

Pinnacle Mines Ltd.

Interim Financial Statements

For the quarter ended

March 31, 2006

(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 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 interim unaudited financial statements of Pinnacle Mines Ltd. have been prepared in accordance with Canadian generally accepted accounting principals consistent with previous quarters and years.

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 __, 2006

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

	March 31 2006	December 31 2005
Assets		
Current		
Cash and cash equivalents	\$ 1,732,974	\$ 1,877,422
Marketable securities (Note 3)	148,685	24,500
Receivables	40,403	56,376
Prepays	<u>29,660</u>	<u>40,949</u>
	1,951,722	1,999,247
Project deposit (Note 4)	10,000	10,000
Due from director (Note 5)	4,000	4,000
Mineral property interests (Note 6)	3,401,388	3,374,115
Equipment (Note 7)	<u>26,924</u>	<u>28,798</u>
	<u>\$ 5,394,034</u>	<u>\$ 5,416,160</u>
Liabilities		
Current		
Payables and accruals	\$ <u>31,128</u>	\$ <u>262,755</u>
Shareholders' Equity		
Capital stock (Note 8)	17,475,625	16,978,870
Contributed surplus (Note 8)	722,099	767,234
Deficit	<u>(12,834,818)</u>	<u>(12,592,699)</u>
	<u>5,362,906</u>	<u>5,153,405</u>
	<u>\$ 5,394,034</u>	<u>\$ 5,416,160</u>

Continuance of operations (Note 1)
 Commitments (Note 10)
 Subsequent events (Note 14)

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 financial statements.

Pinnacle Mines Ltd.
Statements of Operations and Deficit,
unaudited – prepared by management

Three Month Period Ended March 31	2,006	2005
General and administrative expenses		
Amortization	\$ 1,874	\$ 795
Consulting services (Note 11)	36,757	21,650
Management services (Note 11)	39,000	37,000
Investor relations	40,627	33,815
Professional fees		
Accounting and audit	1,023	-
Legal	3,058	4,984
Office (Note 11)	23,515	67,828
Rent (Note 11)	10,949	9,617
Salaries and benefits	24,056	6,742
Shareholder services	7,529	5,580
Travel	52,943	12,803
	<u>241,331</u>	<u>200,814</u>
Other items		
Property investigations	(2,330)	-
Interest income	1,542	3,863
	<u>(788)</u>	<u>3,863</u>
Loss before income taxes	<u>(242,119)</u>	<u>(196,951)</u>
Future income tax recovery	<u>-</u>	<u>156,889</u>
Net loss	<u>\$ (242,119)</u>	<u>\$ (40,062)</u>
Loss per share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
Weighted average common shares outstanding	<u>16,330,478</u>	<u>10,849,533</u>
<hr/>		
Deficit, beginning of period	\$ (12,592,699)	\$ (11,355,617)
Net loss	<u>(242,119)</u>	<u>(40,062)</u>
Deficit, end of period	<u>\$ (12,834,818)</u>	<u>\$ (11,395,679)</u>

See accompanying notes to the financial statements.

Pinnacle Mines Ltd.

Statements of Cash Flows, unaudited – prepared by management

Three Month Period Ended March 31	2006	2005
Cash derived from (used in)		
Operating activities		
Net loss	\$ (242,119)	\$ (40,062)
Amortization	1,874	795
Stock-based compensation	-	7,500
Future income taxes	-	(156,889)
Change in non-cash operating working capital (Note 9)	(179,801)	(35,195)
	<u>(420,046)</u>	<u>(223,851)</u>
Financing activities		
Shares issued for cash	464,120	370,729
Share issue costs	(12,500)	-
	<u>451,620</u>	<u>370,729</u>
Investing activities		
Mineral property expenditures		
Project deposit	-	(10,000)
Exploration expenditures	(176,022)	(97,463)
Acquisition costs	-	(568,599)
Purchase of equipment	-	(14,612)
	<u>(176,022)</u>	<u>(690,674)</u>
Net increase in cash	(144,448)	(543,796)
Cash		
Beginning of period	<u>1,877,422</u>	<u>1,606,968</u>
End of period	<u>\$ 1,732,974</u>	<u>\$ 1,063,172</u>
Cash comprises:		
Cash	\$ 182,974	\$ 63,172
Cashable guaranteed investment certificates	<u>1,550,000</u>	<u>1,000,000</u>
	<u>\$ 1,732,974</u>	<u>\$ 1,063,172</u>
Non-cash investing and financing transactions not included in cash flows:		
Marketable securities received to settle debt	\$ 124,185	\$ -

See accompanying notes to the financial statements.

Pinnacle Mines Ltd.

Notes to the Financial Statements

Unaudited – prepared by management

For the Period Ended March 31, 2006

1. Nature of operations and going concern

Pinnacle Mines Ltd. (the company) is incorporated under the laws of the Province of British Columbia. The company's shares are traded on the TSX Venture Exchange ("TSXV"). The company's business is to acquire, explore and develop interests in mining projects.

These unaudited interim 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 has a net loss of \$242,119 for the three month period ended March 31, 2006 and accumulated deficit of \$12,834,818 at March 31, 2006. The recoverability of the amounts shown for mineral property interests in the company's balance sheet are dependent upon the existence of economically recoverable reserves, the ability of the company to arrange appropriate financing to complete the development of its properties, the receipt of necessary permitting and upon achieving future profitable production or receiving proceeds from the disposition of the properties. The timing of such events occurring, if at all, is not yet determinable.

These unaudited interim 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 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 audited annual consolidated financial statements of the company for the year ended December 31, 2005 (the "Annual Financial Statements"). The financial statements follow the same accounting policies and methods of their application as the Annual Financial Statements.

3. Marketable securities

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>Carrying Value</u>
Mountain Boy Minerals Ltd. - traded on the TSX Venture Exchange	304,975	\$ <u>148,685</u>	\$ <u>182,985</u>	\$ <u>148,685</u>

On March 2, 2006 the company entered into an agreement with Mountain Boy Minerals Ltd. whereby the company agreed to accept 206,975 common shares of Mountain Boy Minerals Ltd. at a deemed value of \$0.60 per share for the amount of outstanding debt owed the company.

4. Project deposits

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

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended March 31, 2006

5. Due from director

The amount due from a director bears interest at 5% per annum and has no set terms or repayment. This amount relates to a loan provided in 2004.

6. 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, 2004	\$ 687,774	\$ 512,011	\$ 1,199,785
Acquisition costs	122,000	568,599	690,599
Exploration expenditures			
Geochemistry	10,116	-	10,116
Drilling and metallurgical	842,585	-	842,585
Geological & engineering	301,165	-	301,165
Helicopter	25,801	-	25,801
General administration	4,442	-	4,442
Geologic mapping	23,182	-	23,182
Maintenance	15,426	-	15,426
Field supplies	128,182	-	128,182
Resource estimation	2,046	-	2,046
Shipping	26,577	-	26,577
Travel and accommodation	91,149	-	91,149
Trenching & underground	37,560	-	37,560
Options proceeds	<u>(24,500)</u>	<u>-</u>	<u>(24,500)</u>
Balance, December 31, 2005	\$ <u>2,293,505</u>	\$ <u>1,080,610</u>	\$ <u>3,374,115</u>
Exploration expenditures			
Drilling and metallurgical	86	-	86
Geological & engineering	7,071	-	7,071
Maintenance	1,074	-	1,074
Resource estimation	<u>19,042</u>	<u>-</u>	<u>19,042</u>
Balance, March 31, 2006	\$ <u>2,320,778</u>	\$ <u>1,080,610</u>	\$ <u>3,401,388</u>

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended March 31, 2006

6. 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, 2004	\$ 405,419	\$ 198,859	\$ 71,700	\$ 11,796	\$ 687,774
Acquisition costs	-	122,000	-	-	122,000
Exploration expenditures					
Geochemistry	-	10,116	-	-	10,116
Drilling and metallurgical	842,585	-	-	-	842,585
Geological & engineering	279,664	21,501	-	-	301,165
Helicopter	17,302	8,499	-	-	25,801
General administration	3,713	129	-	600	4,442
Geologic mapping	17,035	6,147	-	-	23,182
Maintenance	11	15,415	-	-	15,426
Field supplies	125,253	1,785	-	1,144	128,182
Resource estimation	2,046	-	-	-	2,046
Shipping	26,164	413	-	-	26,577
Travel and accommodation	87,999	3,150	-	-	91,149
Trenching & underground	37,560	-	-	-	37,560
Options proceeds	-	-	(24,500)	-	(24,500)
Balance, December 31, 2005	<u>\$ 1,844,751</u>	<u>\$ 388,014</u>	<u>\$ 47,200</u>	<u>\$ 13,540</u>	<u>\$ 2,293,505</u>
Exploration expenditures					
Drilling and metallurgical	86	-	-	-	86
Geological & engineering	7,071	-	-	-	7,071
Maintenance	-	40	-	1,034	1,074
Resource estimation	19,042	-	-	-	19,042
Balance, March 31, 2006	<u>\$ 1,870,950</u>	<u>\$ 388,054</u>	<u>\$ 47,200</u>	<u>\$ 14,574</u>	<u>\$ 2,320,778</u>

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended March 31, 2006

7. Equipment

	March 31, 2006		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computer equipment	\$ 22,335	\$ 6,276	\$ 16,059
Other equipment	<u>12,708</u>	<u>1,843</u>	<u>10,865</u>
	<u>\$ 35,043</u>	<u>\$ 8,119</u>	<u>\$ 26,924</u>

	December 31, 2005		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computer equipment	\$ 22,335	\$ 4,974	\$ 17,361
Other equipment	<u>12,708</u>	<u>1,271</u>	<u>11,437</u>
	<u>\$ 35,043</u>	<u>\$ 6,245</u>	<u>\$ 28,798</u>

8. Capital stock and contributed surplus

Capital Stock

Common Shares

Authorized:

Unlimited number of common shares without par value

Issued:

	<u>Number</u>	<u>Amount</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	2,353,423	1,072,103
Private placement	93,000	55,800
Private placement	3,000,000	1,950,000
Private placement (Note 16)	117,647	100,000
Issued for mineral properties (Note 6)	200,000	122,000
Exercise of options	55,000	27,500
Fair value of options exercised	<u>-</u>	<u>24,987</u>
Balance, December 31, 2005	<u>15,984,531</u>	<u>\$ 16,978,870</u>
Private placement, net of finder's fee \$12,500	235,470	187,650
Exercise of warrants	258,200	219,470
Exercise of options	105,000	44,500
Fair value of options exercised	<u>-</u>	<u>45,135</u>
	<u>16,583,201</u>	<u>\$ 17,475,625</u>

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For the Period Ended March 31, 2006

8. Capital stock and contributed surplus (Continued)

Private placements

On February 1, 2006, the company closed a private placement consisting of 353,117 units at a price of \$0.85 per unit for net proceeds of \$300,149 of which \$100,000 was received in 2005. Each unit consisted of one common share and one share purchase warrant, every two warrants being exercisable into one additional common share for a period of two years at a price of \$1.00 per share in the first year and \$1.20 per share in the second year. A 5% finder's fee of \$12,500 was paid.

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 stock options to directors, officers, employees or consultants. 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 TSX Venture Exchange. 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.

Stock option activity for the respective periods is as follows:

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
Options outstanding, beginning of period	1,300,000	530,000
Granted	-	825,000
Exercised	<u>(105,000)</u>	<u>(55,000)</u>
Options outstanding, end of period	<u>1,195,000</u>	<u>1,300,000</u>

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended March 31, 2006

8. Capital stock and contributed surplus (Continued)

Stock options outstanding and exercisable at March 31, 2006:

Description	Year of Grant	Expiry Date	Outstanding and Exercisable		
			Number of Shares	Exercise Price Per Share	Average Remaining Contractual Life (Years)
Directors' options	2003	November 23, 2008	270,000	\$ 0.40	2.65
Directors' options	2004	March 16, 2009	90,000	0.70	2.96
Employee's option	2004	June 23, 2009	15,000	0.50	3.23
Consultant's option	2004	June 23, 2009	20,000	0.50	3.23
Consultant's option	2004	June 27, 2007	50,000	0.50	1.24
Consultant's option	2005	April 11, 2010	40,000	0.50	4.03
Employee's option	2005	April 11, 2010	35,000	0.50	4.03
Directors' options	2005	April 11, 2010	375,000	0.50	4.03
Directors' options	2005	December 6, 2010	260,000	0.95	4.69
Consultant's option	2005	December 6, 2010	30,000	0.95	4.69
Employee's option	2005	December 6, 2010	10,000	0.95	4.69
			<u>1,195,000</u>	<u>\$ 0.61</u>	<u>3.66</u>

Warrants

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

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
Warrants outstanding, beginning of period	3,477,850	4,347,269
Issued	176,559	1,546,500
Exercised	(258,200)	(2,353,423)
Expired	-	(62,496)
Warrants outstanding, end of period	<u>3,396,209</u>	<u>3,477,850</u>

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended March 31, 2006

8. Capital stock and contributed surplus (Continued)

Full share equivalent warrants outstanding and exercisable at March 31, 2006:

Description	Number of Full Share Equivalent Warrants	Price Per Share	Expiry Date	Year of Grant	Average Remaining Contractual Life (Years)
Warrants	520,000	0.75	November 8, 2006	2004	0.61
Warrants	1,153,150	0.75	November 30, 2006	2004	0.67
Warrants	46,500	0.60	April 20, 2007	2005	1.05
Warrants	1,500,000	0.83	September 25, 2007	2005	1.49
Warrants	176,559	1.00	February 1, 2008	2006	1.84
	<u>3,396,209</u>	<u>\$ 0.79</u>			<u>1.14</u>

Contributed surplus

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
Balance, beginning of period	\$ 767,234	\$ 273,252
Stock-based compensation	-	518,969
Fair value of of options exercised	<u>(45,135)</u>	<u>(24,987)</u>
Balance, end of period	<u>\$ 722,099</u>	<u>\$ 767,234</u>

9. Change in non-cash operating working capital

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Receivables	\$ (108,213)	\$ 947
Prepays	11,289	(41,744)
Payables and accruals	<u>(82,877)</u>	<u>5,602</u>
	<u>\$ (179,801)</u>	<u>\$ (35,195)</u>

10. Commitments

- (a) The company entered into a five year lease agreement with a company with directors in common for its office space commencing March 1, 2005 and ending February 28, 2010. The company is committed to making lease payments in 2006 of \$85,914, in 2007 of \$89,363, in 2008 and 2009 of \$92,812 each year and in 2010 of \$15,469.
- (b) During the third quarter of 2005, the company entered into a Cooperation Agreement with Gold Mountain (H.K.) International Mining Co. Ltd. ("Gold Mountain") a Hong Kong based subsidiary of Zijin Mining Group Co. Ltd. ("Zijin"), a gold and copper producer in China.

Pinnacle Mines Ltd.

Notes to the Financial Statements

Unaudited – prepared by management

For the Period Ended March 31, 2006

10. Commitments (Continued)

This Cooperation Agreement was entered as part of Gold Mountain's investment of \$1,950,000 in the Company.

Under the Cooperation Agreement, Gold Mountain and Zijin agree to offer and select as yet indeterminable projects in China to the company for joint venture. Also under the Cooperative Agreement, the company agrees to offer Zijin a right of first refusal to participate in any projects held at the time of the Cooperative Agreement. Zijin may also arrange to have suitable professionals join the company's project team at the company's cost.

11. Related party transactions

During the three months ended March 31, 2006, the company incurred fees of \$39,000 (2005 - \$37,000) with directors for management consulting services. This amount has been included in management services expense on the statement of operations and deficit.

During the three months ended March 31, 2006, the company incurred consulting fees of \$7,833 (2005 - \$3,750) with a director for geological and mining engineering services. This amount has been included in consulting services expense on the statement of operations and deficit.

Included in payables is an amount of \$4,093 owed to a director of the company

The company shares office space with Doublestar Resources Ltd. and Lincoln Gold Corp. Starting March 2005 Doublestar and Lincoln reimburse each month to Pinnacle a portion of the rent and office expenses. Doublestar, Lincoln 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. The exchange amount was negotiated and established and agreed to by the related parties as if they were dealing at arm's length.

12. Financial instruments

(a) Fair value

The company's financial instruments consist of cash, marketable securities, receivables, due from directors and 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 Financial Statements
Unaudited – prepared by management
For the Period Ended March 31, 2006

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 6.

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, 2006 and March 31, 2005 and the assets at March 31, 2006 and December 31, 2005 identifiable to these segments are as follows:

	<u>Canada</u>	<u>China</u>	<u>Corporate</u>	<u>Total</u>
Assets				
March 31, 2006	\$ 2,320,778	\$ 1,080,610	\$ 1,992,646	\$ 5,394,034
December 31, 2005	2,293,505	1,080,610	2,042,045	5,416,160
Net loss				
Period ended				
March 31, 2006	-	-	242,119	242,119
Period ended				
March 31, 2005	-	-	40,062	40,062

14. Subsequent events

The company is proposing a funding through private placement and a partial brokered financing consisting of up to 7,500,000 units at a price of \$1.15 per unit for net proceeds of up to \$8,625,000. Each unit will entitle the holder to one common share and one half warrant, every two half warrants being exercisable into one additional common share for a period of one year at a price of \$1.40 per share. The company will pay an agent fee of 8% of the gross proceeds raised by the agent upon closing. The agent will also be granted agent warrants equal in number to 10% of the brokered units sold. Each agent warrant will be exercisable into one common share for a period of one year at a price of \$1.40 per share. The agent will also receive 40,000 corporate finance units, each of which is comprised of one common share and one-half of one warrant, every two half warrants being exercisable into one additional common share for a period of one year at a price of \$1.40 per share.