

Pinnacle Mines Ltd.

Consolidated Financial Statements

December 31, 2004 and 2003

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Management's Responsibility for Financial Reporting

To the Shareholders of
Pinnacle Mines Ltd.

The accompanying consolidated financial statements of Pinnacle Mines Ltd. have been prepared in accordance with Canadian generally accepted accounting principals.

Management is responsible for the integrity of the 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 financial statements before they are presented to the Board of Directors for approval.

"Andrew W. Bowering"
Andrew W. Bowering
Director

"Paul F. Saxton"
Paul F. Saxton
Director

Vancouver, Canada
March 31, 2005

Grant Thornton LLP
Chartered Accountants
Management Consultants
Canadian Member of
Grant Thornton International

Auditors' Report

To the Shareholders of
Pinnacle Mines Ltd.

We have audited the consolidated balance sheet of Pinnacle Mines Ltd. as at December 31, 2004 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2003 and for the year then ended were audited by other accountants who expressed an opinion without reservation on those statements in their report dated February 26, 2004.

Grant Thornton LLP

Vancouver, Canada
March 14, 2005

Chartered Accountants

Pinnacle Mines Ltd.

Consolidated Balance Sheets

December 31	2004	2003
Assets		
Current		
Cash and cash equivalents	\$ 1,606,968	\$ 80,422
Receivables	18,051	1,600
Prepays	5,619	-
	<u>1,630,638</u>	<u>82,022</u>
Due from director (Note 4)	4,000	-
Mineral property interests (Note 5)	1,199,785	178,239
Equipment (Note 6)	5,413	-
	<u>\$ 2,839,836</u>	<u>\$ 260,261</u>
Liabilities		
Current		
Payables and accruals	\$ 138,832	\$ 5,972
Shareholders' Equity		
Capital stock (Note 7)	13,783,369	10,554,045
Share subscriptions	-	40,000
Unexercised stock options (Note 7)	257,268	155,113
Contributed surplus	15,984	14,034
Deficit	(11,355,617)	(10,508,903)
	<u>2,701,004</u>	<u>254,289</u>
	<u>\$ 2,839,836</u>	<u>\$ 260,261</u>

Continuance of operations (Note 1)
Commitment (Note 9)

Approved on Behalf of the Board

"Andrew W. Bowering" Director
Andrew W. Bowering

"Paul F. Saxton" Director
Paul F. Saxton

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Consolidated Statements of Operations and Deficit

Year Ended December 31	2004	2003
General and administrative expenses		
Amortization	\$ 955	\$ -
Consulting services	114,757	-
Management services (Note 10)	80,250	12,848
Professional fees		
Accounting and audit	38,775	3,935
Legal	68,182	11,514
Office (Note 10)	110,590	5,675
Rent (Note 10)	52,800	4,000
Salaries and benefits	95,569	-
Shareholder services	117,310	30,173
Travel	110,064	22,001
	<u>789,252</u>	<u>90,146</u>
Loss before undernoted income (expenses)	(789,252)	(90,146)
Write-down of mineral property interests	(44,540)	-
Property investigations	(13,912)	-
Interest income	990	-
	<u>(846,714)</u>	<u>(90,146)</u>
Net loss	\$ (846,714)	\$ (90,146)
Net loss per share	\$ (0.15)	\$ (0.02)
Weighted average common shares outstanding	<u>5,822,883</u>	<u>4,156,375</u>
<hr/>		
Deficit, as originally reported	\$ (10,353,790)	\$ (10,263,644)
Adjustment related to adoption of Handbook Section 3870 (Note 3)	<u>(155,113)</u>	<u>-</u>
Deficit, beginning of year, restated	(10,508,903)	(10,263,644)
Net loss	(846,714)	(90,146)
Adjustment related to adoption of Handbook Section 3870 (Note 3)	<u>-</u>	<u>(155,113)</u>
Deficit, end of year, restated	<u>\$ (11,355,617)</u>	<u>\$ (10,508,903)</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Consolidated Statements of Cash Flows

Year Ended December 31	2004	2003
Cash derived from (applied to)		
Operating		
Net loss	\$ (846,714)	\$ (90,146)
Amortization	955	-
Stock-based compensation	102,155	-
Write-down of mineral properties	44,540	-
Change in non-cash operating working capital (Note 8)	29,750	18,174
	<u>(669,314)</u>	<u>(71,972)</u>
Financing		
Shares issued for cash	3,335,647	188,800
Share issue costs	(190,573)	-
	<u>3,145,074</u>	<u>188,800</u>
Investing		
Mineral property expenditures		
Exploration expenditures	(401,334)	(36,739)
Acquisition costs	(537,512)	-
Purchase of equipment	(6,368)	-
Due from related parties	(4,000)	-
	<u>(949,214)</u>	<u>(36,739)</u>
Net increase in cash	1,526,546	80,089
Cash		
Beginning of year	<u>80,422</u>	<u>333</u>
End of year	<u>\$ 1,606,968</u>	<u>\$ 80,422</u>
Cash comprises:		
Cash	\$ 356,973	\$ 80,422
Cashable guaranteed investment certificates	<u>1,249,995</u>	<u>-</u>
	<u>\$ 1,606,968</u>	<u>\$ 80,422</u>
Non-cash investing and financing transactions not included in cash flows:		
Shares issued to creditors for debt	\$ -	\$ 96,000
Shares issued for mineral properties	\$ 46,200	\$ 96,960

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

1. Nature of operations and going concern

Pinnacle Mines Ltd., (formerly Broadlands Resources Ltd.), (the Company) was formed April 6, 1995 by the amalgamation of Broadlands Resources Ltd. and Shorewood Explorations Ltd. under the laws of the Province of British Columbia. On June 30, 2003 Broadlands consolidated its share capital on a one new share for five old shares basis and changed its name to Pinnacle Mines Ltd. 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 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's ability to continue operation is dependent on its ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Management is actively pursuing such additional financing.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the company is unable to continue operations or does not receive continued financial support from its shareholders.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of consolidation and acquisitions

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary Pinnacle Mines (Asia) Ltd. Pinnacle Mines (Asia) Ltd. was incorporated in Hong Kong under the Companies Ordinance on June 16, 2004 and carries out the company's Asian business.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Mineral property interests

Mineral interests represent acquisition and holding costs, and deferred exploration costs, less amounts written-off or written-down to date. Costs are reduced by amounts received from joint ventures or received as option payments related to each property. A gain is recognized on a property by property basis only when option payments received exceed costs. If production is attained, these costs will be amortized using the unit-of-production method based on estimated reserves. Costs related to properties which are abandoned or considered uneconomic in the foreseeable future are written-off.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

2. Summary of significant accounting policies (Continued)

Mineral property interests (Continued)

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

The amounts shown for mineral properties and related costs represent acquisition, holding and exploration costs and do not necessarily represent present or future recoverable values. The recoverability of these amounts is dependent upon the confirmation of economically recoverable reserves, the ability of the company to obtain the necessary financing to successfully complete their development and to meet the requirements from time to time, of investors or lenders who are providing this financing, and upon future profitable production.

Although the company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Asset retirement obligations activities are carried out to the extent practicable concurrently with property exploration activities and such costs are included in exploration costs during the period in which they are incurred. When properties are abandoned, any remaining asset retirement obligation costs are estimated and included as an exploration cost in the period the property is abandoned.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and short term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of deposit.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated using the declining balance method at rates ranging from 20% to 30%.

Future income taxes

The company follows the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using substantially enacted income tax rates at each balance sheet date. Future income tax assets also include the benefit that may be derived from unused loss carry forwards and unclaimed other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

2. Summary of significant accounting policies (Continued)

Stock-based compensation

The company has a stock option plan which is disclosed in Note 7. The company accounts for its grants under that plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is accrued and charged to operations, with an offsetting credit to unexercised stock options, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised or expire, the applicable amounts initially recorded as unexercised stock options are transferred to contributed surplus and capital stock.

Capital stock issued for other than cash

Capital stock issued for other than cash is valued at the price at which the stock traded on the principal stock exchange on which the stock trades at the time the agreement to issue the stock is made or, if such issuance is at the option of the company, at the time the company determines to issue such stock. Where capital stock is issued for other than cash and the number of shares is sufficiently large that the quoted market value per share may not represent an appropriate value to be assigned to such issue, the issued shares are valued at an amount equal to the fair market value of the consideration received for such issuance, or, in the absence of a determinable fair market value, at the net book value of the net assets acquired.

Flow-through shares

Resource expenditure deductions related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future tax liability is increased and capital stock is reduced by estimated tax benefits.

Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding. The company uses the treasury stock method to calculate fully diluted earnings per share. Under this method, all options whose average exercise price is less than or equal to the average share price for the year are assumed to be exercised and all convertible securities are assumed to be converted at the average share price during the period. Also under this standard, certain shares that are considered contingently issuable, such as escrowed shares subject to release based on performance criteria, are excluded from the calculation of weighted average common shares outstanding. Diluted per share amounts are not presented in fiscal 2003 or 2004 as the effect of outstanding options and warrants is anti-dilutive.

Foreign currency translation

The Canadian dollar is the functional currency of the company. Foreign currency transactions are translated by the temporal method whereby monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; non-monetary assets are translated at rates prevailing when acquired; and, revenue and expenses are translated at average rates of exchange for the year. Translation gains and losses are included in the results of operations for the year.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

2. Summary of significant accounting policies (Continued)

Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

3. Change in accounting policy

Effective January 1, 2004 the company adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants (the "CICA") with respect to the fair value based method of accounting for stock-based compensation, as described in Note 2. This change has been applied retroactively; however, financial statement amounts for 2003 and prior years have not been restated. Prior to January 1, 2004, the company presented the fair value expense of stock options under supplementary pro forma information.

The effect of this change was to increase the deficit and unexercised stock options as at December 31, 2003 by \$155,113 to account for the stock option expense that would have been charged to operations in 2003 with respect to all options granted since January 1, 2002, and to increase the net loss for the year ended December 31, 2004 by \$102,155 (\$0.02 per share). When options are exercised, the proceeds received by the company, together with the amount in unexercised stock options are credited to capital stock.

4. Due from director

The amount due from a director bears interest at 5% per annum and has no set terms or repayment.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

5. Mineral property interests

The company's mineral property interests are comprised of properties located in British Columbia, Canada and China.

	<u>Canada</u>	<u>China</u>	<u>Total</u>
Balance, December 31, 2002	\$ 44,540	\$ -	\$ 44,540
Acquisition costs	101,040	-	101,040
Exploration expenditures			
Assays	1,538	-	1,538
Geological and geophysical consulting	11,650	-	11,650
Helicopter and camp	5,650	-	5,650
Maintenance	6,800	-	6,800
Travel and accommodation	4,476	-	4,476
Other	2,545	-	2,545
Balance, December 31, 2003	\$ 178,239	\$ -	\$ 178,239
Acquisition costs	71,700	512,011	583,711
Exploration expenditures			
Assays	32,490	-	32,490
Drilling and metallurgical testing	117,652	-	117,652
Geological and geophysical consulting	214,292	-	214,292
Helicopter and camp	12,998	-	12,998
Labour	21,695	-	21,695
Maintenance	12,490	-	12,490
Supplies	21,823	-	21,823
Shipping	7,147	-	7,147
Travel and accommodation	27,640	-	27,640
Other	14,148	-	14,148
Properties written-down	<u>(44,540)</u>	<u>-</u>	<u>(44,540)</u>
Balance, December 31, 2004	\$ <u>687,774</u>	\$ <u>512,011</u>	\$ <u>1,199,785</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

5. Mineral property interests (Continued)

Canada

	<u>Silver Coin</u>	<u>Surprise Creek</u>	<u>Kansas</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2002	\$ -	\$ -	\$ -	\$ 44,540	\$ 44,540
Acquisition costs	-	100,640	-	400	101,040
Exploration expenditures					
Assays	-	1,538	-	-	1,538
Geological	-	11,650	-	-	11,650
Helicopter and camp	-	5,650	-	-	5,650
Maintenance	-	6,800	-	-	6,800
Travel and accommodation	-	4,476	-	-	4,476
Other	-	2,545	-	-	2,545
Balance, December 31, 2003	-	133,299	-	44,940	178,239
Acquisition costs	-	-	71,700	-	71,700
Exploration expenditures					
Assays	28,364	4,015	-	111	32,490
Drilling and metallurgical	117,652	-	-	-	117,652
Environmental	-	-	-	-	-
Geological	171,613	42,679	-	-	214,292
Helicopter and camp	-	3,894	-	9,104	12,998
Labour	17,471	4,224	-	-	21,695
Maintenance	4,730	7,760	-	-	12,490
Supplies	21,823	-	-	-	21,823
Shipping	7,147	-	-	-	7,147
Travel and accommodation	27,152	488	-	-	27,640
Other	9,467	2,500	-	2,181	14,148
Properties written-down	-	-	-	(44,540)	(44,540)
Balance, December 31, 2004	\$ 405,419	\$ 198,859	\$ 71,700	\$ 11,796	\$ 687,774

(a) Silver Coin Property

On August 4, 2004 the company entered into an option agreement with Mountain Boy Minerals Ltd. 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 over a three year period as follows:

	<u>Exploration Expenditures</u>	
by Oct 15, 2004	\$ 250,000	(incurred)
by Oct 15, 2005	500,000	
by Oct 15, 2006	1,000,000	
	<u>\$ 1,750,000</u>	

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

5. Mineral property interests (Continued)

(a) Silver Coin Property (Continued)

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

These properties, which are contiguous, are located 24 kilometres north of Stewart, BC. The Silver Coin property consists of 59 units in 21 claims and the Dauntless property has 30 units in 4 claims all of which are located along the Big Missouri ridge.

(b) Kansas Property

On October 13, 2004 the company entered into an option agreement with Tenajon Resources Corp. whereby the company can earn up to a 60% interest of Tenajon's 100% owned Kansas property by making a cash payment of \$50,000 (\$25,500 of which was paid by the company and \$24,500 of which was paid by the joint venture partner Mountain Boy) on signing and issuing 77,000 common shares (issued) and by spending \$1.0 million on exploration and development over a 4 year period as follows:

	Exploration Expenditures
by Oct 13, 2005	\$ 100,000
by Oct 13, 2006	200,000
by Oct 13, 2007	300,000
by Oct 13, 2008	400,000
	<u>1,000,000</u>

In addition, the company has the right to earn an additional 10% in Kansas property by bringing it through a positive feasibility study within 4 years of earning its 60% interest.

The Kansas property is a crown grant claim, 19.5 hectares in size, and is surrounded by the Silver Coin project. Pursuant to an option agreement dated July 29, 2004 Mountain Boy will be participating in the Kansas property and is entitled to a 49% interest of the company's interest. If Pinnacle elects to put Kansas or any adjoining property into production, Mountain Boy would be reduced to owning 40% of the company's interest.

(c) Surprise Creek Property

During the summer of 2003 the company agreed to purchase, on an arm's length basis, a total of 24 modified grid mineral claims located in the Skeena Mining Division of British Columbia, known as the "Surprise Property", in consideration for a total of 606,000 common shares in the capital stock of the Company (issued in 2003) and a 2% net smelter returns royalty.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

5. Mineral property interests (Continued)

(d) Other

(i) El Dorado Property

In 2003, the company acquired 40 claims units in the Stewart area by staking an area covering several old reverted crown grants in the Bear River pass.

(ii) Mann Property

In 2000, the company signed an option to earn a 50% interest on the Mann property located near Timmins, Ontario. The company made cash payments of \$44,500 and issued 150,000 common shares. During 2004, this mineral property was written off.

China

(e) Yuen Jia Ping Property

In February 2004, the company entered into a letter of intent to acquire an 80% working interest in the producing Yuen Jia Ping gold property in Guangnan County, Yunnan Province, PRC. Under the terms of the letter of intent, the company agreed to make staged payments totaling \$2.25 million. The company advanced \$290,000 on February 24, 2004 and agreed to complete a formal agreement within three months.

On March 23, 2004 the company was informed by the owner of the Yuen Jia Ping property that they were canceling the letter of intent and would refund all payments made by the company to date, which it subsequently did. Although the company maintains that it has the right to seek damages and compensation (both within China and abroad) for its costs and losses in respect of this transaction, the company currently has no plans to seek damages.

(f) Yang Wen Chong

(i) Initial Purchase Contract and Amendments

On May 8, 2004, the company executed a formal Purchase Contract with Yunnan Geology and Mineral Resources Co., Ltd. ("YGM") to acquire a 100% interest in the Yang Wen Chong ("YWC") gold property, located in the southeast region of Yunnan Province, PRC. The YWC property is a 51.2 square kilometre mineral exploration license located in Funing County, Yunnan Province, PRC.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

5. Mineral property interests (Continued)

(f) Yang Wen Chong (Continued)

As consideration for YWC, the company initially agreed to pay YGM 27,000,000 RMB (\$4,437,000) as follows:

On signing the Purchase Contract	<u>RMB</u> 270,000	\$ 44,370
On the latter of four months from the signing of the Purchase Contract (September 8, 2004) or on receipt of regulatory approval	13,230,000	2,174,130
Within twelve months of the second payment	5,400,000	887,400
By November 18, 2005	<u>8,100,000</u>	<u>1,331,100</u>
	<u>27,000,000</u>	<u>\$ 4,437,000</u>

YGM agreed to transfer title to YWC upon completion of 70% of the required payments. In addition, the company agreed to pay YGM 500,000 RMB for every tonne of gold in excess of 11 tonnes, if such resources were established prior to the company obtaining the property title. In connection with the purchase of YWC, Pinnacle agreed to pay a finder's fee of up to 700,000 shares.

On September 27, 2004 the payment schedule agreed to in the Purchase Contract was modified to the following:

September 23, 2004 (paid)	3,000,000 RMB	\$466,800
November 8, 2004 (Subsequently modified to December 30, 2004)	10,230,000 RMB	\$1,591,788

(ii) Letter Agreement

On January 27, 2005, the Purchase Contract was terminated and replaced by a Letter of Agreement that provided the company with the option to pay an additional 3,730,000 RMB (\$568,599) on or before January 31, 2005 (paid), to own 25% of a joint venture with YGM.

The company can earn an additional 45% of the joint venture by spending 12,600,000 RMB (\$1,960,560) on exploration and development of YWC within five years.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

5. Mineral property interests (Continued)

(f) Yang Wen Chong (Continued)

For every additional 280,000 RMB (\$43,568) spent on exploration on YWC the company will earn from YGM's interest a further 1% of the joint venture to a maximum of an additional 45% interest.

Under the Letter Agreement, YGM agrees that if the Chinese authorities do not grant a business license to the joint venture, or do not approve the transfer of title and exploration license to the joint venture, YGM will refund the January 28, 2005 payment of 3,730,000 RMB.

The net effect of the foregoing agreements and amendments is as follows:

In order for the company to earn a 25% interest in the YWC gold property, the company agreed to make the following payments:

	<u>RMB</u>	
On signing the May 8, 2004 Purchase Contract (paid)	270,000	\$ 44,370
On September 23, 2004 (paid)	<u>3,000,000</u>	<u>467,641</u>
Paid at December 31, 2004	3,270,000	512,011
By January 31, 2005 (paid subsequent to year end)	3,730,000	568,599
Exploration and development expenditures required to earn an addition 45% interest in the YWC property. To be spent over 5 years after joint venture approval given by the Chinese government.	12,600,000	1,960,560

6. Equipment

			2004	2003
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 4,796	\$ 719	\$ 4,077	\$ -
Other equipment	<u>1,572</u>	<u>236</u>	<u>1,336</u>	<u>-</u>
	<u>\$ 6,368</u>	<u>\$ 955</u>	<u>\$ 5,413</u>	<u>\$ -</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

7. Capital stock

Capital Stock

Common Shares

Authorized:

Unlimited number of common shares without par value

	<u>Number</u>	<u>Amount</u>
Issued:		
Balance, December 31, 2002	5,930,177	\$ 10,172,285
Share consolidation	(4,744,143)	-
Private placement, net of share issue costs of \$nil	1,180,000	188,800
Issued for mineral properties (Note 5(c))	606,000	96,960
Issued for debt	<u>600,000</u>	<u>96,000</u>
Balance, December 31, 2003	3,572,034	10,554,045
Private placement, net of share issue costs of \$13,960	1,770,100	646,040
Private placement, net of share issue costs of \$23,984	701,680	416,716
Private placement, net of share issue costs of \$25,000	1,040,000	599,000
Private placement, net of share issue costs of \$127,629	2,684,952	1,432,371
Issued for mineral properties (Note 5(b))	77,000	46,200
Return of escrow shares	(1,402)	(1,950)
Exercise of warrants	<u>321,097</u>	<u>90,947</u>
Balance, December 31, 2004	<u>10,165,461</u>	<u>\$ 13,783,369</u>

Share Consolidation

On June 30, 2003, the company, by way of a special resolution at an extraordinary general meeting of shareholders, approved a share consolidation on a one new share for five old shares basis and a change of the company's name from Broadlands Resources Ltd. to Pinnacle Mines Ltd.. Subsequent to this resolution the company had 1,186,034 common shares issued, without par value.

Debt Settlement

In 2003, the company settled certain outstanding indebtedness owed to companies with directors and officers in common by issuing 600,000 common shares with a fair value of \$96,000.

Private Placements

On September 25, 2003 the company closed a private placement of 1,180,000 units for cash consideration of \$188,800. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.21 per share on or before September 25, 2005.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

7. Capital stock (Continued)

Private Placements (Continued)

On January 29, 2004 the company closed a private placement of 1,650,000 units for cash consideration of \$660,000. Each unit consisted of one common share and one share purchase warrant. Each two warrants entitle the holder to purchase one common share at a price of \$0.50 per share on or before February 5, 2005. Finders' fees of \$13,960 and 120,100 units were paid.

On September 23, 2004 the company completed a flow through financing of 678,000 units at \$0.65 per unit for gross proceeds of \$440,700. Each unit consisted of one common flow-through share and one share purchase warrant. Two of these warrants entitle the holder to purchase one non-flow-through share at a price to \$0.75 per share on or before September 23, 2005. Finders' fee of \$23,984 and 23,680 units were paid.

On November 8, 2004 the company closed a private placement of 1,040,000 units at \$0.60 per unit for gross proceeds of \$624,000. Each unit consisted of one common share and one share purchase warrant, with two share purchase warrants entitling the holder to acquire an additional share for a period of two years from the date of the offering at a price of \$0.75 per share in the first year and \$0.85 in the second year. The cost of this offering was \$25,000.

On November 30, 2004 the company closed a private placement of 2,600,000 units at \$0.60 per unit for gross proceeds of \$1,560,000. Each unit consisted of one common share and one-half share purchase warrant, with a whole share purchase warrant entitling the holder to acquire an additional share for a period of two years from the date of the offering at a price of \$0.75 per share in the first year and \$0.85 in the second year. The agent in the private placement received a cash commission of \$109,829 as well as Agents' Warrants to acquire that number of common shares equal to 15% of the number of units sold under the offering, the Agents' Warrants having the same terms as the share purchase warrants. Canaccord also received a corporate finance fee of 60,000 units and 30,000 warrants. In addition to the \$109,829 paid to the agent the company incurred other fees of \$17,800.

Stock Options

During 1997 the company established a share option plan (the "1997 Plan") whereby the board of directors may from time to time grant to directors, officers, employees or consultants stock options. The maximum number of shares subject to the plan, in the aggregate, may not exceed 20% of the company's issued shares. The maximum term of any option will be ten years, but generally options are granted for five years or less. The exercise price of an option is not less than the greater of \$0.15 per share or the minimum price permitted under the policies of the TSXV. Options vest over a two year period.

This plan was revised on May 16, 2003. The maximum number of shares subject to the plan, in the aggregate, may not exceed 10% of the Company's issued shares. The maximum term of any option will be five years if the company is a "Tier 2" company and ten years if the company is a "Tier 1" company. The vesting is at the direction of the company. However, options granted to consultants performing "investor relations' activities" must at a minimum vest in stages over a period of not less than twelve months, with no more than ¼ of the options vesting in any three month period. The exercise price shall be not less than the greater of \$0.10 per share and the last closing price of the company's shares.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

7. Capital stock (Continued)

Stock Options (Continued)

Stock option activity for the respective years is as follows:

	2004	2003
Options outstanding, beginning of year	350,000	-
Granted	<u>180,000</u>	<u>350,000</u>
Options outstanding, end of year	<u>530,000</u>	<u>350,000</u>

Stock options outstanding and exercisable at December 31, 2004:

Description	Year of Grant	Expiry Date	Outstanding			Exercisable		
			Number of Shares	Price Per Share	Average Remaining Contractual Life (Years)	Number of Shares	Price Per Share	Average Remaining Contractual Life (Years)
Directors' options	2003	November 23, 2008	350,000	\$ 0.40	3.90	350,000	\$ 0.40	3.90
Directors' options	2004	March 16, 2009	90,000	0.70	4.21	90,000	0.70	4.21
Employee's option	2004	June 23, 2009	20,000	0.50	4.48	20,000	0.50	4.48
Consultant's option	2004	June 23, 2009	20,000	0.50	4.48	20,000	0.50	4.48
Consultant's option	2004	June 27, 2007	<u>50,000</u>	0.50	2.49	<u>16,667</u>	0.50	2.49
			<u>530,000</u>	<u>\$ 0.47</u>	<u>3.96</u>	<u>496,667</u>	<u>\$ 0.47</u>	<u>3.96</u>

During 2004, the Company recorded \$102,155 of compensation expense. The company used the Black-Scholes option pricing model to estimate the fair value of the options at each grant date using the following weighted average assumptions:

	2004	2003
Risk-free interest rate	4.0%	4.0%
Dividend yield	0.00%	0.00%
Expected volatility	146%	134%
Expected option life	4.39 years	5.0 years

Warrants

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

	2004	2003
Warrants outstanding, beginning of year	1,180,000	-
Issued	3,488,366	1,180,000
Exercised	<u>(321,097)</u>	<u>-</u>
Warrants outstanding, end of year	<u>4,347,269</u>	<u>1,180,000</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

7. Capital stock (Continued)

Warrants (Continued)

Full share equivalent warrants outstanding and exercisable at December 31, 2004:

<u>Description</u>	<u>Number of Full Share Equivalent Warrants</u>	<u>Price Per Share</u>	<u>Expiry Date</u>	<u>Year of Grant</u>	<u>Average Remaining Contractual Life (Years)</u>
Warrants	940,000	\$ 0.21	September 25, 2005	2003	0.73
Warrants	803,953	0.50	February 4, 2005	2004	0.10
Warrants	350,840	0.75	September 25, 2005	2004	0.73
Warrants	520,000	0.75	November 8, 2006	2004	1.85
Warrants	<u>1,732,476</u>	0.75	November 30, 2006	2004	1.92
	<u>4,347,269</u>	<u>\$ 0.60</u>			<u>1.10</u>

Escrow Shares

The company has no shares remaining in escrow at December 31, 2004.

8. Change in non-cash operating working capital	2004	2003
Receivables	\$ (16,451)	\$ 1,045
Prepays	(5,619)	-
Payables and accruals	<u>51,820</u>	<u>17,129</u>
	<u>\$ 29,750</u>	<u>\$ 18,174</u>

9. Commitment

The company entered into a five year lease agreement for its office space commencing March 1, 2005. The company is committed to making lease payments in 2005 of \$68,971, in 2006 of \$85,730 and for 2007 through 2010 of \$89,180 each year.

10. Related party transactions

During 2004, the company incurred fees of \$87,500 (2003 - \$Nil) with directors for management consulting services. This amount, less \$7,250 which was deferred to the Silver Coin property expenditures, has been included in management fee expenses on the statement of operations and deficit.

Included in receivables is \$2,500 owed to the company by a director. The loan bears no interest and was due December 31, 2004.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

10. Related party transactions (Continued)

Included in accounts payable is an amount of \$10,838 owed to a director of the company. Subsequent to the year end this amount was paid by the company.

The company shares office space with Doublestar Resources Ltd. and during 2004 paid Doublestar \$52,800 for rent and \$24,000 for office expenses. This arrangement will come to an end February 28, 2005 when the company moves to new offices. Doublestar and Pinnacle 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.

11. Income taxes

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

	2004	2003
Loss before income taxes	\$ (846,714)	\$ (90,146)
Effective tax rate	35.6%	37.6%
Expected tax (recovery) provision	\$ (301,000)	\$ (33,895)
Financing costs	(26,000)	(5,000)
Other items	57,000	34,000
Unrecognized benefits from non-capital losses	270,000	4,895
	\$ -	\$ -

Future income tax assets are calculated as follows:

	2004	2003
Future income tax assets relate to:		
Loss carryforwards	\$ 458,000	\$ 261,000
Accumulated mineral property expenditures	182,000	342,000
Financing costs	88,000	6,000
	728,000	609,000
Valuation allowance	(728,000)	(609,000)
	\$ -	\$ -

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

11. Income taxes (Continued)

As at December 31, 2004, the company and its subsidiary have non-capital loss carry forwards of \$1,287,000 (2003: \$695,000) available to reduce income otherwise taxable in future years. These losses if not used will expire as follows:

December 31, 2005	\$	162,000
December 31, 2006		81,000
December 31, 2007		231,000
December 31, 2008		37,000
December 31, 2010		14,000
December 31, 2011		190,500
December 31, 2014		<u>571,500</u>
	\$	<u>1,287,000</u>
Undeducted accumulated mineral property expenditures - no expiration	\$	<u>1,712,000</u>

The potential tax benefits related to the loss carry forwards and other timing differences, the application of which may be restricted, have not been recognized in these financial statements as management does not consider it likely that such assets will be realized in the carry forward period. Also, the availability of the above deductions for income tax purposes have been restricted due to previous changes in control of companies in the group and may be further restricted if there are future changes in control.

12. Financial instruments

(a) Fair value

The company's financial instruments consist of cash, receivables, and accounts payable and accruals. The company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The fair value of the company's financial instruments approximates their carrying values.

(b) Foreign exchange risk

The company's operations in China expose the company to foreign exchange risk. The company does not enter into derivative financial instruments to mitigate this risk.

13. Segmented disclosure

The company has one operating segment, mineral exploration, and all capital assets of the company are located in Canada except for certain of its mineral properties located in China, as disclosed in Note 5.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

13. Segmented Disclosure (Continued)

The company operates in two geographical segments: Canada and China. Corporate administrative activities are conducted from Canada. The income and expenses for the years ended December 31, 2004 and 2003 and the assets at the end of those years identifiable to these segments are as follows:

	Canada	China	Corporate	Total
Assets				
December 31, 2004	\$ 687,774	\$ 512,011	\$ 1,640,051	\$ 2,839,836
December 31, 2003	178,239	-	82,022	260,261
Expenses				
Year ended				
December 31, 2004	44,540	-	802,174	846,714
Year ended				
December 31, 2003	-	-	90,146	90,146

14. Subsequent event

In the first two months of 2005, the company issued a total of 741,457 common shares pursuant to the exercise of warrants at a price of \$0.50 per share for total proceeds of \$370,729.