

Pinnacle Mines Ltd.

Interim Consolidated Financial Statements

For the quarter ended

March 31, 2005

(unaudited – prepared by management)

Address: Suite 350, 885 Dunsmuir Street
Vancouver, BC
V6C 1N5

Contact: Andrew W. Bowering
President

Telephone number: (604) 688-7377

Fax number: (604) 688-7307

Email address: bowering@pinnaclemines.com

Website: www.pinnaclemines.com

Note: These interim unaudited consolidated financial statements and the accompanying notes contained herein, have not been reviewed by the auditors.

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Management's Responsibility for Financial Reporting

To the Shareholders of
Pinnacle Mines Ltd.

The accompanying unaudited interim consolidated financial statements of Pinnacle Mines Ltd. have been prepared in accordance with Canadian generally accepted accounting principals consistent with previous quarters and years. Our auditors have not performed a review of these financial statements.

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
May 26, 2005

Pinnacle Mines Ltd.
Consolidated Balance Sheets,
unaudited – prepared by management

	March 31 2005	December 31 2004
Assets		
Current		
Cash and cash equivalents	\$ 1,063,172	\$ 1,606,968
Receivables	17,104	18,051
Prepays	<u>47,363</u>	<u>5,619</u>
	1,127,639	1,630,638
Project deposit (Note 3)	10,000	-
Due from director (Note 4)	4,000	4,000
Mineral property interests (Note 5)	1,790,154	1,199,785
Equipment (Note 6)	<u>19,230</u>	<u>5,413</u>
	<u>\$ 2,951,022</u>	<u>\$ 2,839,836</u>
Liabilities		
Current		
Payables and accruals	<u>\$ 68,741</u>	<u>\$ 138,832</u>
Shareholders' Equity		
Capital stock (Note 7)	13,997,208	13,783,369
Unexercised stock options (Note 7)	264,768	257,268
Contributed surplus	15,984	15,984
Deficit	<u>(11,395,679)</u>	<u>(11,355,617)</u>
	<u>2,882,282</u>	<u>2,701,004</u>
	<u>\$ 2,951,022</u>	<u>\$ 2,839,836</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,
unaudited – prepared by management

Three Month Period Ended March 31	2005	2004
General and administrative expenses		
Amortization	\$ 795	\$ -
Consulting services	21,650	25,208
Management services (Note 10)	37,000	11,500
Professional fees		
Accounting and audit	-	3,565
Legal	4,984	8,301
Office (Note 10)	67,828	8,344
Rent (Note 10)	9,617	14,200
Salaries and benefits	6,741	-
Shareholder services	39,395	7,759
Travel	12,803	35,287
	200,814	114,165
Loss before undernoted income (expenses)	(200,814)	(114,165)
Interest income	3,863	-
Loss before income taxes	(196,951)	(114,165)
Future income tax recovery (Note 11)	156,889	-
Net loss	\$ (40,062)	\$ (114,165)
Net loss per share	\$ (0.00)	\$ (0.02)
Weighted average common shares outstanding	10,849,533	4,156,375
<hr/>		
Deficit, beginning of period	(11,355,617)	(10,353,790)
Net loss	(40,062)	(114,165)
Deficit, end of period	\$ (11,395,679)	\$ (10,467,955)

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.
Consolidated Statements of Cash Flows,
unaudited – prepared by management

Three Month Period Ended March 31	2005	2004
Cash derived from (applied to)		
Operating		
Net loss	\$ (40,062)	\$ (114,165)
Amortization	795	-
Stock-based compensation	7,500	-
Future income taxes (Note 11)	(156,889)	-
Change in non-cash operating working capital (Note 8)	<u>(35,195)</u>	<u>(42,010)</u>
	<u>(223,851)</u>	<u>(156,175)</u>
Financing		
Shares issued for cash	370,729	646,040
Share issue costs	<u>-</u>	<u>-</u>
	<u>370,729</u>	<u>646,040</u>
Investing		
Mineral property expenditures		
Project deposit	(10,000)	-
Exploration expenditures	(97,463)	(1,323)
Acquisition costs	(568,599)	-
Purchase of equipment	<u>(14,612)</u>	<u>(2,619)</u>
	<u>(690,674)</u>	<u>(3,942)</u>
Net increase in cash	(543,796)	485,923
Cash		
Beginning of period	<u>1,606,968</u>	<u>80,422</u>
End of period	<u>\$ 1,063,172</u>	<u>\$ 566,345</u>
Cash comprises:		
Cash	\$ 63,172	\$ 80,422
Cashable guaranteed investment certificates	<u>1,000,000</u>	<u>-</u>
	<u>\$ 1,063,172</u>	<u>\$ 80,422</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended March 31, 2005

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 unaudited interim consolidated financial statements have been prepared on the going concern basis, which assumes that the company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The company'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 unaudited interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the company is unable to continue operations or does not receive continued financial support from its shareholders.

2. Basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the presentation of interim financial information. These financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent annual financial statements of the company for the year ended December 31, 2004 (the "Annual Financial Statements"). The financial statements follow the same accounting policies and methods of their application as the Annual Financial Statements.

3. Project deposits

The project deposit represents a term deposit pledged in favour of regulatory authorities as security for performance of site restoration to do with the Silver Coin property. This deposit will be released to the company on satisfactory reclamation of the property.

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,
unaudited – prepared by management

For the period ended March 31, 2005

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, 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	\$ 687,774	\$ 512,011	\$ 1,199,785
Acquisition costs	-	568,599	568,599
Exploration expenditures			
Assays	-	-	-
Drilling and metallurgical testing	-	-	-
Environmental	-	-	-
Geological and geophysical consulting	20,724	-	20,724
Helicopter and camp	-	-	-
Labour	-	-	-
Maintenance	-	-	-
Supplies	188	-	188
Shipping	-	-	-
Travel and accommodation	300	-	300
Other	558	-	558
Properties written-down	<u>-</u>	<u>-</u>	<u>-</u>
Balance, March 31, 2005	\$ <u>709,544</u>	\$ <u>1,080,610</u>	\$ <u>1,790,154</u>

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements,
unaudited – prepared by management

For the period ended March 31, 2005

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, 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
Acquisition costs	-	-	-	-	-
Exploration expenditures					
Assays	-	-	-	-	-
Drilling and metallurgical	-	-	-	-	-
Environmental	-	-	-	-	-
Geological	20,724	-	-	-	20,724
Helicopter and camp	-	-	-	-	-
Labour	-	-	-	-	-
Maintenance	-	-	-	-	-
Supplies	-	-	-	188	188
Shipping	-	-	-	-	-
Travel and accommodation	300	-	-	-	300
Other	558	-	-	-	558
Properties written-down	-	-	-	-	-
Balance, March 31, 2005	\$ 427,001	\$ 198,859	\$ 71,700	\$ 11,984	\$ 709,544

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements,

unaudited – prepared by management

For the period ended March 31, 2005

5. Mineral property interests (Continued)

China

Yang Wen Chong

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.

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
January 28, 2005	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

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements,
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For the period ended March 31, 2005

6. Equipment

			2005	2004
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 8,272	\$ 1,433	\$ 6,839	\$ 4,077
Other equipment	<u>12,708</u>	<u>318</u>	<u>12,391</u>	<u>1,336</u>
	<u>\$ 20,980</u>	<u>\$ 1,750</u>	<u>\$ 19,230</u>	<u>\$ 5,413</u>

7. Capital stock

Capital Stock

Common Shares

Authorized:

Unlimited number of common shares without par value

Issued:

	<u>Number</u>	<u>Amount</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	10,165,461	13,783,369
Future income tax relating to renounced exploration expenditures applicable to flow-through shares		(156,889)
Exercise of warrants	<u>741,457</u>	<u>370,729</u>
	<u>10,906,918</u>	<u>\$ 13,997,208</u>

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.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended March 31, 2005

7. Capital stock (Continued)

Stock Options (Continued)

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.

Stock option activity for the respective periods is as follows:

	2005	2004
Options outstanding, beginning of period	530,000	350,000
Granted	-	180,000
Options outstanding, end of period	<u>530,000</u>	<u>530,000</u>

Stock options outstanding and exercisable at March 31, 2005:

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	3.65	350,000	\$ 0.40	3.65
Directors' options	2004	March 16, 2009	90,000	0.70	3.96	90,000	0.70	3.96
Employee's option	2004	June 23, 2009	20,000	0.50	4.23	20,000	0.50	4.23
Consultant's option	2004	June 23, 2009	20,000	0.50	4.23	20,000	0.50	4.23
Consultant's option	2004	June 27, 2007	<u>50,000</u>	0.50	2.24	<u>29,167</u>	0.50	2.24
			<u>530,000</u>	<u>\$ 0.47</u>	<u>3.61</u>	<u>509,167</u>	<u>\$ 0.47</u>	<u>3.61</u>

During the first quarter of 2005, the Company recorded \$7,500 of compensation expense. This represents the portion of the options granted last year that vested in the first quarter of 2005. 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

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended March 31, 2005

7. Capital stock (Continued)

Warrants

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

	March 31 2005	December 31, 2004
Warrants outstanding, beginning of period	4,347,269	1,180,000
Issued	-	3,488,366
Exercised	(741,457)	(321,097)
Expired	(62,496)	-
	<u>3,543,316</u>	<u>4,347,269</u>
Warrants outstanding, end of period	<u>3,543,316</u>	<u>4,347,269</u>

Full share equivalent warrants outstanding and exercisable at March 31, 2005:

<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	0.49
Warrants	350,840	0.75	September 25, 2005	2004	0.48
Warrants	520,000	0.75	November 8, 2006	2004	1.61
Warrants	<u>1,732,476</u>	0.75	November 30, 2006	2004	1.67
	<u>3,543,316</u>	<u>\$ 0.64</u>			<u>1.22</u>

8. Change in non-cash operating working capital

	March 31, 2005	March 31, 2004
Receivables	\$ 947	\$ (1,184)
Prepays	(41,744)	-
Payables and accruals	<u>5,602</u>	<u>(40,826)</u>
	<u>\$ (35,195)</u>	<u>\$ (42,010)</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.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements,

unaudited – prepared by management

For the period ended March 31, 2005

10. Related party transactions

During the first quarter of 2005, the company incurred fees of \$37,000 (2004 - \$11,500) with directors for management consulting services. This amount 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.

Included in accounts payable is an amount of \$3,439 owed to a director of the company.

The company shares office space with Doublestar Resources Ltd. Starting March 2005 Doublestar reimburses each month to Pinnacle a portion of the rent and office expenses. 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. Future income tax liability

During 2004 the company issued 678,000 flow through shares with gross proceeds of \$440,700. The company renounced these expenditures on December 31, 2004. The future income tax effect is as follows:

	March 31, 2005
Expenses renounced	\$ 440,700
Marginal tax rate	<u>35.6%</u>
	<u>\$ 156,889</u>

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.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended March 31, 2005

13. Segmented disclosure

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

The company operates in two geographical segments: Canada and China. Corporate administrative activities are conducted from Canada. The income and expenses for the periods ended March 31, 2005 and December 31, 2004 and the assets at the end of those years identifiable to these segments are as follows:

	<u>Canada</u>	<u>China</u>	<u>Corporate</u>	<u>Total</u>
Assets				
March 31, 2005	\$ 709,544	\$ 1,080,610	\$ 1,160,868	\$ 2,951,022
December 31, 2004	687,774	512,011	1,640,051	2,839,836
Expenses				
Period ended				
March 31, 2005	-	-	40,062	40,062
Year ended				
December 31, 2004	44,540	-	802,174	846,714

14. Subsequent events

Subsequent to the end of the first quarter, the company optioned the Surprise Creek property to Pallaum Minerals Ltd., whereby Pallaum can earn up to a 50% interest in the Surprise Creek property by spending \$1,025,000 on exploration and issuing 400,000 common shares over a four year period as follows:

	<u>Exploration Expenditures</u>		<u>Payments</u>
by Aug 9, 2005	\$ 75,000	by Sep 15, 2005	100,000 shares
by Aug 9, 2006	100,000 elective	by Sep 15, 2006	100,000 shares
by Nov 1, 2006	50,000 elective	by Sep 15, 2007	100,000 shares
by Aug 9, 2007	100,000 elective	by Sep 15, 2008	<u>100,000</u> shares
by Nov 1, 2007	200,000 elective		
by Aug 9, 2008	100,000 elective		400,000 shares
by Nov 1, 2008	<u>400,000</u> elective		
	<u>\$ 1,025,000</u>		