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# Pinnacle Mines Ltd.

FORM 51-102F1

## MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) AS OF MAY 25, 2009 TO ACCOMPANY THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF PINNACLE MINES LTD. FOR THE THREE MONTHS ENDED MARCH 31, 2009.

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Management's Discussion and Analysis (MD&A) supplements, but does not form part of the unaudited interim consolidated financial statements of the Company and the notes thereto for the period ended March 31, 2009. Consequently, the following discussion and analysis of the financial condition and results of operations for Pinnacle Mines Ltd. ("Pinnacle", or the "Company") should be read in conjunction with the unaudited interim financial statements for the three month period ended March 31, 2009 and related notes therein, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

This discussion and analysis should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2008 and the notes thereto.

This MD&A contains certain forward looking statements based on the best beliefs, and reasonable assumptions of the management of Pinnacle Mines Ltd. There are many risks and uncertainties attached to the mineral exploration business. Given these risks and uncertainties, the reader should not place undue reliance on these forward looking statements. See additional comments and discussion under Risks and Uncertainties in this MD&A.

### Overall Performance

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Pinnacle Mines Ltd. (the "Company" or "Pinnacle") is an exploration stage company located at Suite 350-885 Dunsmuir Street, Vancouver, BC, engaged in the acquisition, exploration and development of mineral properties in British Columbia, Canada and Oaxaca, Mexico. The Company is a reporting issuer in BC and Alberta. On June 30, 2003 Broadlands Resources Ltd. consolidated its share capital and changed its name to Pinnacle Mines Ltd. The Company is now subject to the Business Corporations Act of BC. The Company is a Tier 2 issuer on the TSX Venture Exchange, trading under the symbol PNL.

The issued capital of the Company as of May XX, 2009 is 91,576,147 common shares. The authorized capital of the Company is an unlimited number of common shares.

The Strategic Plan of the Company is to achieve cash flow from a mining operation or operations as quickly as possible and this cash flow will be used to carry on with resource exploration and project development. In this regard, the Company's Business Plan is to acquire properties of merit and take them through the exploration phase and hopefully through feasibility and on to construction and operations. The Company will also consider joint venturing its own properties so that some of the risk and cost associated with this work is carried by others.

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# Pinnacle Mines Ltd.

## Selected Annual Information for the Three Month Periods ended March 31st

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Period Ended March 31,	2009	2008	2007
<b>Financial results:</b>			
Net (loss) gain for the period	\$ (177,750)	\$ 370,162	\$ (328,679)
Basic and diluted gain (loss) per share	(0.00)	0.01	(0.02)
<b>Balance sheet data:</b>			
Cash and short term deposits	1,872,524	1,863,587	3,174,998
Mineral properties	9,904,555	6,555,274	4,637,358
Total assets	12,048,420	9,209,620	8,321,589
Future income tax liability	925,000	-	-
Shareholders' equity	10,949,838	8,741,923	8,199,417
<b>Cash flow data:</b>			
Exploration expenditures	(273,020)	(441,175)	(165,155)
Common share proceeds (gross)	-	20,000	-

The Company did not have any sales, discontinued operations, extraordinary items, cash dividends or long-term liabilities in the period under review. Material factors affecting operations and mineral property expenditures are described elsewhere in this MD&A.

Pinnacle started 2009 with a positive cash position of \$2,395,763 and by the end of the period this position had decreased to \$1,872,524. During this first period the working capital of the Company decreased by \$177,192. This decrease came about as a result of mineral property expenditures and general administration expenses. General and administrative expenditures in the first quarter were reduced in 2009 from 2008 by \$98,694 due to general cost saving measures. Please refer to the Consolidated Statements of Loss, Deficit and Comprehensive Income (Loss) in the unaudited interim consolidated financial statements for the three months ended March 31, 2009 for details.

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Mineral exploration costs formed the bulk of the Company's expenditures in the period. These costs are set out in the following table:

Period Ended March 31	2009	2008	2007
Exploration expenditures			
Geochemistry	\$ -	\$ -	\$ 964
Drilling	1,119	216,825	60,121
Metallurgy	32,563	8,152	6,829
Environmental permitting	-	642	-
Geological and engineering	52,660	82,264	36,528
General administration	27,627	55,912	13,740
Geologic mapping and imagery	-	160	-
Maintenance	-	(2,236)	17,037
Field supplies	780	3,408	40
Resource estimation	16,455	6,031	17,188
Shipping	-	3,756	331
Travel and accommodation	-	33,519	12,377
Net expenditures	\$ 131,204	\$ 408,433	\$ 165,155

The decrease in exploration expenditures in the current quarter as compared to the prior year's quarter is the reduced exploration activity in Mexico.

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### Results of Operations

**Note:** All of the property reviews and technical information located below can be viewed in more detail on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.pinnaclemines.com](http://www.pinnaclemines.com).

#### Canada

##### Silver Coin:

The Silver Coin gold-silver-base metal property, optioned from Mountain Boy Minerals Ltd. ("Mountain Boy"), is located about 24 kilometers north of Stewart, British Columbia in the Skeena Mining Division. The property covers an area of Lower Jurassic-age, intensely altered intermediate volcanic rocks. Detail regional mapping conducted by government geologists indicates that the area was a regional paleotopographic high with a stratovolcano centered on the nearby Mount Dilworth. The rocks are cut by a variety of intrusive rocks of both Early Jurassic and Eocene age.

The property contains approximately 1500 hectares in one Crown granted claim, nine Reverted Crown granted claims, ten – two post claims and six modified grid claims.

During the third quarter of 2004 the Company entered into an option agreement with Mountain Boy to acquire a 51% interest in its 100% owned Silver Coin and FR claims and its 55% owned Dauntless claims by spending \$1.75 million on exploration over a three year period. In addition the Company can earn another 9% in the properties by bringing one to commercial production.

During the fourth quarter of 2004, the Company entered into an agreement with Tenajon Resources Corp. ("Tenajon") to acquire a 60% interest in its Kansas property, by incurring

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exploration expenditures totaling \$1 million over a four year period, making a \$50,000 cash payment and issuing 77,000 common shares. The Company can increase its ownership in the Kansas property to 70% by completing a feasibility study within four years of earning its 60% interest. The letter agreement was signed on Oct. 23, 2004 and the companies agreed to complete a full option agreement within six months. A full joint venture agreement between Tenajon and Pinnacle was completed in May of 2005. In 2005 the Company incorporated the Kansas Claim joint venture between Pinnacle and Tenajon into the Mountain Boy/ Pinnacle joint venture.

The Kansas property is a crown grant and is 19.5 hectares in size. The property is surrounded by the Silver Coin property. A technical report by Westmin Resources Limited in 1995 calculated the uncut gold reserves on the Kansas at 1,774,000 tons grading 2.20 g/t (124,889 ounces of gold). This calculation was completed prior to National Instrument 43-101, is historic in nature and has not been reclassified to current categories; however management believes that the results and calculations were generated using accepted and proven geologic and engineering practices and are reliable and relevant.

On April 15, 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.

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. 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 which the Company declined.

### **The 2006 Program at Silver Coin**

Initially 3,500 meters of drilling, as well as several kilometers of trenching, and over 1,000 soil samples were planned for the 2006 exploration season. However part way through the summer the Company completed a private placement of \$1,950,000. As a result of the new funding the drilling program was expanded and over 8,000 meters of drilling was completed. The 2006 drilling was designed to extend and better define the known mineralization in an area that contains the Perseverance zone, the Snowball zone, the Kansas and Kansas West zones and the 35 zone. Enough drilling was completed in 2005 and 2006 to start constructing a mineral resource estimate according to 43-101 standards.

Results of some of the holes drilled in 2006 can be found on our website.

### **The 2007 Program at Silver Coin**

A great deal was accomplished in 2007 on the Silver Coin project. An updated resource calculation was completed by MineFill Services Inc. and the new estimate was released. It has since been filed on SEDAR.

This latest mineral resource significantly increased and improved on the last resource estimate published in March 2006, which only referred to inferred resources. MineFill was able to upgrade roughly 40 percent of the resources from inferred to measured and indicated. The new resource estimate includes 947,988 ounces of gold in the inferred category and 423,002 ounces of gold in the measured and indicated category.

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This updated resource includes 182 surface diamond drill holes completed in 2005 and 2006 under the supervision of the Company's geologists and 417 historical drill holes of which 288 were drilled from underground. The resource is based on drilling along 700 meters of strike length within a mineralized zone that has been identified over a distance of at least 2500 meters that remains open to the south, east and north. Trenching to the north along the mineralized structure has returned values up to 22 g/t gold.

A program of 29 holes was proposed by Pinnacle to better define and expand the in-pit resource estimate outside the Kansas claim, specifically to the north of that claim. None of the drilling was to be carried out on the Kansas claim. The program was agreed to by Mountain Boy and the drill program started in mid September. The drilling continued until late in October when snow stopped the program. A total of 16 holes of the 29 hole program were completed. Assay results were not particularly exciting however the resource will increase somewhat because of the drilling.

Due to large snowfall, the 2007 drill program on Silver Coin was shut down after completing 16 of 29 planned holes. The remaining 13 holes are scheduled to be completed next year. Holes 210, 214 and 215 did not record any significant gold values. Results of the drilling in 2007 can be found on our website.

### **2008 Exploration Program**

Initially Pinnacle designed a program to consist of 75 holes totaling 12,000 meters and was intended to increase resources and upgrade the resources already defined. The actual drilling program started in late June and was completed by early September. A total of 88 holes were completed for over 12,200 metres.

The results from the program continue to build on the size and significance of earlier Silver Coin drill results. Drilled widths of up to 54.87 meters grading 4.45 gpt gold and 77.72 meters grading 2.41 gpt gold are included in the results. Much higher grades were intersected over narrower widths such as: 4.57 meters grading 15.57 gpt gold; 1.52 meters grading 15.01 gpt gold; 3.05 meters grading 20.47 gpt gold; 15.24 meters grading 4.43 gpt gold; 6.09 meters grading 9.0 gpt gold; 12.19 meters grading 12.66 gpt gold; 42.37 meters grading 6.26 gpt gold (including 12.19 meters grading 18.16 gpt gold); 45.72 meters grading 3.78 gpt gold; 27.43 meters grading 5.40 gpt gold, etc. A body of andesite containing a network of mineralized quartz veins and veinlets, as well as disseminated gold-sphalerite mineralization forms an open-ended, N-S-elongate body approximately 700 meters along strike and 200 meters in depth.

Long sections constructed from the drill hole geochemical database indicate that the deposit is open at depth and along strike to the north. Thus, further drilling along strike to the north is planned for the 2009 field season coincident with pre-feasibility studies on the known body of mineralization.

The location of Silver Coin is ideal for the construction of a potential open pit mining operation. The road to the Granduc deposit passes through the property, linking Silver Coin with the deep water port at Stewart, B.C. The deposit is 13 kilometers north of the Silbak-Premier mine, which produced approximately 1.8-2.0M ounces of gold. An NI43-101 compliant resource calculation carried out for Silver Coin in 2007 by MineFill Services (which did not include the latest 88 holes or holes drilled during 2007). This study calculated (at a 0.75 gpt gold cut-off), a combined measured-indicated-inferred resource of 25.65M tons of mineralized rock grading 2.3 gpt gold-equivalent (gold, including the base metal credits), or 1.66 gpt gold without credits. This equates to approximately 1.5M ounces of gold. At a higher cut-off (1.5 gpt gold) the resource consists of 8.2M tons grading 5.03 gpt gold equivalent, or 1.09 M ounces of gold.

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The 2008 season started with Hole 222 and ended at Hole 310. Approximately 1.26 kilometers of diamond drilling was completed this season. A chronological breakdown of all diamond drill results can be found on the Company's web site. Gold is the primary metal on the Silver Coin property. To give the reader an idea of the overall significance and magnitude of the property's potential value, the results in 2008 include only 4 holes which were assayed with less than .5 g/t gold and are listed as "No Significant Results" although these holes did contain mineralization and/or base metal values.

With the completion of the latest drill program the project is moving towards the pre-feasibility stage of development. Snowden Engineering has begun work on an updated 43-101 compliant resource calculation, Eagle Mapping has delivered detailed topographic coverage for mine-planning purposes, and F.W. Wright Consulting Inc. is continuing with metallurgical studies (initial flotation recoveries averaged 94% for gold in test work completed to date).

### Other Work

In addition to the drill program, environmental base line studies have been suggested and a limited program of metallurgical testing is also underway. Both Mountain Boy and the Company must agree on the proposals before extensive metallurgical work can begin. The Company has, on its own, hired an environmental consulting firm to prepare a plan for remediation work at the site. The Company has received notice from the Ministry of Mines that the reclamation bond has been increased by \$20,000.

The Company has also carried out at its own cost the basic metallurgical analysis. Pinnacle believes that this limited work has to be completed now so that all future exploration and development programs can be better designed. Our partner Mountain Boy is not participating in this program.

The current resource estimate is located primarily within the Kansas claim and the immediate surrounding area including the Big Missouri claim (51% Pinnacle-49% Mountain Boy), as drilling was concentrated in these areas. In 1991 the Facecut zone, located on the Big Missouri, produced 102,539 tonnes at an average grade of 8.9 g/t Au and 55.50 g/t Ag. Work during 2005 and 2006 has extended this high grade mineralization (Facecut Zone) at least 200 meters north of the stoped area. DDH-2005-89 intersected 11.59 meters of 9.89 g/t gold approximately 100 meters north of the mined area. Future drilling will concentrate on this area to the north.

Updated Mineral Resource Estimate for Silver Coin

(Above a Cutoff Grade of 0.75 g/t Au-eq.)

Class	Tonnes	Au	Ag	Zn	Au	Au-Eq (oz)
		g/t	g/t	%	(oz)	(Au, Ag only)
Measured	1,073,891	3.481	14.191	0.432	120,181	129,513
Indicated	8,633,606	1.091	10.567	0.288	302,822	358,689
<b>M+I</b>	<b>9,707,497</b>	<b>1.355</b>	<b>10.968</b>	<b>0.304</b>	<b>423,002</b>	<b>488,202</b>
<b>Inferred</b>	<b>15,947,629</b>	<b>1.849</b>	<b>5.377</b>	<b>0.273</b>	<b>947,988</b>	<b>1,000,499</b>

\* Au-eq values calculated from \$525/oz for Au, \$10/oz for Ag.

\* Metallurgical recoveries and net smelter returns are assumed to be 100%.

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The inferred total has been almost doubled plus we have added an additional 423,002 to the measured and indicated categories.

In addition to the above results, MineFill report the following resources at a range of cutoff value

Updated Mineral Resource Estimate for Silver Coin

<b>Cutoff Grade</b>	<b>Tonnes</b>	<b>Au</b>	<b>Ag</b>	<b>Zn</b>	<b>Au</b>	<b>Au-Eq (oz)</b>
<b>Au-Eq</b>		<b>g/t</b>	<b>g/t</b>	<b>%</b>	<b>(oz)</b>	<b>(Au, Ag only)</b>
0.25	76,599,380	0.717	3.781	0.155	1,765,689	1,943,044
0.5	41,636,771	1.161	5.54	0.217	1,554,100	1,695,353
0.75	25,655,126	1.662	7.492	0.285	1,370,803	1,488,505
1	16,760,494	2.259	9.629	0.363	1,217,231	1,316,059
1.25	11,426,111	2.982	12.059	0.451	1,095,408	1,179,784
1.5	8,245,680	3.809	14.919	0.535	1,009,735	1,085,067

The new resource was classified in accordance with CIMM (2000) standards.

The updated resource includes a high grade core of 8.25 million tonnes grading over 5.0 g/t Au-equivalent (3.8 g/t Au, 14.9 g/t Ag, 0.04% Cu and 0.54% Zn) containing just over 1 million ounces of gold.

Resources on the Kansas claim, at a 0.75 g/t Au-equivalent cutoff include 7.225 million tonnes measured and indicated grading 1.532 g/t Au, 9.998 g/t Ag, 0.013% Cu and 0.329% Zn, and 10.256 million tonnes inferred grading 2.146 g/t Au, 5.572 g/t Ag, 0.009% Cu and 0.26% Zn. Contained metal on the Kansas claims include 355,924 ounces of measured and indicated gold and 2.322 million ounces of silver, and 707,605 ounces of inferred gold and 1.837 million ounces of silver.

A comprehensive program of data verification was undertaken by MineFill Services prior to the building of a block model in SURPAC. The mineral resource estimate was then generated by ordinary kriging using uncapped gold, silver and zinc values.

The Qualified Person for this release is Dr David Stone, P.Eng., P.E. of MineFill Services, Inc., Vancouver, B.C.

The Company has started its own resource calculation as well which will be compared to the results that Snowden has produced. Our calculations will be completed in the second quarter of 2008.

### First Quarter 2009 Work Program at Silver Coin

There was no physical exploration carried out on the property during the first quarter. However a geological report was initiated and metallurgical studies continued.

The metallurgical program was initiated by the metallurgist and project geologist selecting assay reject samples from various areas of the resource to conduct laboratory test work and

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environmental acid base accounting analyses in January. Selected metallurgical samples were composited and subjected to head characterization and bench scale testing. The laboratory work to the end of the March consisted of preliminary open cycle flotation studies to better define the process conditions including grind and reagents. This work is ongoing and will ultimately include flotation variability testing, solid liquid separation and tailing characterization. Archived drill core sample from site is planned to be retrieved and will be used for comminution studies later this year. Based on discussions with related mining consultants and the process studies to date, a concept flow-sheet has been developed with corresponding mass balance assuming a feed throughput of 6000 tonnes /day. Based on this the operating costs are being formulated, along with ongoing selection for sizing and pricing of comminution and concentration equipment to be used as part of the prefeasibility evaluation.

The Bitterroot Group, a geological consulting group, from Colorado was hired to perform a geological review of the Silver Coin and write a summary report on the exploration work carried out over the last number of years. The report is due May 2009. During the last few months a great deal of report generation has been carried out.

With regards to geology, various combinations of drillhole gold assays, lithology, silicification, brecciation, faults and sulfide content were studied. Additionally, common features on all sections included fault traces, gold domains of resource blocks colored by gold grade or resource classification were studied.

- We now have vertical E-W sections every 20 meters covering the full extent of the drilled mineralization. Additionally, we have level plans, showing similar data to the vertical sections, every 20 meters from elevation 680m to 1000m RL. The combined vertical and horizontal sections seem to indicate an indirect relationship, at best, between previously mapped faulting and gold
- Scanning of the pre 2004 drill logs continues. The first of two planned sectional interpretations has been started. An interpretation of the separate boundaries for both silicification and brecciation on all of the vertical sections is underway and 3D "wireframes" will be generated that will be part of the future geologic model of the deposit.
- Sections displaying the down hole lithology have been started and the task of interpreting the geology onto these sections is underway. This is the first step in a full digital geologic model of the deposit.

The most complete geologic map of the Silver Coin property was apparently done in 2006 as part of a structural study of the deposit. Using both surface geologic maps and faults interpreted in the drill logs, one of the Company's consultants generated a number of 3D fault surfaces cutting through the deposit. Our geologists have gone through the full set of vertical EW cross sections and completed an interpretation of the sectional distribution of brecciation and silicification as recorded in the drill logs. These two features, silicification, in particular, seem to be the most common of the logged data to correlate with gold mineralization. As part of the Company's general assessment of the scope and potential of the Silver Coin deposit, Company personnel have recovered some reports and hard copy maps of historical surface soil and rock-chip sampling as well as maps of several historical IP geophysical surveys. We have had these maps scanned and we are currently in the process of digitizing these data for use in the GIS and future re-interpretation.

Geologists have begun an effort to determine which, if any, of the logged geologic parameters are significant predictors of gold mineralization. Additionally, these geologists are looking for correlations between gold, silver, copper, lead and zinc. Some very preliminary results suggest

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that there is somewhat low correlation between precious metals (Au and Ag) and base metals (Pb and Zn).

Pinnacle has acquired high resolution air photos of the Silver Coin deposit area and generated detailed topo contours. Unfortunately, tree cover rendered the topographic contours less accurate than earlier ground based topo surveying in some places. However, the images are an excellent addition to the database. Company geologists have worked on several refinements of how to display data to be most useful. Plotted sections on 11 x 17 paper to make them more manageable. Continue with a sectional reinterpretation of faulting and mineralization boundaries to aid in geologic interpretation. In the next quarter Company geologists will complete scans of old logs and analyze the multi-element data and map it in 2D and 3D and continue an effort to reinterpret faulting in the deposit and how it may influence grade distribution as well as researching the available information on regional and property specific geology.

### **Surprise Creek Property**

The Company acquired 40 claims units in 2003 in the Stewart area by staking an area covering several old reverted crown grants in the Bear River pass near Surprise Creek. Renamed the El Dorado, this property has had very little exploration in the last 30 years and sporadic work efforts since the early 1900s. The property is now roughly 25,000 hectares in size within one claim block. The property follows the contact zone between the Mt. Dilworth rhyolite and overlying Salmon River sedimentary formations, the same stratigraphic sequence that is host to numerous gold deposits including Eskay Creek, Snip and Premier-Big Missouri mines. The rhyolite horizon was traced along the entire north-south length of the Surprise Creek claim group.

In July of 2006 some surface reconnaissance was carried out on the property by corporate geologists. As well it was planned to drill two long holes from two locations to confirm the rock types at depth. In August one drill pad site was prepared and the second was to be constructed. Unfortunately the weather turned very bad and further work at the site was not possible and as a consequence the second pad never got constructed and the drill program was cancelled for 2006. It was planned to carry out this work in 2007.

Early in 2007 a drilling contractor was identified and a contract signed to drill at Surprise Creek starting in July. This work started in late July and was completed in the latter part of August. Four holes were complete for just under 2000 meters of drilling. At this time assays have been received on all four holes. The results were encouraging in that the general geology is becoming better understood and future drilling, if any, will reflect this knowledge. A report is being written which will include a recommendation for the specific exploration program to follow. The Company is still gathering geological information on the area and the drilling program is part of that process.

No work was carried out on the Surprise Creek Property in 2008 or the first quarter of 2009. The property is in good standing for a number of years because of the work that was performed in the past.

## **MEXICO**

### **Oaxaca State Properties**

In September 2006, the Company announced that it had reached an agreement with Chesapeake Gold Corp. ("Chesapeake") to purchase up to a 70% interest in its wholly-owned La Calavera and

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Rio Minas copper-silver-gold properties in Oaxaca, Mexico. Both the La Calavera and Rio Minas properties occur within a hundred kilometer long NW trending structural belt which host several skarn prospects and other advanced exploration projects. Regional reconnaissance has delineated an extensive zone of intrusions along this belt that have affected the limestone rocks generating numerous skarn occurrences over an area of more than 100 square kilometers around Rio Minas. At Rio Minas, the skarn zones are associated with a large circular feature about 5 kilometers in diameter and are believed to represent the surface expression of a major intrusive stock underlying the calcareous rocks.

The Company commenced work on the La Calavera property in the Sierra Madre Sur, 52 kilometers southeast of Oaxaca City in the community of San Baltazar Guelavila. The large property consists of two concessions totaling 8,267 hectares adjacent to the Cobre Grande property controlled by Linear Metals Corporation. The target at La Calavera is a copper-zinc skarn that lies on the flank of a granodiorite stock. The Company completed the cutting of lines and the IP survey which covered the "El Manguito" showing. Permitting for drilling was completed for 15 core holes. The drilling contractor Cabo Drilling moved its drills on site early in November 2007 and drilling commenced in January 2008.

By the end of February 2008 the Company had completed five holes before the program was halted. The Company's initial drill program on the property was slated for 14 holes, each 300-400 meters in depth. Targets for all holes had been identified based on geophysical and geochemical data compiled in September. Assays have been received on all holes, none of which are exciting. On February 21, 2008, a US\$430,000 option payment was due to be paid by Chesapeake to the original concession (claim) holders located at the town of San Baltazar. Unfortunately there was a problem between the claim holders who are part of the town and the town itself. As a consequence the Chesapeake payment was refused and the situation is uncertain at this time. The Company has decided that because of the poor drill results and the problems within the community to quit the project and focus on Rio Minas. The Company returned the property to Chesapeake.

The Company commenced work on the Rio Minas property in late 2007 which is located approximately 37 km southeast of the La Calavera property. The property is controlled by a different town and we do not expect to have the same problems as we had at La Calavera. The property consists of two concessions totaling 19,510 hectares in steep terrain. The target is silver-rich, polymetallic skarn adjacent to a granodiorite intrusive. Five skarn zones have been identified. Past sampling of road cuts and outcrops have revealed one zone that contains 63 meters of 0.90% copper with significant silver credits.

At Rio Minas, the skarn zones are associated with a large circular feature about 5 kilometers in diameter and are believed to represent the surface expression of a major intrusive stock underlying the calcareous rocks. A geochemical survey was conducted. An area that measures approximately 4 kilometers by 2.5 kilometers was soil sampled. An Ip program is planned. Once this work is done and mapping is completed a drill program is planned. Soil sampling to date has revealed a number of "highs" in silver and copper. In addition rock sampling of a road that crosses the property has picked up some very high values including one 27 meter long cut that grades 25.9 gpt Silver and 0.54% copper, another 63 meter section grading 75.1 gpt of silver and 0.90% copper as well as another cut 57 meters long grading 35 gpt silver and 0.54% copper. During the first quarter of 2009, Chesapeake has given notice to the Company that it has terminated its underlying option agreement with the La Calavera property owner. Chesapeake has also advised the Company that the US\$400,000 owed by March 31, 2009 is not due and the Company and Chesapeake will renegotiate and/or enter into a new option agreement with respect to the Rio Minas property.

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As of December 31, 2008, all costs relating to the La Calavera property have been written off to operations.

In the first quarter of 2009, no work was carried out in the field in Mexico. However the number of staff in our Oaxaca office was reduced and the office was consolidated into a smaller area thereby reducing costs. Some of the non essential equipment was sold.

### Summary of Quarterly Results (Unaudited)

2009 Quarterly Results:	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net loss	\$ -	\$ -	\$ -	\$ (177,750)
Basic and diluted loss per share	-	-	-	(0.00)
Total assets	-	-	-	12,048,420
Working capital	-	-	-	1,846,829
2008 Quarterly Results:	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net income (loss)	(2,724,007)	(194,317)	(263,473)	370,162
Basic and diluted earnings (loss) per share	(0.02)	(0.01)	(0.01)	0.01
Total assets	12,554,837	12,621,789	12,796,004	9,209,620
Working capital	2,024,021	479,316	2,013,300	2,047,438
2007 Quarterly Results:				
Net loss	(497,904)	(355,928)	(431,176)	(328,679)
Basic and diluted loss per share	(0.02)	(0.02)	(0.02)	(0.02)
Total assets	9,415,124	7,756,918	7,907,285	8,321,589
Working capital	2,720,375	2,247,158	2,832,315	3,519,178

No exercise or conversion is assumed during the years in which a net loss is incurred, as the effect is anti-dilutive.

#### Net Loss

In general, overall operating costs decreased in quarter 1 of 2009 in comparison to the same quarter in 2008. General and Administrative expenditures decreased to \$176,977 from \$275,671 in 2008. Expenditures in all categories with the exception of consulting and rent were down which reflected a commitment to reduce operating expenditures. The value of stock based compensation was down from \$19,794 to \$159.

The Company started 2009 with a working capital of \$2,024,021 and by the end of the quarter this position had decreased to \$1,846,829, a net decrease of \$177,192.

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## Liquidity, Capital Resources and Solvency

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The following table summarizes the Company's cash on hand, working capital and cash flow:

<b>As at</b>	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Cash and equivalents	\$ 1,872,524	\$ 2,395,763
Working capital	1,846,829	2,024,021

  

<b>Period ended</b>	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Cash used in operating activities	(375,324)	(645,554)
Cash used in investing activities	(147,915)	(2,402,700)
Cash provided by financing activities	-	3,223,930
Change in cash	<u>\$ (523,239)</u>	<u>175,676</u>

The Company is dependent on the sale of treasury shares to finance its exploration activities, property acquisition payments and general and administrative costs. The Company may have to raise additional funds in 2009 to continue its drilling program. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of financing cannot be obtained, then the Company will be forced to curtail its activities.

At March 31, 2009, the Company had no loans payable.

## Capital Resources

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The Company's capital resources are sufficient to continue its pace of mineral exploration and development. However as noted above the Company will need to raise additional funds during 2009 either by way of debt or equity financing. The Company has a commitment to explore the Silver Coin, Surprise Creek and Mexican properties. All properties have sufficient time associated with spending commitments that the Company can reduce its expenditures and still meet its obligations for a period of time.

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# Pinnacle Mines Ltd.

## Outstanding Share Data

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The Company has an authorized share capital of an unlimited number of common shares of which 91,576,147 shares were issued and outstanding at the end of quarter one 2009 and fiscal year-end December 31, 2008.

The Company has outstanding a total of 49,481,250 full share equivalent warrants outstanding as of March 31, 2009 ranging in price from \$0.07 to \$1.00 per share.

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

<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	2,357,500	0.30	April 3, 2009
Warrants	46,875	0.30	April 3, 2009
Warrants	46,875	0.30	August 11, 2009
Warrants	<u>45,000,000</u>	* 0.07	December 18, 2010
	<u>49,481,250</u>		

\* Price for second year ending December 18, 2010 is \$0.15

As of the date of the MD&A, 2,030,000 warrants with an exercisable price of \$1.00 per share and 2,404,375 with an exercisable price of \$0.30 have expired

The Company has no shares remaining in escrow at year end.

The Company has a stock option plan in place and at the end of the quarter a total of 910,000 exercisable options were outstanding at prices ranging from \$0.20 to \$0.95 per share. The weighted average exercise price is \$0.43 per share. The maximum number of shares subject to the plan, in the aggregate may not exceed 10% of the Company's issued shares. The Company uses the Black-Sholes option pricing model to estimate the fair value of the options.

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## Pinnacle Mines Ltd.

The options outstanding and exercisable at March 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
\$0.20-\$0.39	95,000	\$ 0.24	1.65	90,000	\$ 0.24
\$0.40-\$0.59	755,000	0.41	3.29	755,000	0.41
\$0.60-\$0.95	65,000	0.95	1.68	65,000	0.95
	<u>915,000</u>	<u>\$ 0.43</u>	<u>3.00</u>	<u>910,000</u>	<u>\$ 0.43</u>

See Note 9 in the unaudited interim consolidated financial statement for details.

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### Related Party Transactions

During the three-month period ended March 31, 2009, the Company incurred fees of \$17,500 (2008 - \$23,334) with companies controlled by 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 \$nil (2008 - \$4,415) owed to directors and officers of the Company. Included in receivables is \$65,231 (2008 - \$nil) owed by Lincoln Gold Corp ("Lincoln") which shares offices with the Company and has one director in common.

The Company shares office space with Lincoln and Southern Gold Resources Ltd. who reimburse each month to the Company a portion of the rent and office expenses. During the three-month period ended March 31, 2009, these reimbursements totalled \$22,614 (2008 - \$22,214).

These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the related parties, and were recorded at the exchange amount.

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### Proposed Transactions

As happens within the mineral exploration and mining development industry, the Company is continually reviewing potential merger, acquisition, investment and joint venture transactions including other opportunities that could add to shareholder value. At present there are no transactions contemplated by the Company that would affect the financial condition, results of operations and cash flow of the Company.

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# Pinnacle Mines Ltd.

## Additional Disclosure for Venture Issuers without Significant Revenue

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The Company has expensed the following material cost components:

Period ended	March 31, 2009	March 31, 2008
Consulting fees	\$ 58,577	\$ 29,246
Management services	17,500	23,334
Investor relations	11,207	40,427
Professional fees	12,868	48,678
Office	16,245	23,417
Salaries and benefits	29,303	33,019

Consulting fees of \$58,577 and \$29,246 incurred and expensed in the period ended March 31, 2009 and 2008, respectively, were paid to various consultants of the Company. In the period ended March 31, 2009 and 2008, management services of \$17,500 and \$23,334 were paid to management of the Company and professional fees of \$12,868 and \$48,678, respectively, were paid to legal counsel and auditor of the Company. The transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the related parties, and were recorded at the exchange amount. Investor relations incurred and expensed in the period ended March 31, 2009 were mainly due to the listing and regular corporate filings. Office and salaries and benefits are general administrative expenses that are included in the Statements of Loss, Deficit and Comprehensive Income (Loss) for the period ended March 31, 2009.

## Changes in Accounting Policies

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

### **(a) Goodwill and intangible assets**

The Company will adopt 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 Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

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# Pinnacle Mines Ltd.

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## Recent accounting pronouncements

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**(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. Early adoption of this Section is permitted. 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.

**(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.

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## Financial instruments

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The Company's financial instruments consist of cash, short-term investments, receivables, prepaids, payables and accruals and future income tax liability. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The carrying values of these financial instruments approximate their cost, unless otherwise noted.

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## Commitment

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As of January 1, 2009 the Company entered into an agreement with Baron Global Financial Canada Ltd. ("Baron") whereby Baron has agreed to act as a corporate advisor to the Company for a 12-month period. One of Baron's employees will act as the Chief Financial Officer of the Company. In return, the Company will pay a monthly advisory fee of \$10,000 plus taxes. The Company will also reimburse Baron all reasonable expenses.

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# **Pinnacle Mines Ltd.**

## **Investor Relations**

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Investor Relations are very important to the Company as it competes with many hundreds of other companies for the same investor interest and investment capital. Consequently the Company uses outside consultants as well as internal means to promote itself.

On March 25, 2009, the Company entered into a consulting agreement with 664991 BC Ltd. (the "Contractor") whereby the Contractor has agreed to provide investor relations services to the Company for a 6-month period commencing on March 1, 2009. In return, the Company will pay the Contractor a monthly fee of \$2,500 plus taxes and the Company will reimburse the Contractor all reasonable expenses.

In addition the Company attends at least two mining finance shows each year, including the Prospectors and Developers Association of Canada annual conference in Toronto every March. Occasionally the Company will expand its attendance to three or four shows a year.

## **Financing Activities**

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To the date of this report there have been no financing activities in 2009.

## **Risks and Uncertainties**

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Junior companies involved in mineral exploration are exposed to a business that is inherently speculative in nature, immensely competitive and is generally risky in nature for many and varied reasons. Time and money invested in exploration and development will not necessarily mean a discovery of significant value.

Metals prices are completely independent of the efforts of any one junior mining company and are very volatile which can lead to funding uncertainties and mineral discovery irregularities. In addition, the cost of doing business varies from place to place and regulations imposed by different governments can lead to exploration uncertainties.

The Company explores in Canada and Mexico. In Mexico, the Company has to deal with government policies that are different than in Canada. However laws and regulations in Mexico are well defined. Like Canada the inherent difficulties associated with acquiring land and exploring on it will continue.

The Company has limited financial resources and only has limited means to raise funds through the issue of stock. If the Company is able to find, explore and develop a mineral resource there is still no certainty that additional funds will be available to advance the project even further. Failure to obtain more financing could lead to a loss of prospective properties.

## **Off Balance Sheet Arrangements**

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To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the company.

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# Pinnacle Mines Ltd.

## **Trends**

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Trends in the industry can materially affect how well any junior exploration company is performing. In general base metal prices recently have weakened and as a result worldwide exploration has been negatively affected. The demand for metal in Europe and North America has declined. Under current adverse economic condition, the Company realized its increasing difficulties in its ability to continue to raise the financing necessary to complete the exploration and development of those projects and the existence of economically recoverable reserves within its projects. Thus, the exploration for and development of industrial mineral deposits are becoming very speculative. However use of metals in China and India may have a positive impact on overall world demand. This overall trend may continue for some time.

## **Outlook**

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The outlook for metals continues to decline and this is reflected in our Company's reduced financial strength. Metal requirements are continuing to decrease around the world and commodity prices have fallen dramatically for nearly all base metals. This is a far different situation that has prevailed in the last four to five years. The prospect for financing of all our projects has been affected negatively and this will diminish the Company scope of exploration programs in Canada and Mexico. However the Company will continue its exploration activities at the Silver Coin project with the aim of improving the quality of resources and producing a feasibility study. We continue to look at and evaluate exploration opportunities in other parts of North America. Additional funding will be required to carry out this work which may be more difficult to achieve.

## **Cautionary Statement**

This document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. All statements other than statements of historical fact herein, including, without limitation, statements regarding exploration plans and our other future plans and objectives are forward-looking statements that involve various risks and uncertainties. Such forward-looking statements include, without limitation, (i) estimates of exploration investment and scope of exploration programs, and (ii) estimates of stock-based compensation expense. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statement. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date of statements are made, and we do not undertake any obligation to update forward-looking statements should conditions or our estimates or opinions change. Forward-looking statements are subject to risks, uncertainties and other actors, including risks associated with mineral exploration, price volatility in the mineral commodities we seek, and operational and political risks.