
Pinnacle Mines Ltd.

April 25th, 2005

President's Message to Shareholders

Dear Shareholder:

Pinnacle had a very successful, exciting and busy year in 2004. Early in the year, the Company began investigating mineral exploration possibilities in China. After review of numerous opportunities, Pinnacle chose to enter in an agreement with Yunnan Geology and Mineral Resources Co., Ltd. on a promising gold project in southeast Yunnan called Yang Wen Chong. With the exception of a small investigative rock sampling program completed in June, most of the Company's 2004 activity in relation to Yang Wen Chong focused on completing and amending a purchase agreement which was subsequently amended to a Sino-Foreign Joint Venture on the project. As of this date, Pinnacle has, through the advance of property payments totaling \$1,080,610 CDN, earned a 25% interest in the project and is entitled to earn an additional 45% through certain work commitments over a five year period. Although Pinnacle is not required to complete any exploration expenditures until the Joint Venture has been approved by the Chinese government, the Company and its Chinese partners anticipate conducting an exploration program on Yang Wen Chong later this year. The property has significant potential for extensive gold mineralization and the Company plans to explore for Carlin-type gold deposits.

During the third quarter, Pinnacle entered into an option to earn up to a 60% interest in a gold-silver-base metal project in Northwest British Columbia called the Silver Coin. This project became the biggest focus for the Company last year with Pinnacle and partner, Mountain Boy Minerals Ltd., conducting an exploration program that commenced in late June and continued until mid-October. The program included trenching, diamond drilling, geochemical sampling and thin section studies of drill core and surface samples. A total of 288 metres of trenching was carried out in 13 trenches and a total of 3,133.68 metres of core drilling was completed in 38 holes in four main areas. Geochemical sampling was successful in outlining additional areas for exploration. In the fourth quarter a letter agreement was signed with Tenajon Resources Corporation to option the 19.5 hectare Kansas claim which lies inside the boundary of the Silver Coin land package. We are now satisfied that we have acquired the complete land package needed for exploration.

As well the Company carried out an exploration program on the Company's 100% owned Surprise Creek property. The work program consisted of prospecting, trenching, and geochemical sampling in three different areas. The Surprise Creek is approximately 150 square kilometres in size. The property covers the same contact zone and has the same stratigraphic sequence that is host to the Eskay Creek, Snip and Premier-Big Missouri mines.

During the final quarter Mr. Brad Cooke was appointed to the Board of Directors. With his many years of experience in the mining business the Company is honored to have him as a Board member.

Subsequent to the year end the Company moved offices from West Vancouver to downtown Vancouver bringing us much closer to the financial and industry community we operate within. The move has proven to be very successful.

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Finally, with four private placement financings completed during 2004, Pinnacle managed to complete the year with in excess of \$1.4 million in working capital, sufficient resources to complete its ambitious 2005 exploration programs.

We wish to thank the shareholders for their continued interest and support.

Respectfully submitted,

Andrew Bowering
President and CEO

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FORM 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) AS OF APRIL 25, 2005 TO ACCOMPANY THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PINNACLE MINES LTD FOR THE YEAR ENDED DECEMBER 31, 2004.

This discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2004 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 undo reliance on these forward looking statements. See additional comments and discussion under Risks and Uncertainties in this MD&A.

Description of the Business

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 Yunnan Province, PRC. 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 with the symbol PNL.

The issued capital of the Company as of April 25, 2005 is 10,913,418 common shares. The authorized capital of the Company is an unlimited number of 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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Operations and Performance for the Year ended December 31st, 2004

Overview

Pinnacle started 2004 with a positive working capital position of \$76,050 and by the end of the year this position had increased to \$1,491,806. During the year there was a net increase in cash of \$1,526,546. This increase came about as a result of the issue of shares for cash and interest earned on capital. The Company completed three private placements and one flow through financing during the year. In general, all costs in 2004 increased over 2003. General and Administrative expenditures increased to \$789,252 in 2004 from \$90,146 in 2003. This reflected the significant increase in corporate activity during the year. Write down of mineral properties totaled \$44,540, which was associated with an option on a property in Ontario that the Company decided to terminate.

Mineral property and exploration expenditures totaled \$1,021,546 in 2004, up from \$133,699 in 2003. Significant exploration was performed and property payments were completed.

The Company was very active in 2004. Corporate activities during the second, third and fourth quarters of the year focused on continued exploration of the Surprise Creek and Silver Coin properties and the acquisition of an additional property in the Stewart area of British Columbia. Almost all work on the Yang Wen Chong property in Yunnan Province, PRC related to corporate matters associated with property payments and the writing of a 43-101 compliant Technical Report. No exploration was carried out at Yang Wen Chong.

On May 8th, 2004, the Company announced that it had executed a formal purchase contract with Yunnan Geology and Mineral Resources Co., Ltd. ("YGM") to acquire, subject to regulatory approval, a 100% interest in the Yang Wen Chong ("YWC") gold property located in the highly prospective southeast region of Yunnan Province, PRC.

As consideration for YWC, Pinnacle was to pay YGM a total of 27,000,000 RMB (CDN\$ 4,437,000) over a two year period following the signing of the purchase contract. In addition, in connection with the purchase of YWC, Pinnacle agreed to pay a finder's fee of up to 700,000 shares.

During 2004, Pinnacle advanced a total of 3,270,000 RMB (CDN\$ 512,011) to YGM towards the purchase price for YWC. However, in late 2004, Pinnacle began renegotiating its relationship with YGM and subsequent to the end of the fourth quarter, reached an agreement with YGM to form a Sino-Foreign Joint Venture to further explore and develop YWC (the "Joint Venture").

For further details refer to Mineral Property Activities – China discussed later.

During the third quarter, the Company conducted exploration programs on the Company's 100% owned Surprise Creek property. The work program involved prospecting, trenching, and geochemical sampling of the property in three areas of prime importance. These three areas included locations that have been shown to host high grade copper, zinc, gold and silver assays. Some mapping and sampling was carried out. A total of 252 samples were taken and a 36 element ICP was performed on most of the samples. Nineteen of the samples were only tested for gold and silver. Elevated gold, silver and copper assays have been noted and a follow up program of exploration for 2005 is being designed.

In August, Pinnacle entered into an option agreement with Mountain Boy Minerals Ltd to earn a 51% interest in its 100% owned Silver Coin and FR claims and its 55% owned Dauntless claims in the Stewart, BC area from Mountain Boy Minerals Ltd. by incurring exploration expenditures

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totaling \$1.75 million over three years. In addition, Pinnacle can earn an additional 9% in the projects by bringing one property to commercial production. All claims are contiguous and are located 24 kilometres north of Stewart, BC.

During the fourth quarter, the Company entered into an agreement with Tenajon Resources Corp. to acquire a 60% interest in its Kansas property, by incurring exploration expenditures totaling \$1 million over a four year period, making a \$50,000 cash payment and issuing 77,000 common shares. Pinnacle 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.

Starting in August and continuing into early November the Company drilled 26 holes totaling 2,000 metres at Silver Coin locating a major zone of mineralization called the Perseverance zone. It has been traced for over 700 metres on surface and drilling is confirming continuity of mineralization at depth. Two types of mineralization are prevalent. One type has high grade gold and silver with lower base metals while the second type has higher base metals and silver and lower gold. Drilling was halted in early November and is expected to start again in May of 2005.

Subsequent to the end of the quarter, the Company completed and filed a technical report pursuant to National Instrument 43-101 on the Silver Coin Project in Northwest British Columbia. The independent study, written by Alojzy A. Walus, M.Sc., P. Geo., concluded that Silver Coin features a zone of faulting and shearing, with accompanying polymetallic mineralization, that is up to 300 metres wide and has been traced for a minimum of 1.6 kilometres. Numerous gold-silver-base metal bearing breccias, stockworks and veins have been identified through trenching, drilling and underground development. The report further concludes that the Silver Coin property shares many characteristics with the nearby Silbak-Premier mine which produced 4.7 million tons that yielded approximately 1.8 million ounces gold, 41 million ounces silver, 4.2 million pounds copper, 62 million pounds lead and 20 million pounds zinc.

Corporate Governance

All Policy and Procedure aspects of the Company have been under review and a new and revised system has been integrated into the Company's day to day workings.

Most importantly, the new controls will ensure that the proper due diligence and reporting is performed on every major transaction that occurs within the Company. It is our intention that full compliance and reliability of financial reporting is achieved as required.

The Board of Directors has two standing committees that require full reporting. The audit committee reviews all quarterly and annual reports and also randomly reviews the Company's financial reporting trail throughout the year. The Compensation Committee reviews and regulates the salaries, expenses and options that are being paid. The board has been meeting at least four times a year. A corporate governance committee is being established to keep up with disclosure and governance issues.

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Mineral Property Activities

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

Canada

Silver Coin:

The Silver Coin gold-silver-base metal property, optioned from Mountain Boy Minerals Ltd., is located about 24 kilometres 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 the Company entered into an option agreement with Mountain Boy Minerals Ltd 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.

The Silver Coin property features a zone up to 300 metres wide of faulting and shearing with accompanying alteration and mineralization that has been traced along the Big Missouri Ridge for 1.6 kilometers. The alteration zone associated with the faulting and shearing forms a prominent gossan extending from the Packers claim, south to the Idaho Fraction claim on the west side of Noname Lake. This major deformation zone hosts numerous parallel, generally north trending base and precious metal bearing zones which contain pyrite, sphalerite, galena and chalcopyrite with minor tetrahedrite and trace of gold and electrum. Mineralization is accompanied by large intense alteration zones composed of variable amounts of quartz, sericite, carbonate, K-feldspar, pyrite, chlorite, and clays. Mineralization is closely associated with trachyte intrusions.

The Silver Coin property shares many characteristics with the nearby Silbak Premier Mine, located just 5km to the south. In both locations mineralized zones are comprised of epithermal gold-silver-sulfide bearing siliceous breccias, stockworks and veins. The Silbak Premier Mine has been the most important in the district and between 1918 and 1979, 4.2 million tonnes of ore were mined at a recovered grade of 13.4 g/t Au, 301 g/t Ag, 2.3% Cu, 0.6% Pb and 0.2% Zn (BCEMPR production statistics).

To date, based on observations made in the field and during core logging, thin sections studies, as well as historical data, there are nine different types of potentially economic mineral associations present within a total of 20 zones in the project area. Starting from the northwest portion of the property they include: the Perseverance, 13/19, 21, 28, Facecut-35 and Storm zones. Immediately further south, along the Big Missouri ridge there are the West Kansas, Kansas, Snowball, Dan, Dauntless Vein, Dauntless Hill, Silver Coin and Idaho zones. In the central portion of the claim holdings, the previous work has identified the Anomaly Creek, Road, Root and West Noname zones while in the eastern part exploration has identified the Terminus and Noname zones. The various types of mineralization in these zones are listed below:

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1. Grey silicified breccia zones with visible gold but with assays generally less than 30 g/t.
2. White to grey quartz-carbonate veins and stringers with visible gold giving high assays that can be greater than 30 g/t.
3. Late grey calcite veins locally containing abundant visible gold.
4. Massive sulphide-silver mineralization with low gold values generally less than 1 g/t.
5. Massive sulphide-silver mineralization with high gold values from 1 to 60 g/t.
6. Black, carbonaceous-rich quartz with minor sphalerite and local coarse visible gold.
7. Narrow electrum veinlets that give spectacular gold values over narrow intervals.
8. Discontinuous en echelon zones of brecciated and silicified rocks with quartz-calcite veinlets carrying sparse galena and sphalerite.
9. Trachyte hosted, weakly silicified zones of disseminated pyrite with minor sphalerite and galena.

Previous exploration work has been mainly concentrated on the Facecut/35, the Kansas and West Kansas zones. Between 1982 and 1994 previous operators completed approximately 1220 metres of drifting on three levels, 103.2 metres of crosscutting on one level and 130 metres of alimak raising. Of this, 883 metres of drifting and 17 metres of sub-drifting on the Facecut zone were completed on the 810 level, 250 metres of drifting on the 895 level with the remaining 70 metres of drifting on the 917 level. The two crosscuts were from the 810 level to the Facecut and 35 zones.

In 1991, the Facecut-35 zone was mined, producing a tonnage of 102,539 tonnes at an average grade of 8.9 g/t Au and 55.50 g/t Ag. No base metals values were recovered as the ore was processed at the Premier Gold mill, which used a cyanide leach process. Sampling in 2004 by Mountain Boy Minerals Ltd and the Company indicated that the mine tails from this processed material of 102,539 tonnes averaged 0.72 g/t Au, 31.2 g/t Ag, 0.388 % Cu, 0.48 % Pb and 3.61 % Zn in 2 samples.

In 1993, 2 bulk samples were collected from and during development work on the 895 and 917 levels in the KWK zone. Muck from the upper part of the alimak raise, and initial rounds of the sublevels taken from the alimak deck, comprised the first bulk sample of 1,107 dry tonnes. The second bulk sample comprised 1,540 dry tonnes of development muck from the combined 895 and 917 sublevels. Head grade of the first 1,107 tonnes averaged 3.342 g/t Au and 9.7 g/t Ag while the second 1,540 tonnes averaged 3.190 g/t Au with silver assays unavailable.

Surface and underground diamond drilling programs conducted from 1982 to 2004 have resulted in a total of 22,642.68 metres of core drilling in 168 holes from surface and 11,727.6 metres of core drilling in 214 holes from underground.

Based on the 1982 to 1994 surface and underground drilling, underground and bulk sampling, an inferred resource has been calculated for the Kansas/West Kansas zone. Total inferred resource for these zones are 1,774,000 tonnes at 2.24 grams per tonne gold and 5.3 grams per tonne silver. This does not include the unmined sulphide rich portions of the Facecut/35 zone as well as any mineralization to the north, south and below the 810 level on this zone.

Based on work to date, namely six drill hole intersections, the Storm zone has an indicated mineral resource of 4,999 tonnes averaging 10.78 g/t Au and 17.2 g/t Ag. The Snowball zone has an indicated resource of 1070 tonnes grading 8.81 g/t Au and 11.7 g/t Ag on one drill section.

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Exploration potential of the property is excellent with numerous zones remaining to be tested. Due to the high concentration of mineralized zones, exploration should be focused on not only an underground mining situation but also on the possibility of mining by a large open pit. In addition, exploration in the past has been solely focused on the precious metal values rather than both the precious and base metal values of the property. Previous exploration programs tested only the central portion of the mineralized area that is a minimum 300 metres wide. Drilling has been angled both west and east from a corridor of drilling 150-200 metres wide, effectively testing only the center of this corridor. Also, most of the mineralization is below the 900-metre elevation. On the southern portion of the property elevations are in excess of 1000-metres, above the zones of mineralization.

Evaluation of drill results has been solely focused on an underground high-grade gold-silver deposit rather than a lower grade open pit situation. Many holes drilled in the past intersected wide zones of 1-2 g/t Au, which were not considered significant in view of an underground mining situation.

The presence of roads going through the property as well as a nearby mill and the year-round seaport in Stewart with associated infrastructure makes the property an attractive exploration project.

It is recommended that the following program be performed:

1. Excavator trenching of the 13/19 zone, the south end of the Perseverance zone, north of the no. 2 portal, 21 and Dauntless Hill zones.
2. Soil geochemistry in the southern portion of the property area, particularly areas along the projected strike of Kansas and West Kansas zones. Soil sampling may aid in locating the Idaho zone.
3. Drilling of at least 5000 metres in approximately 50 short holes. Drilling would be conducted on the following targets:
 - a) Continue drilling both north and south of DDH 2004-29-38. Drilling should be on 6 panels 15 metres apart in order to better correlate drill hole intersections as well as provide data for possible future resource and/or reserve calculations. Four holes would be required for each of the panels. Average length of each hole would be 160 metres resulting in approximately 3,840 metres being drilled in this area.
 - b) A series of short holes around DDH 87-16 which intersected 0.38 metres of 7,765 g/t gold due to a 2 mm wide vein of electrum. Four holes would test the area to the east of the hole in the event that the vein dips to the west and has been missed by 4 subsequent drill holes angled to the west. The 4 holes would total 120 metres of drilling.
 - c) A series of short holes to test the northwest extension of the Perseverance Zone below the Granduc Road. It is expected that 240 metres in 6 drill holes would be required to test this area.
 - d) A total of 250 metres of drilling in 5 holes would be completed in drilling the 13/19 zone in order to check for gold tenor and possible base metal values.
 - e) A total of 8 holes totaling 320 metres to test the north extension of the Facecut zone, 21 zone and the area of drill holes SB-86-4 and SB 87-21.
 - f) A total of 230 metres in 4 holes to test for extensions to the Storm zone

Estimated cost of the program is \$700,000.

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Kansas Property:

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

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.

Surprise Creek:

The Surprise Creek property is located about 32 kilometers northeast and southeast of Stewart, British Columbia in the Skeena Mining Division. The property covers an area of Hazelton pyroclastic volcanic rocks and Bowser Lake sediments in contact with a variety of intrusive plutons associated with the main Coast Range Batholith.

The property contains approximately 12,000 hectares within one contiguous claim group totaling 30 Modified Grid claims. The Company owns 100% of the property. The Surprise Creek is approximately 150 square kilometres in size covering the same contact zone and has the same stratigraphic sequence that is host to the Eskay Creek, Snip and Premier-Big Missouri mines.

There are no known mineral resources on the property.

The property lies within a belt of Jurassic volcanic rocks extending from the Kitsault area, south of Stewart, to north of the Stikine River. This belt is host to numerous gold deposits, in a variety of geological settings, including the producing Eskay Creek and formerly producing Snip and, Premier-Big Missouri mines. Reserves have been reported from a number of other properties including Red Mountain, the Brucejack Lake area and Georgia River. In addition, exploration companies, have reported numerous gold-silver showings along this belt of rocks. At least three porphyry type deposits with either Cu-Mo, Cu-Mo-Au or Cu-Au mineralization are also present.

During the 2003 and 2004 field season, the Company conducted an exploration program on the northern portion of the Surprise property consisting of reconnaissance mapping for the above Salmon River/Mt Dilworth geological contact, prospecting and geochemical sampling along the above volcanic – sediment contact within various valleys tributary to Surprise Creek.

Based on the 2003 and 2004 work by the Company, there is a thick sequence of rhyolites (Mt Dilworth Formation) in contact with Salmon River sediments to the east. This is the same lithological contact that hosts the Teuton discovery as well as the Eskay Creek gold – silver mine 50 kilometers northwest of the Surprise property.

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The 2003 and 2004 exploration programs on the area indicated mineralization within the present claim group as follows:

1. Individual massive pyrite veins up to 0.3 meters over zones up to 5 meters wide traced along several hundreds of meters on the Emma 3 claim. Locally the pyrite may form up to 20 % of the overall zone and occasionally has massive hematite and magnetite lenses 0.5 meters wide along the contacts of the pyritic zone.
2. Pervasive, fine-grained pyrite as well as pyritic bands in the grey lapilli tuff rhyolitic rocks.
3. A weak but pervasive quartz-sulfide veinlet stockwork zone in altered volcanics in the area of the Emma 3 and 5 claims. This stockwork consists of narrow quartz veins 5 to 15 cm in width with coarse cube pyrite. The veinlets show great continuity along strike but are generally widely spaced.
4. A strong quartz - sulfide stockwork in altered volcanics found in float boulders on the Trafalgar 1 claim. Quartz veins up to 15 cm in width form up to 20 % of boulders 1 meter in diameter. Coarse cube pyrite, arsenopyrite, chalcopyrite and pyrrhotite can constitute up to 30 % of the quartz veins. The presence of numerous boulders in the moraine indicates a possible large source.
5. Banded magnetite and hematite in calcareous, maroon volcanics and rhyolites. These are probably related to an iron formation that has been mapped 10-15 kilometers southwest of the above occurrences.
6. Massive sulfide bearing, manganese stained tuffaceous chert/rhyolite boulders possibly from the base of the Salmon River formation on the Emma 5 claim. The boulders are large and can be up to 2 meters in diameter. Sulfide content is generally in semi-massive sulfide bands from 15 cm to 20 cm in width and can form up to 10 % of the boulders. The rocks carry galena, sphalerite, and chalcopyrite with minor pyrite. Source of these boulders is likely on the south side of the glacier in the NW corner of the Emma 1 and middle of the Pin 4 claim. In the area of the boulders, minor float boulders of massive pyrite and chalcopyrite were noted.
7. Black glassy appearing rhyolites have strong very fine grained pyrite mineralization forming up to 15 % of the rock. Disseminated fine-grained galena-sphalerite have been noted in this type of rhyolite boulders in a number of different valleys located on the Trafalgar 1 and 5 claims. This type of mineralized boulder may indicate the presence of Kuroko type Pb-Zn-Ag massive sulphides mineralization in the claim area.
8. An outcrop of argillite near the contact with the Mt Dilworth rhyolite that contained narrow bands of pyrite conformable with bedding and a narrow quartz – sulfide stockwork. The zone of interest was at least 5 meters in width with the rocks carrying 10-15 % quartz-sulfide. It appeared that the sulfide was coarse cube pyrite in the quartz veinlets.
9. Pyrrhotite bearing, hornfelsed argillites of the Bowser sediments in the area of the Frances 1-4 claims.
10. Narrow, discontinuous galena-sphalerite-carbonate veins in Salmon River formation at the north-central portion of the Emma 3 claim.
11. A strong quartz-stibnite vein system up to 5 meters wide in the NW corner of the claim group.
12. Potential molybdenite mineralization in the northeast portion of the property. Work in the early 1960's indicated anomalous molybdenum values associated with a Tertiary intrusive. Reports indicate that molybdenite occurs as disseminations, as smears and in quartz veins in quartz veins in granodiorite and to a lesser extent in hornfelsed and pyrrhotized sediments.

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During 2003, a total of 78 rock samples, both outcrop and float, as well as 23 silt samples were collected during the exploration program. Results of the samples indicate highly anomalous values for gold, silver, lead, zinc, arsenic and copper. Sample values for gold ranged from <1 ppb to a high of 13.02 ppm, for silver from 0.2 to 3076.8 ppm, for lead from 5.7 to >9999 ppm, for zinc from 12 to 56,866 ppm, for arsenic from 1.9 to 9999 ppm and copper from 4.4 to 28,026 ppm.

During 2004, a total of 220 rock samples, both outcrop and float, as well as 19 silt samples were collected during the exploration program. Results of the samples indicate highly anomalous values for gold, silver, lead, zinc, arsenic and copper. Sample values for gold ranged from <0.5 ppb to a high of 3.9 ppm, for silver from <0.1 to >100 ppm, for lead from 0.2 ppm to >10,000 ppm for zinc from 6 ppm to > 10,000 ppm, for arsenic from <0.5 to >10,000 ppm and copper from 0.7 ppm to 1975.6 ppm

Petrographic studies on 4 rocks collected during the 2003 program were completed. The study was carried out in order to determine the origin of the mineralizing events associated with these rocks. One of the samples studied indicated that the lack of any tectonically induced foliation or shearing implied that the formation of parallel bands and streaks of sulphides could have occurred during syngenetic rather than tectonic process. This fact, as well as the presence of chalcedony indicated the formation in a VMS environment.

Continued exploration has indicated the presence of favorable geology, high geochemical and assay results for a variety of elements along a geological contact that hosts deposits and mineral discoveries. It is underlain by the same stratigraphic sequence hosting the Del Norte Au-Ag discovery as well as the producing Eskay mine (reserves at the end of 2002 were 1.433 million tons of 0.998 opt Au and 44.9 opt Ag in the proven and probable reserve and 480,000 tons of 0.442 opt Au in the mineral reserve category).

An exploration program involving further prospecting, possible trenching and further geochemical sampling is recommended for the property. Expected cost of the above programs is approximately \$75,000.

It is recommended that the following program be performed:

1. Utilize the helicopter based in Stewart, BC to mobilize the crews to and from the property.
2. Locate any previous mineralized zones from past surveys, particularly a barite bearing felsic zone assaying 0,334 opt on the present day Pin 3 claim that was discovered in the 1994 programs.
3. Sample as many of the numerous gossan zones on various parts of the property as possible. Particular attention should be paid to the Salmon River sediment/Mt Dilworth rhyolite contact, especially for massive sulphide occurrences.
4. Continue silt geochemistry of streams in the property area.
5. Trench any highly mineralized zones located.
6. Locate the source of the massive sulphides boulders discovered in the 2003 and 2004 program.
7. Evaluate the potential for molybdenite mineralization in the northeast portion of the property.

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China

Yang Wen Chong:

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 and Guangnan Counties, Yunnan Province, PRC.

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

	<u>RMB</u>	
On signing the Purchase Contract	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

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.

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.

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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) 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.	3,730,000	568,599
	12,600,000	1,960,560

The Yang Wen Chong gold property lies in mountainous terrain that straddles the boundary between Guangnan and Funing Counties in southeastern Yunnan Province in the southern portion of the Peoples Republic of China (PRC). Yang Wen Chong is comprised of 51.14 square kilometers centered at approximately 23° 36.5' N latitude and 105° 28' E longitude. Access to the property from the closest city of Funing is excellent via paved National Highway 323; with travel time about 40 minutes. On the property, access is fair to poor via dirt roads and trails. The topography is karstic terrain with many steep-sided conical limestone hills, ridgelines and narrow valleys. Elevations range from about 1160 m to nearly 1600 m at the highest peaks. The climate is subtropical with cool dry winter months and hot, humid summer months. The rainy season is from July to October when heavy rains can occur. Vegetation consists of remnant pine forests and dense brush on steep slopes and at higher elevations. Terraced fields support local crops of tea, rice, and corn on most moderate to steep slopes and valley bottoms. At least eight farming villages are on the property.

The Yang Wen Chong Minerals Exploration License No. 5300000310841 is held by the Yunnan Geology & Mineral Resources Co., Ltd. (Owner) based in Kunming, the capital of Yunnan Province. The License was issued to the Owner on December 19, 2003 and must be renewed each year. In the recent past, the Owner was a government agency responsible for mineral exploration in Yunnan Province. Now it is an autonomous company incorporated within Yunnan Province.

Gold mineralization on the property was discovered in near proximity to antimony mines in 1990 by Chinese geologists working for the Non-Ferrous Metals Group in Yunnan Province. Authority for gold exploration was soon turned over to Yunnan Geologic Team #14 who was responsible for the gold exploration in the area. The most significant exploration work was conducted by BHP under a Joint Venture Agreement with the Chinese Government (Kuzhubao Project) from 1995 to 1999. The present Owner, the Yunnan Geology & Mineral Resources Co., Ltd., acquired the property in 2003. To date there are approximately 44 surface trenches, seven shallow shafts/pits, 15 drifts/underground workings, and nine core holes (drilled by BHP). Approximately 2700 rock-chip samples and 1225 soil samples have been collected and assayed. All drill core and drill logs are missing. Approximate 12 sq km of soil sampling and some geophysical work were also conducted by BHP but most hard data are also missing.

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The Yang Wen Chong gold property lies within the Dian-Qian-Gui sedimentary-rock hosted gold area defined by Li and Peters (1998) and is known for its Carlin-type gold mineralization. This large area is comprised largely of Paleozoic to Mesozoic marine rocks that were deposited on the western margin of the Precambrian Yangtze craton. Platform, transitional, and coeval deep-water sedimentary facies were deposited within the basin. Deformation of the basin (Youjiang orogenic belt) occurred during the Mid Paleozoic, Late Paleozoic, and in Mid to Late Triassic time. Perhaps the most important structures formed during these deformational periods were folds (particularly anticlines) and related thrust faults.

The Company plans to explore for Carlin-type gold deposits on the Yang Wen Chong property. These deposits are epigenetic hydrothermal replacement-type deposits with associated As, Hg, Sb, Ba, +/- Ti. Typical host rocks are Paleozoic to Mesozoic impure carbonate rocks and/or calcareous and carbonaceous marine sedimentary rocks. Alteration commonly consists of silicification and argillization; remobilized carbon is another common feature. The Jerritt Canyon gold district in Elko County, Nevada, USA is a possible analogy and shares many geologic characteristics with the Yang Wen Chong property. The initial discovery at Jerritt Canyon (1985) was 1.3 million mt @ 4.63 gpt Au of which 78% was refractory ore. Subsequent discoveries in the Jerritt Canyon district have yielded over 5 million ozs of gold production.

The geology of the Yang Wen Chong gold property is dominated by Cambrian and Devonian marine sedimentary rocks. The Cambrian strata are largely limestone with interbedded shale of the Tan Gia Ba Formation. Devonian shale, mudstone, claystone, fine-grained sandstone and limestone of the Pojiao Formation overly the Cambrian rocks along a major unconformity. This unconformity represents the erosional removal of Ordovician and Silurian rocks, a hiatus in the strata of 97 million years. The unconformity provided an incompetent zone in which the "Gedang thrust" was propagated between resistant limestone (Tan Gia Ba Formation) below and incompetent, fine-grained sedimentary rocks above (Pojiao Formation). The thrust fault may be related to a major, north-northeast-trending anticline located in near proximity to the eastern boundary of the property.

The Gedang thrust is exposed along the eastern margin of the property for a distance of at least 4.5 km and dips westward under the property at about +/- 20°. At least five zones of significant gold mineralization are intermittently exposed every 400 to 600 meters along the north-south trace of the thrust. Gold mineralization is hosted in the brittle-ductile deformation zone of the Gedang thrust where it cuts the lower Po Gau member ("shales") of the Devonian Pojiao Formation. Conspicuous zones of black graphitic material locally mark the thrust fault. The contact between the Cambrian and overlying Devonian strata in the vicinity of gold mineralization is marked by silicification (jasperoid) of the limestone. Argillization is prevalent within the mineralized zones.

Mineralized zones commonly contain two to five "stacked" gold horizons (>1 gpt Au) that have an aggregate true thickness on the order of 20 to 25 m and as high as 60 m. Intervening zones may contain material >0.5 gpt Au. Sparse core hole data from BHP suggest down-dip continuity of gold mineralization for at least 100 m to greater than 200 m. Surface sampling indicates lateral continuity ranging from from 50 m to greater than 200 m. The best core hole intercept was 89.00 m @ 1.63 gpt Au with an estimated true thickness of 49 m. The lack of drilling precludes good definition of the mineralized zones. All gold mineralization basically remains open.

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Oxidation is reported to extend to a depth of +/-20 m from the surface. Mineralization below the depth of oxidation contains 1-5% pyrite, 2-3% quartz stockworks, and many graphitic fault zones. Significant gold grades at the surface are typically 1 to 3+ gpt Au with higher grade material commonly grading 4 to 6+ gpt Au. To date, the highest grade samples from both surface and drill core are 8.40, 8.90, 11.75, 14.60, and 18.00 gpt Au. Native gold is present in hydromica (illite) and in sulfide minerals as micro- to submicron-sized grains. Trace element geochemistry reveals a high gold-to-silver ratio (Ag largely not detected) and elevated values of arsenic (2000-5000 ppm), antimony (25-40 ppm), and mercury (1-4 ppm).

Ore controls are believed to be the favorable thinly-laminated mudstone and claystone of the lower Pojiao Formation where they are cut by the Gedang thrust. Cross-cutting strike-slip and normal faults intersect the Gedang thrust creating shattered zones that offered excellent permeability for gold-bearing fluids that were channeled via "feeder faults." Gold deposits are likely irregular in shape ("ameboid") and may cluster in preferred areas.

Additional gold zones are present in Gold Zone #5 and at recent new discoveries identified by trenching. Gold Zone #5 is adjacent to underground antimony mines (quartz-stibnite veins) and is thought to be a subsidiary splay of the Gedang thrust within favorable "shales" of the Pojiao Formation. The new gold zones are defined by limited exploration trenching on soil gold anomalies.

There is presently no gold mineralization on the Yang Wen Chong property that meets the definition of a mineral resource or mineral reserve. Based on limited exploration data, YGM estimates 10 to 11 mt of gold in the known mineralized zones. This estimate does not conform to western economic criteria for estimating gold reserves or resources.

Rock-chip samples were collected and analyzed from the property, mostly from the mineralized zones. Assay results corroborate all gold zones that were sampled. It was difficult to determine some sample traverse sites because of surface disturbance of key exploration trenches by artisan miners. The best rock-chip sample traverses were:

- 6.0 m @ 2.03 ppm Au
- 40.0 m @ 1.86 ppm Au
- 20.0 m @ 1.80 ppm Au
- 30.0 m @ 1.22 ppm Au
- 3.0 m @ 4.42 ppm Au

The Company believes that Yang Wen Chong is a target-rich environment for Carlin-type gold deposits. Existing targets warrant continued exploration and routine reconnaissance will likely identify new targets. The most critical factor to date is the lack of metallurgical data. Local infrastructure appears adequate for a future mine. The Company suggests a Phase 1 Exploration Program (12-month) to advance early and intermediate-stage targets by continued trenching, core drilling, and metallurgical testing.

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Financial and General

The Company is engaged in mineral exploration in China and Canada and while it is the Company's intent to become a mineral producer, it currently has no producing properties and no operating income. In addition it does not expect to have operating income in the near future and consequently the Company only reports minor revenues from interest earned on money invested. The Company depends on share issuances to fund its exploration.

2003 Quarterly Results:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>
Revenue	nil	nil	nil	nil
Loss before Mineral Property Write Downs Per Share Basis*	(4,312) (0.00)	(13,972) (0.01)	(15,833) (0.01)	(56,029) (0.01)
Loss after Mineral Property Write Downs Per Share Basis*	(4,312) (0.00)	(13,972) (0.01)	(15,833) (0.01)	(56,029) (0.01)
Weighted Avge # of shares	5,923,161	3,515,750	4,156,375	4,156,375

2004 Quarterly Results:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>
Revenue	nil	555	nil	435
Loss before Mineral Property Write Downs Per Share Basis*	(114,165) (0.02)	(304,929) (0.06)	(150,291) (0.03)	(233,779) (0.04)
Loss after Mineral Property Write Downs Per Share Basis*	(114,165) (0.02)	(304,374) (0.06)	(194,831) (0.04)	(233,779) (0.04)
Weighted Avge # of shares	5,192,689	5,192,689	5,403,940	5,822,883

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

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Selected annual Information for the fiscal year ended	December 31, 2004	December 31, 2003	December 31, 2002
Total revenue	990	nil	nil
Loss before Mineral Property Write Downs Per Share Basis*	(803,164) (0.14)	(90,146) (0.02)	(45,650) (0.01)
Loss after Mineral Property Write Downs Per Share Basis*	(846,714) (0.15)	(90,146) (0.02)	(45,650) (0.01)
Total assets	2,839,836	260,261	47,518
Total long-term liabilities	nil	nil	nil
Cash dividends declared	nil	nil	nil

Details of Revenue and Expenses

Expenses

General and Administrative expenses of \$789,252 for 2004 were materially higher than the 2003 expenses of \$90,146. This reflects the increased activity in the Company. All categories were up from the previous year and especially the expenses associated with property investigation including travel and consultants. Increases in salaries and office expenses reflect additional people being hired and formal offices being rented. As well the Company wrote down one property which had been optioned in Ontario when it was decided not to continue. Please refer to the Consolidated Statements of Operations and Deficit in the consolidated financial statement for 2004 year ended December 31, 2004 for details.

Revenue and Net Loss

Net increases in cash in 2004 totaled \$1,526,546 as compared to \$80,089 for 2003. This increase is mainly contributed to four issues of shares including three private placements and one brokered financing. A small amount of revenue was derived from interest earned on investments. Only one property was written down and this is reflected in the net loss of \$846,714 for the year. The rest of the net loss can be attributed to costs of running an exploration business. The net loss per share reached \$0.15 for 2004 compared to \$0.02 for 2003.

Mineral Property Expenditures in 2004

Mineral property expenditures totaled \$1,021,546 for the year. A significant part of the expenditures were cash payments of \$512,011 for the Yang Wen Chong property option and purchase. The other major components of mineral property expenditures were associated with mapping, trenching, and drilling at the Silver Coin property.

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General and Administrative expenses totaled \$789,252 for the year. Much of this related to exploration including consulting services, some salaries, travel and management services. More can be read in the Consolidated Statement of Operations and Deficit.

Liquidity and Solvency and Discussion of Quarters

The Company began the year 2004 with a working capital surplus of \$76,050 and throughout the year increased this amount to \$1,491,806. See the Consolidated Balance Sheets. This increase in funds is allowing the Company to maintain and increase its exploration efforts.

The Company's liquidity was improved by \$708,040 in the first quarter as a result of a private placement. At March 31 cash stood at \$566,345 and accounts payable were at a low of \$5,145 compared to the same period a year before when cash in the Company amounted to only \$1,952 and accounts payable totaled \$131,117. The General and Administrative Expenses for the first quarter had increased to \$114,165 compared to \$4,312 a year before. This reflects the much increased activity of the Company.

Working capital at June 30, 2004 was \$347,070 compared to (\$140,149) at June 30 of the previous year, 2003. The increase in 2004 is due to cash received from the Company's 2004 private placements. The working capital surplus or current liquidity had risen to \$347,070. Cash in the bank had increased to \$362,873 compared to \$1,473 at June 30, 2003 and current payables had been reduced to \$21,681 compared to \$145,110 in June 2003. General and Administrative Expenses totaled \$419,094 for the first six months of the year and were \$304,929 for the three months ended June 30. This increase in operating costs again reflects the increased activity of the Company in both China and Canada.

At the end of September the cash position of the Company stood at \$331,621 and the working capital surplus was \$313,653. The Balance Sheet shows deposits on loan of \$438,523 which were funds committed to a private placement that had not closed, and therefore the funds advanced were recorded as a loan. Subsequent to the quarter end the placement was closed and the funds were then recorded as an asset.

As noted above, in the fourth quarter, funds were received from private placements and cash at the end of the year was recorded as \$1,606,968. Working capital surplus at the end of the year was \$1,491,806 compared to \$76,050.

At the date of this MD&A the Company had cash of \$1,006,391 compared to the \$1,606,968 recorded at the end of the year. This decrease is mainly due to a cash payment of \$568,599 made to the Yunnan Geology and Mineral Resource Co, Ltd. Also at the date of this MD&A the Company had payables of \$49,679.11.

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 will have to raise additional funds in 2005 to continue its operations. The Company is encouraged by the positive market conditions and expects that it will be able to raise sufficient funds to carry out its operations.

The Company had no loans payable at the end of the year.

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Capital Resources

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 2005 either by way of a private placement or a brokered financing. The Company expects to option out its Surprise Creek property before the end of May and the Company has only its commitment to explore the Silver Coin and Yang Wen Chong properties. Both 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. The Company had a total of 4,347,269 full share equivalent warrants outstanding and exercisable at yearend. Subsequent to the yearend, some of the warrants were exercised.

Management will continue to explore alternative ways to raise funds so as to minimize dilution to shareholders where possible.

Related Party Transactions

During 2004, the Company incurred fees of \$87,500 with directors for management consulting services. The Company makes use of the expertise and knowledge of the Directors and pays directors fees that are commensurate with industry standards. At year end the Company was owed \$2,500 by one Director. The Company shares office space with Doublestar Resources and during the year paid a total of \$76,800 for rent and office expenses. Subsequent to the year end the Company moved into downtown office space and now rents out space to Doublestar. The two companies have one director in common.

Investor Relations

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. The Company has a formal agreement with one outside group.

In June, 2004, the Company entered into a one year investor relations contract with Thast Projects Inc. ("Thast") of White Rock, BC to help it in promoting the Company. Thast is paid \$6,000 per month plus phone expenses to perform its duties defined in the contract. Thast was also issued an incentive stock option on 50,000 common shares of the Company.

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

During the year the Company issued 6,593,427 shares at various prices ranging from \$0.40 per share to \$0.65 per share. At the end of the year the Company had 10,165,461 shares outstanding compared to 3,572,034 shares at the end of 2003. Included in the share issuances was 77,000 shares the Company issued for a mineral property acquisition. During 2004 a total of 321,097 full share equivalent warrants were exercised and 1,403 escrow shares were returned.

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Each of the financings completed during the year included a warrant issue as well. At the end of the year a total of 4,347,269 full share equivalent warrants were outstanding and exercisable at an average price of \$0.60 per share.

To April 25, 2005 and subsequent to yearend, the Company has issued 747,957 common shares pursuant to the exercise of warrants; 741,457 at a price of \$0.50 and 6,500 at a price of \$0.21 for total proceeds of \$372,094.

See Note 7 of the financials for complete details of shares issuance.

Share Capital

The Company has an authorized share capital of an unlimited number of common shares of which 10,165,461 shares were issued and outstanding at the end of 2004.

The Company has outstanding a total of 4,347,269 full share equivalent warrants outstanding as of December 31, 2004 ranging in price from \$0.21 to \$0.75 per share. There have been no warrants issued subsequent to the year end.

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 year a total of 530,000 shares were outstanding as options at prices ranging from \$0.40 to \$0.70 per share. The average price is \$0.47 per share. The maximum number of shares subject to the plan, in the aggregate may not exceed 10% of the Company's issued shares. Subsequent to the year end the company issued another 525,000 options exercisable at \$0.50 per share. The Company uses the Black-Sholes option pricing model to estimate the fair value of the options.

See Note 7 in the audited financial statement for details.

Risks and Uncertainties

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 China. In China, the Company has to deal with government policies that can change quickly with no prior warning. The country is improving its investment climate but it still remains difficult to transfer funds. Legal problems can be a concern as there is generally limited recourse to the foreign companies that may have problems that need legal remedies.

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

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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.

Critical Accounting Estimates

Generally the most significant accounting entry in a junior exploration company's Balance Sheet is the amount listed for mineral property interests. Mineral properties consist of claims, options and or contracts. Acquisition and exploration costs are capitalized and deferred until such time as a property is put into production or the properties are sold or disposed of. The values of the properties held by a company are continually being assessed by management and if the carried values start to exceed the estimated recoverable values then these carried values are written down to more estimated reasonable values. If a mineral property is placed into production, the cost of acquisition and exploration and development will be written off over the life of the property, based on the economic reserves. Proceeds received from the sale of parts or all of a property will be credited against the carrying value of the property with any excess included in the operation of the property. If a property is abandoned, the property and deferred exploration costs will be written off against operations.

Another significant accounting estimate relates to accounting for stock-based compensation. The Company uses the Black-Sholes Option Pricing Model. Option pricing models require the input of highly subjective assumptions including the expected price volatility. The fair value estimate can be affected by subjective input and hence there can be problems with getting a fair value of the Company's stock options granted/vested during the year.

Trends

Trends in the industry can materially affect how well any junior exploration company is performing. Metal prices recently have sustained a significant upswing and as a result world wide exploration has taken a positive turn upward. The demand for metal in Asia, Europe and North America has increased the interest in finding new metals and it appears that this trend should continue for some time.

Outlook

The outlook is positive due to the trends in the metal markets that are in place at this time. Metal requirements and commodity prices are continuing to hold and in fact appear to be rising. This is a far different from the conditions that occurred in the late 1990's and early 2000's. The prospects for financing look good and this should enable the Company to continue its aggressive exploration program in Canada and China. The potential for large discoveries at the Company's Silver Coin project exist and this year the Company will be exploring in a very intensive manner. In China, the Company will complete setting up its joint venture for the Yang Wen Chong prospect and an exploration program will be initiated with the help of its partners.

The Company has many opportunities to do well and it plans to capitalize on these opportunities.