u>	\$ 1.02

Full share equivalent warrants outstanding and exercisable at September 30, 2008:

<u>Description</u>	<u>Number of Full Share Equivalent Warrants</u>	<u>Price Per Share</u>	<u>Expiry Date</u>
Warrants	2,000,000	\$ 1.00	April 9, 2009
Warrants	30,000	1.00	April 9, 2009
Warrants	2,404,375	0.30	April 3, 2009
Warrants	<u>46,875</u>	0.30	August 11, 2009
	<u>4,481,250</u>		

Agent's options

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

	September 30, 2008		December 31, 2007	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Agent options outstanding, beginning of period	320,000	\$ 0.60	-	\$ -
Issued	430,250	0.20	320,000	0.60
Expired	-	-	-	-
Agent options outstanding, end of period	<u>750,250</u>	\$ 0.37	<u>320,000</u>	\$ 0.60

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10. Share capital and contributed surplus (continued)

The 320,000 agent's options entitle 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. The 430,250 agent's options entitle the agent to acquire one unit of the Company at \$0.20 until April 3, 2009. Each option entitles the holder to acquire at a price of \$0.20 per unit 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 fair value of these agent options was \$30,243.

Contributed surplus	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Balance, beginning of period	\$ 1,269,878	\$ 916,463
Stock-based compensation	57,336	355,795
Fair value of agent's options	30,243	26,120
Fair value of of options exercised	-	(28,500)
Balance, end of period	<u>\$ 1,357,457</u>	<u>\$ 1,269,878</u>

11. Accumulated other comprehensive loss	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Balance, beginning of period	\$ (175,997)	\$ -
Unrealized gains on available-for-sale investments at January 1, 2007	-	9,902
Unrealized loss on available-for-sale investments in the period	<u>(98,534)</u>	<u>(185,899)</u>
Balance, end of period	<u>\$ (274,531)</u>	<u>\$ (175,997)</u>

12. Change in non-cash operating working capital

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Receivables	\$ 275,911	\$ (18,693)	\$ 394,087	\$ 68,421
Prepays	(3,858)	(37,977)	26,644	(22,458)
Payables and accruals	<u>(9,966)</u>	<u>27,367</u>	<u>(7,125)</u>	<u>(13,107)</u>
	<u>\$ 262,087</u>	<u>\$ (29,303)</u>	<u>\$ 413,606</u>	<u>\$ 32,856</u>

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13. 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 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.

14. Related party transactions

During the nine-month period ended September 30, 2008, the Company incurred fees of \$58,334 (2007 - \$156,668) with directors for management consulting services. This amount has been included in management services expense on the statement of operations.

Included in payables is an amount of \$4,438 (2007 - nil) 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 the nine-month period ended September 30, 2008, these reimbursements totalled \$67,441 (2007: \$17,818). Lincoln and the Company have one director 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.

15. Income taxes

During the year ended December 31, 2007 the Company issued 4,000,000 common shares on a flow-through basis for gross proceeds of \$2,000,000. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenses incurred on the Company's mineral properties to the flow-through participants. During the period ended September 30, 2008, the Company has renounced exploration expenditures of \$2,000,000 which resulted in a future income tax recovery and a charge against capital stock of \$650,000.

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15. Income taxes (continued)

The future income tax liability of \$900,000 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 8).

16. Supplementary cash flow information

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007			
Investments held in short term received \$	-	\$	-	\$	-	
Investments held in short term received for mineral property interests	\$	-	\$	345,000	\$	345,000
Shares issued for mineral property	\$	-	\$	52,500	\$	2,472,500
Agent compensation options	\$	-	\$	-	\$	30,244
Financial advisory units	\$	18,750	\$	-	\$	37,500

17. Financial instruments and risk management

(a) Fair value

The Company's financial instruments consist of cash and cash equivalents, short-term investments, receivables, deposits, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments.

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.

(a) 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.

(b) Credit risk

The Company's cash and cash equivalents are 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.

(c) Interest rate risk

There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

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17. Financial instruments and risk management (continued)

(d) 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.

(e) 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 metals prices to determine the appropriate course of action to be taken by the Company.

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 located in Mexico as disclosed in Note 8.

The Company operates in two geographical segments: Canada and Mexico. Corporate administrative activities are conducted from Canada. The assets at September 30, 2008 and December 31, 2007 identifiable to these segments are as follows:

	<u>Canada</u>	<u>Mexico</u>	<u>Corporate</u>	<u>Total</u>
Long Lived Assets				
September 30, 2008 \$	9,603,729	\$ 2,203,737	\$ 676,823	\$ 12,484,289
December 31, 2007	4,764,904	1,339,337	147,217	6,251,458