

# **Pinnacle Mines Ltd.**

## **Interim Consolidated Financial Statements**

For the third quarter ended

September 30, 2009

(unaudited – prepared by management)

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**PINNACLE MINES LTD**

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### **NOTICE TO READER**

These unaudited interim consolidated financial statements for the third financial quarter ended September 30, 2009 have not been reviewed by our auditors, Davidson & Company, Chartered Accountants. 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 consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008.

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**Pinnacle Mines Ltd.**  
**Consolidated Balance Sheets**  
 Unaudited – prepared by management

	September 30, 2009	December 31, 2008
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 1,048,980	\$ 2,395,763
Short-term investments (Note 5)	207,040	38,249
Receivables	89,270	67,991
Prepays	12,222	24,426
	<u>1,357,512</u>	<u>2,526,429</u>
Environmental reclamation deposits (Note 6)	40,000	55,000
Mineral property interests (Note 7)	9,498,576	9,885,663
Equipment (Note 8)	22,137	87,745
	<u>\$ 10,918,225</u>	<u>\$ 12,554,837</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 82,253	\$ 502,408
Future income tax liability	892,500	925,000
	<u>974,753</u>	<u>1,427,408</u>
<b>Shareholders' Equity</b>		
Share capital (Note 9)	28,601,336	28,601,336
Contributed surplus	1,390,253	1,327,153
Accumulated other comprehensive loss	(29,268)	(319,728)
Deficit	(20,018,849)	(18,481,332)
	<u>9,943,472</u>	<u>11,127,429</u>
	<u>\$ 10,918,225</u>	<u>\$ 12,554,837</u>

Ability to continue as a going concern (Note 2)  
 Commitments (Note 13)  
 Subsequent events (Note 19)

**Approved on Behalf of the Board**

"Herrick Lau" Director  
 Herrick Lau

"Lawrence A. Dick" Director  
 Lawrence A. Dick

See accompanying notes to the consolidated financial statements.

## Pinnacle Mines Ltd.

### Consolidated Statement of Changes in Shareholders' Equity

Unaudited – prepared by management

	Number of Shares	Common Shares	Share Subscriptions Received	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)	-	-	-	-	-	-
Unrealized gain on available-for-sale securities	-	-	-	-	290,460	-	290,460
Stock-based compensation (note 10)	-	-	-	63,100	-	-	63,100
Loss for the period	-	-	-	-	-	(1,537,517)	(1,537,517)
<b>Balance - September 30, 2009</b>	91,576,134	\$ 28,601,336	\$ -	\$ 1,390,253	\$ (29,268)	\$ (20,018,849)	\$ 9,943,472

See accompanying notes to the consolidated financial statements.

**Pinnacle Mines Ltd.**  
**Consolidated Statements of Loss, Deficit and**  
**Comprehensive Income (Loss)**  
Unaudited – prepared by management

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
General and administrative expenses				
Amortization	\$ 1,404	\$ 9,294	\$ 15,433	\$ 25,305
Consulting services	65,788	17,710	184,165	72,876
Foreign exchange (gain) loss	(7,093)	(3,409)	(11,847)	9,211
Management services (Note 14)	11,813	17,500	46,813	58,334
Investor relations	8,883	14,675	28,578	77,426
Professional fees	17,912	27,868	51,277	153,433
Office	12,472	16,342	44,612	51,226
Rent	5,357	17,530	43,204	52,142
Salaries and benefits	14,511	25,110	61,773	86,014
Regulatory and shareholder services	1,539	1,271	34,670	35,569
Stock-based compensation (Note 10)	62,941	19,934	63,100	57,336
Travel	1,154	5,704	10,549	30,845
	<u>196,681</u>	<u>169,529</u>	<u>572,327</u>	<u>709,717</u>
Loss before undernoted income (expenses)	<u>(196,681)</u>	<u>(169,529)</u>	<u>(572,327)</u>	<u>(709,717)</u>
Write-down of mineral property interests (Note 7)	(685,003)	-	(913,249)	-
Write-down of project deposits (Note 6)	(15,000)	-	(15,000)	-
Property investigations	(1,225)	-	(8,738)	-
Loss on sale of short-term investments	(44,846)	(54,886)	(44,846)	(59,239)
Interest and miscellaneous income	4,786	30,098	6,532	31,328
Loss on sale of equipment	(21,463)	-	(22,389)	-
	<u>(762,751)</u>	<u>(24,788)</u>	<u>(997,690)</u>	<u>(27,911)</u>
Loss before income taxes	<u>(959,432)</u>	<u>(194,317)</u>	<u>(1,570,017)</u>	<u>(737,628)</u>
Income tax expense	(60,000)	-	(60,000)	-
Future income tax recovery	92,500	-	92,500	650,000
Net income (loss) for the period	<u>\$ (926,932)</u>	<u>\$ (194,317)</u>	<u>\$ (1,537,517)</u>	<u>\$ (87,628)</u>
Gain (loss) per share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.00)</u>
Weighted average common shares outstanding	<u>91,576,143</u>	<u>43,733,908</u>	<u>91,576,143</u>	<u>33,966,758</u>

See accompanying notes to the consolidated financial statements.

# Pinnacle Mines Ltd.

## Consolidated Statements of Cash Flows

### Unaudited – prepared by management

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cash derived from (applied to)				
<b>Operating activities</b>				
Net income (loss) for the period	\$ (926,932)	\$ (194,317)	\$ (1,537,517)	\$ (87,628)
Amortization	1,404	9,294	15,433	25,305
Loss on sale of short-term investments	44,846	54,886	44,846	59,239
Loss on sale of capital assets	(22,389)	-	(22,389)	-
Stock-based compensation (Note 10)	62,941	19,934	63,100	57,336
Future income tax recovery	-	-	-	(650,000)
Write-down of mineral properties	685,003	-	913,249	-
Write-down of project deposits	15,000	-	15,000	-
Write-down of capital assets	13,316	-	13,316	-
Change in non-cash operating working capital (Note 12)	215,941	262,088	(214,332)	413,607
	<u>89,130</u>	<u>151,885</u>	<u>(709,294)</u>	<u>(182,141)</u>
<b>Financing activities</b>				
Shares issued for cash, net of costs	-	6,757	-	821,275
<b>Investing activities</b>				
Mineral property expenditures				
Project deposit	-	(15,000)	-	(15,000)
Exploration expenditures	(422,125)	(1,498,541)	(713,970)	(2,515,620)
Recovery of IVA taxes - Mexico	-	-	112,911	-
Acquisition costs	(340,000)	-	(340,000)	-
Proceeds from sale of mineral property interest	200,000	-	200,000	-
Deposit	-	100,000	-	-
Proceeds on sale of short-term investments	76,823	23,263	76,823	34,353
Proceeds on sale of equipment	18,099	-	30,892	-
Purchase of equipment	-	(16,853)	(4,145)	(16,853)
	<u>(467,203)</u>	<u>(1,407,131)</u>	<u>(637,489)</u>	<u>(2,513,120)</u>
Decrease in cash and cash equivalents	(378,073)	(1,248,489)	(1,346,783)	(1,873,986)
Cash and cash equivalents				
Beginning of period	1,427,053	1,594,590	2,395,763	2,220,087
End of period	<u>\$ 1,048,980</u>	<u>\$ 346,101</u>	<u>\$ 1,048,980</u>	<u>\$ 346,101</u>
<b>Cash and cash equivalents comprise:</b>				
Cash	\$ 59,980	\$ 346,101	\$ 59,980	\$ 346,101
Cashable guaranteed investment certificates	989,000	-	989,000	-
	<u>\$ 1,048,980</u>	<u>\$ 346,101</u>	<u>\$ 1,048,980</u>	<u>\$ 346,101</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)

See accompanying notes to the consolidated financial statements.

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# **Pinnacle Mines Ltd.**

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

### **Unaudited – prepared by management**

For the Period Ended September 30, 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 particularly the Silver Coin gold deposit located in Stewart, BC. 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 interim unaudited 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 September 30, 2009 the Company has no source of operating cash flow and has an accumulated deficit of approximately \$20 million. Operations for the period ended September 30, 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.

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# **Pinnacle Mines Ltd.**

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

### **Unaudited – prepared by management**

For the Period Ended September 30, 2009

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### **3. Basis of presentation and adoption of accounting policies**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP for the presentation of interim financial information. These consolidated financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent audited annual consolidated financial statements of the Company for the year ended December 31, 2008.

#### **Presentation**

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

The financial statements follow the same accounting policies and methods of their application as the annual financial statements except as described below.

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 adoption of this section has had no significant impact on the Company's financial statements.

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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**  
 Unaudited – prepared by management  
 For the Period Ended September 30, 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 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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**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>
September 30, 2009			
Mountain Boy Minerals Ltd.	504,975	\$ 236,308	\$ 207,040
December 31, 2008			
Mountain Boy Minerals Ltd.	764,975	\$ 357,977	\$ 38,249

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**6. Environmental reclamation deposits**

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

	<u>September 30, 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>

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**Pinnacle Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
Unaudited – prepared by management  
For the Period Ended September 30, 2009

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**7. Mineral property interests**

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

	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
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	114,790	-	114,790
Environmental	25,014	-	25,014
Geological & engineering	209,524	14,600	224,124
General administration	8,465	39,392	47,857
Geologic mapping and imagery	80	-	80
Field supplies	1,875	2,319	4,194
Maintenance	1,270	5,656	6,926
Resource estimation	62,967	-	62,967
Site office	1,914	-	1,914
Travel & accomodation	10,088	-	10,088
Recovery of IVA taxes	-	(112,911)	(112,911)
	<u>777,106</u>	<u>(50,944)</u>	<u>726,162</u>
Sale of mineral property	(200,000)	-	(200,000)
Properties written-off	<u>(228,957)</u>	<u>(684,292)</u>	<u>(913,249)</u>
Balance, September 30, 2009	<u>\$ 9,498,576</u>	<u>\$ -</u>	<u>\$ 9,498,576</u>

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**Pinnacle Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
Unaudited – prepared by management  
For the Period Ended September 30, 2009

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

**Canada**

	Silver Coin and Kansas	Summit Lake	Other	Total
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	114,790	-	-	114,790
Environmental	25,014	-	-	25,014
Geological & engineering	209,524	-	-	209,524
General admin	7,754	711	-	8,465
Geologic mapping and imagery	80	-	-	80
Maintenance	24	1,246	-	1,270
Field supplies	1,875	-	-	1,875
Resource estimation	62,967	-	-	62,967
Site office	1,914	-	-	1,914
Travel and accommodation	10,088	-	-	10,088
Sale of mineral property	-	(200,000)	-	(200,000)
Properties written-off	-	(228,957)	-	(228,957)
	<u>775,149</u>	<u>(427,000)</u>	<u>-</u>	<u>348,149</u>
Balance, September 30, 2009	<u>\$ 9,481,625</u>	<u>\$ -</u>	<u>\$ 16,951</u>	<u>\$ 9,498,576</u>

**(a) Silver Coin Property**

On August 4, 2004 the Company entered into an option agreement with Mountain Boy Minerals Ltd. ("Mountain Boy") whereby the Company can earn 51% of Mountain Boy's interest in its 100% owned Silver Coin and 55% owned Dauntless projects as well as the 100% owned FR claims by spending \$1.75 million on exploration on the Silver Coin Property over a three year period (incurred). In March 2006, the Company earned a 51% interest in the Silver Coin property.

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

On July 6, 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). The Company can further increase its ownership to 80% after spending \$4,000,000 on exploration and development expenditures by no later than July 31, 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 100% sale of the properties interests should this option present itself and prove beneficial to both companies.

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**Pinnacle Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
Unaudited – prepared by management  
For the Period Ended September 30, 2009

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

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

In October 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 29, 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.

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. 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 \$925,000, subsequently reduced on the sale of Summit Lake 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 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 held by Tenajon on the Summit Lake property by paying \$115,000 which the Company declined.

On June 30, 2009, the Company sold the Summit Lake Property for a payment of \$200,000, and wrote the carrying value of the property to the value of the cash received.

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**Pinnacle Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
Unaudited – prepared by management  
For the Period Ended September 30, 2009

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

**Mexico**

	<u>Rio Minas</u>
Balance, December 31, 2008	\$ 735,236
Acquisition costs	-
Exploration expenditures	
Geological & engineering	14,600
General administration	39,392
Maintenance	5,656
Field supplies	2,319
Recovery of IVA taxes	<u>(112,911)</u>
	(50,944)
Properties written-off	<u>(684,292)</u>
Balance, September 30, 2009	\$ <u>-</u>

During the quarter, the Company made the decision to close its operations in Mexico and, though the process is not complete, has written down its Mexican properties to reflect this decision.

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**Pinnacle Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
Unaudited – prepared by management  
For the Period Ended September 30, 2009

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**8. Equipment**

	Computer equipment	Other equipment	Software	Vehicle	Mining equipment	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	-	-	4,145
Disposals	(37,760)	(28,662)	-	(55,665)	-	(122,087)
Impairment	(945)	-	-	-	(6,429)	(7,374)
At September 30, 2009	-	24,597	4,145	-	6,934	35,676
<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
Disposals	-	-	-	-	-	-
At December 31, 2008	23,849	18,329	-	26,796	4,273	73,247
Charge for the period	2,544	4,378	1,554	5,493	1,464	15,433
Disposals	(26,393)	(13,163)	-	(32,289)	(3,296)	(75,141)
At September 30, 2009	-	9,544	1,554	-	2,441	13,539
<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 September 30, 2009 \$	- \$	15,053 \$	2,591 \$	- \$	4,493 \$	22,137

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**9. Common Shares**

a) Authorized share capital

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

b) Issued share capital

At September 30, 2009 there were 91,576,134 common shares issued and outstanding (December 31, 2008 – 91,576,147 common shares).

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**Pinnacle Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
Unaudited – prepared by management  
For the Period Ended September 30, 2009

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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 ¼ 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.

Stock option activity for the respective years is as follows:

	September 30, 2009		December 31, 2008	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Options outstanding, beginning of period	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	(455,000)	0.42	(610,000)	0.46
Options outstanding, end of period	<u>1,015,000</u>	0.28	<u>1,030,000</u>	0.45
Options exercisable, end of period	<u>977,500</u>	\$ 0.28	<u>1,020,000</u>	\$ 0.45

The options outstanding and exercisable at September 30, 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	620,000	\$ 0.16	1.91	582,500	\$ 0.16
\$0.40-\$0.59	355,000	0.41	2.73	355,000	0.41
\$0.60-\$0.95	40,000	0.95	1.18	40,000	0.95
	<u>1,015,000</u>	\$ 0.28	2.68	<u>977,500</u>	\$ 0.28

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**10. Stock Options (continued...)**

During the nine-month period ended September 30, 2009 the Company recognized \$63,100 (2008 - \$57,336) 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>2009</u>	<u>2008</u>
Risk-free interest rate	1.28%	3.44%
Dividend yield	Nil	Nil
Expected volatility	187%	104%
Expected option life	2.0 years	5.0 years

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**11. Warrants**

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

	<u>September 30, 2009</u>		<u>December 31, 2008</u>	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Warrants outstanding, beginning of period	49,481,250	\$ 0.12	2,206,559	\$ 1.02
Issued	-	-	47,451,250	0.08
Expired	<u>(4,481,250)</u>	0.62	<u>(176,559)</u>	1.20
Warrants outstanding, end of period	<u>45,000,000</u>	\$ 0.07	<u>49,481,250</u>	\$ 0.12

Full share equivalent warrants outstanding and exercisable at September 30, 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> *	0.07	December 18, 2010
	<u>45,000,000</u>		

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

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**11. Warrants (continued...)**

**Agent's options**

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

	September 30, 2009		December 31, 2008	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Agent options outstanding, beginning of period	750,250	\$ 0.37	320,000	\$ 0.60
Issued	-	-	430,250	0.20
Expired	(750,250)	0.37	-	-
Agent options outstanding, end of period	<u>-</u>	<u>\$ -</u>	<u>750,250</u>	<u>\$ 0.37</u>

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**12. Change in non-cash operating working capital**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Receivables	\$ 208,192	\$ 275,911	\$ (21,279)	\$ 394,087
Prepays	(988)	(3,858)	12,204	26,644
Payables and accruals	<u>8,737</u>	<u>(9,966)</u>	<u>(205,257)</u>	<u>(7,124)</u>
	<u>\$ 215,941</u>	<u>\$ 262,087</u>	<u>\$ (214,332)</u>	<u>\$ 413,607</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 2009 of \$23,316 and in 2010 of \$15,842. Starting in August 2009, the Company sub-leased this space and the company which sub-leased is making these payments.
- (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.

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(c) 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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**14. Related party transactions**

During the nine-month period ended September 30, 2009, the Company incurred fees of \$96,378 (2008 - \$58,334) with companies controlled by directors for management consulting services and geological consulting services. \$46,813 (2008 - \$58,334) has been included in management services expense on the statement of operations and \$49,565 (2008 - \$nil) has been included in mineral property expenditures on the balance sheet.

Included in payables is an amount of \$nil (2008 - \$4,438) owed to directors and officers of the Company.

The Company has stopped sharing office space with Lincoln Gold Corp who was reimbursing each month to the Company a portion of the rent and office expenses. During the nine-month period ended September 30, 2009, these reimbursements totalled \$38,586 (2008 - \$67,441).

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 agreed to by the related parties.

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**15. Supplementary cash flow information**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Shares issued for mineral property	\$ -	\$ -	\$ -	\$ 2,472,500
Agent compensation options	\$ -	\$ -	\$ -	\$ 30,244
Mineral property expenditures included				
in accounts payable	\$ 46,930	\$ 27,111	\$ 46,930	\$ 27,111
Financial advisory units	\$ -	\$ 18,750	\$ -	\$ 37,500

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# **Pinnacle Mines Ltd.**

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

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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.

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 Company's financial instruments consist of cash and cash equivalents, short-term investments, receivables, and payables and accruals. The fair value of these financial instruments, except for short-term investments which are recorded at fair value, 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.

##### **(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 expose the Company to foreign exchange risk. 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 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. Management believes that the credit risk concentration with respect to financial instruments included in receivables is minimal.

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# **Pinnacle Mines Ltd.**

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

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

##### **(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.

##### **(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 fair value fluctuations ongoing from changes in the 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</b>					
September 30, 2009	\$ 9,520,713	\$	-	\$	9,520,713
December 31, 2008	\$ 9,202,684	\$	770,724	\$	9,973,408

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#### **19. Subsequent events**

##### **Purchase of Stewart property**

In October 2009, the Company paid the remaining \$100,000 to Mountain Boy Minerals, completing the purchase of land and buildings in Stewart, BC (Note 7).

##### **Stock option issuance**

On November 6, 2009 the Company announced that it will issue 8,000,000 stock options to directors of the Company at an exercise price of \$0.14 per option for a term of five years. On November 25, 2009 the Company cancelled this option grant.