

Pinnacle Mines Ltd.

Interim Financial Statements

For the quarter ended

June 30, 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.

Contents

	<u>Page</u>
Management's Responsibility for Financial Reporting	1
Balance Sheets, unaudited	2
Statements of Operations and Deficit, unaudited	3
Statements of Cash Flows, unaudited	4
Notes to the Financial Statements, unaudited	5-16

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
August 28, 2006

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

	June 30 2006	December 31 2005
Assets		
Current		
Cash and cash equivalents	\$ 2,272,592	\$ 1,877,422
Marketable securities (Note 3)	148,685	24,500
Receivables	383,738	56,376
Prepays	<u>64,657</u>	<u>40,949</u>
	2,869,672	1,999,247
Project deposit (Note 4)	15,000	10,000
Due from director (Note 5)	4,000	4,000
Mineral property interests (Note 6)	3,681,201	3,374,115
Equipment (Note 7)	<u>25,050</u>	<u>28,798</u>
	<u>\$ 6,594,923</u>	<u>\$ 5,416,160</u>
Liabilities		
Current		
Payables and accruals	<u>\$ 368,757</u>	<u>\$ 262,755</u>
Shareholders' Equity		
Capital stock (Note 8)	18,643,767	16,978,870
Contributed surplus (Note 8)	722,099	767,234
Deficit	<u>(13,139,700)</u>	<u>(12,592,699)</u>
	<u>6,226,166</u>	<u>5,153,405</u>
	<u>\$ 6,594,923</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 Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
General and administrative expenses				
Amortization	\$ 1,874	\$ 1,220	\$ 3,748	\$ 2,015
Consulting services (Note 11)	42,962	4,093	79,719	25,744
Management services (Note 11)	39,000	39,000	78,000	76,000
Investor relations	92,912	26,582	133,539	60,397
Professional fees				
Accounting and audit	11,663	8,324	12,686	8,324
Legal	11,775	12,509	14,833	17,493
Office (Note 11)	12,087	30,437	35,602	98,265
Rent (Note 11)	10,890	16,669	21,839	26,286
Salaries and benefits	30,782	13,495	54,838	20,236
Regulatory and shareholder services	17,422	10,918	24,951	16,498
Stock-based compensation	-	245,747	-	245,747
Travel	28,904	6,797	81,847	19,600
	<u>300,271</u>	<u>415,791</u>	<u>541,602</u>	<u>616,605</u>
Loss before undernoted income (expenses)	(300,271)	(415,791)	(541,602)	(616,605)
Property investigations	(13,646)	(1,363)	(15,976)	(1,363)
Interest and miscellaneous income	9,035	2,560	10,577	6,423
Loss before income taxes	<u>(304,882)</u>	<u>(414,594)</u>	<u>(547,001)</u>	<u>(611,545)</u>
Future income tax recovery	-	-	-	156,889
Net loss	<u>\$ (304,882)</u>	<u>\$ (414,594)</u>	<u>\$ (547,001)</u>	<u>\$ (454,656)</u>
Net loss per share	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
Weighted average common shares outstanding	<u>16,700,271</u>	<u>10,820,434</u>	<u>16,516,396</u>	<u>10,820,434</u>
Deficit, beginning of period	\$ (12,834,818)	\$ (11,395,679)	\$ (12,592,699)	\$ (11,355,617)
Net loss	<u>(304,882)</u>	<u>(414,594)</u>	<u>(547,001)</u>	<u>(454,656)</u>
Deficit, end of period	<u>\$ (13,139,700)</u>	<u>\$ (11,810,273)</u>	<u>\$ (13,139,700)</u>	<u>\$ (11,810,273)</u>

See accompanying notes to the financial statements.

Pinnacle Mines Ltd.

Statements of Cash Flows, unaudited – prepared by management

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Cash derived from (applied to)				
Operating				
Net loss	\$ (304,882)	\$ (414,594)	\$ (547,001)	\$ (454,656)
Amortization	1,874	1,220	3,748	2,015
Stock-based compensation	-	238,247	-	245,747
Future income taxes	-	-	-	(156,889)
Change in non-cash operating working capital (Note 9)	(347,088)	(52,426)	(526,889)	(87,621)
	(650,096)	(227,553)	(1,070,142)	(451,404)
Financing				
Shares issued for cash	1,168,142	64,200	1,632,262	434,928
Share issue costs	-	-	(12,500)	-
	1,168,142	64,200	1,619,762	434,928
Investing				
Mineral property expenditures				
Project deposit	(5,000)	-	(5,000)	(10,000)
Exploration expenditures	26,572	317,227	(149,450)	(348,834)
Acquisition costs	-	(568,599)	-	(568,599)
Purchase of equipment	-	(5,670)	-	(20,282)
	21,572	(257,042)	(154,450)	(947,715)
Net increase in cash	539,618	(420,395)	395,170	(964,191)
Cash and cash equivalents				
Beginning of period	1,732,974	1,063,172	1,877,422	1,606,968
End of period	\$ 2,272,592	\$ 642,777	\$ 2,272,592	\$ 642,777
Cash and cash equivalents comprises:				
Cash	\$ 1,122,592	\$ 92,777	\$ 1,122,592	\$ 92,777
Cashable guaranteed investment certificates	1,150,000	550,000	1,150,000	550,000
	\$ 2,272,592	\$ 642,777	\$ 2,272,592	\$ 642,777
Non-cash investing and financing transactions not included in cash flows:				
Marketable securities received as option proceeds	\$ -	\$ -	\$ 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 June 30, 2006

1. Nature of operations and going concern

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

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 incurred a net loss of \$547,001 for the six month period ended June 30, 2006 and has an accumulated deficit of \$13,139,700 at June 30, 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	\$ 148,685	\$ 186,035	\$ 148,685

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.

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended June 30, 2006

4. Project deposits

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

	June 30, 2006	December 31, 2005
Silver Coin reclamation bond	\$ 10,000	\$ 10,000
Surprise Creek reclamation bond	<u>5,000</u>	<u>-</u>
	<u>\$ 15,000</u>	<u>\$ 10,000</u>

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.

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management

For the Period Ended June 30, 2006

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	4,443	-	4,443
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>2,293,506</u>	\$ <u>1,080,610</u>	\$ <u>3,374,116</u>
Exploration expenditures			
Geochemistry	1,872	-	1,872
Drilling and metallurgical	367,479	-	367,479
Geological & engineering	34,873	1,242	36,115
Helicopter	3,305	-	3,305
General administration	10,980	-	10,980
Geologic mapping	6,407	-	6,407
Maintenance	3,189	-	3,189
Field supplies	19,064	-	19,064
Resource estimation	30,472	-	30,472
Shipping	12,627	-	12,627
Travel and accommodation	25,766	-	25,766
Trenching & underground	14,809	-	14,809
New Cantech advance	<u>(225,000)</u>	<u>-</u>	<u>(225,000)</u>
Balance, June 30, 2006	\$ <u>2,599,349</u>	\$ <u>1,081,852</u>	\$ <u>3,681,201</u>

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended June 30, 2006

6. Mineral property interests (Continued)

Canada

	<u>Silver Coin</u>	<u>Surprise Creek</u>	<u>Kansas</u>	<u>Distraction</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2004	\$ 405,419	\$ 208,362	\$ 71,700	\$ -	2,292	\$ 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	-	-	601	4,443
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>\$ 397,517</u>	<u>\$ 47,200</u>	<u>\$ -</u>	<u>\$ 4,037</u>	<u>\$ 2,293,506</u>
Exploration expenditures						
Geochemistry	-	-	-	1,872	-	1,872
Drilling and metallurgical	367,479	-	-	-	-	367,479
Geological & engineering	28,619	254	-	6,000	-	34,873
Helicopter	-	-	-	3,305	-	3,305
General administration	10,122	827	-	31	-	10,980
Geologic mapping	2,907	-	-	3,500	-	6,407
Maintenance	1,566	40	-	1,583	-	3,189
Field supplies	17,068	939	-	148	909	19,064
Resource estimation	30,472	-	-	-	-	30,472
Shipping	12,627	-	-	-	-	12,627
Travel and accommodation	21,167	2,096	-	2,503	-	25,766
Trenching & underground	14,809	-	-	-	-	14,809
New Cantech advance	(225,000)	-	-	-	-	(225,000)
Balance, June 30, 2006	<u>\$ 2,126,587</u>	<u>\$ 401,673</u>	<u>\$ 47,200</u>	<u>\$ 18,942</u>	<u>\$ 4,946</u>	<u>\$ 2,599,349</u>

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended June 30, 2006

7. Equipment

	June 30, 2006		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computer equipment	\$ 22,335	\$ 7,578	\$ 14,757
Other equipment	<u>12,708</u>	<u>2,415</u>	<u>10,293</u>
	<u>\$ 35,043</u>	<u>\$ 9,993</u>	<u>\$ 25,050</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	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	321,574	264,038
Exercise of options	105,000	44,500
Private placement, shares subscribed (Note 14)	977,021	1,123,574
Fair value of options exercised	<u>-</u>	<u>45,135</u>
Balance, June 30, 2006	<u>17,623,596</u>	<u>\$ 18,643,767</u>

Pinnacle Mines Ltd.

Notes to the Financial Statements

Unaudited – prepared by management

For the Period Ended June 30, 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:

	Six Months Ended June 30, 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 June 30, 2006

8. Capital stock and contributed surplus (Continued)

Stock options outstanding and exercisable at June 30, 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	2.40
Directors' options	2004	March 16, 2009	90,000	0.70	2.71
Employee's option	2004	June 23, 2009	15,000	0.50	2.98
Consultant's option	2004	June 23, 2009	20,000	0.50	2.98
Consultant's option	2004	June 27, 2007	50,000	0.50	0.99
Consultant's option	2005	April 11, 2010	40,000	0.50	3.78
Employee's option	2005	April 11, 2010	35,000	0.50	3.78
Directors' options	2005	April 11, 2010	375,000	0.50	3.78
Directors' options	2005	December 6, 2010	260,000	0.95	4.44
Consultant's option	2005	December 6, 2010	30,000	0.95	4.44
Employee's option	2005	December 6, 2010	10,000	0.95	4.44
			<u>1,195,000</u>	<u>\$ 0.61</u>	<u>3.41</u>

Warrants

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

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
Warrants outstanding, beginning of period	3,477,850	4,347,269
Issued	176,559	1,546,500
Exercised	(321,574)	(2,353,423)
Expired	-	(62,496)
Warrants outstanding, end of period	<u>3,332,835</u>	<u>3,477,850</u>

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management
For the Period Ended June 30, 2006

8. Capital stock and contributed surplus (Continued)

Full share equivalent warrants outstanding and exercisable at June 30, 2006:

<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	520,000	0.75	November 8, 2006	2004	0.36
Warrants	1,153,150	0.75	November 30, 2006	2004	0.42
Warrants	46,500	0.60	April 20, 2007	2005	0.81
Warrants	1,500,000	0.83	September 25, 2007	2005	1.24
Warrants	<u>176,559</u>	1.00	February 1, 2008	2006	1.59
	<u>3,396,209</u>	<u>\$ 0.79</u>			<u>0.89</u>

Contributed surplus

	Six Months Ended June 30, 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 June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Receivables	\$ (343,334)	\$ (31,364)	\$ (451,547)	\$ (30,417)
Prepays	(34,997)	14,925	(23,708)	(26,819)
Payables and accruals	<u>31,243</u>	<u>(35,987)</u>	<u>(51,634)</u>	<u>(30,385)</u>
	<u>\$ (347,088)</u>	<u>\$ (52,426)</u>	<u>\$ (526,889)</u>	<u>\$ (87,621)</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 June 30, 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 six months ended June 30, 2006, the company incurred fees of \$78,000 (2005 - \$76,000) with directors for management consulting services. This amount has been included in management services expense on the statement of operations and deficit.

During the six months ended June 30, 2006, the company incurred consulting fees of \$15,348 (2005 - \$5,238) 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 \$1,268 owed to directors 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 has one director in common while Lincoln and Pinnacle have two directors 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, prepaids, 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 June 30, 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 June 30, 2006 and June 30, 2005 and the assets at June 30, 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				
June 30, 2006	\$ 2,599,349	\$ 1,081,852	\$ 2,913,722	\$ 6,594,923
December 31, 2005	2,293,505	1,080,610	2,042,045	5,416,160
Net loss				
Period ended				
June 30, 2006	-	-	547,001	547,001
Period ended				
June 30, 2005	-	-	454,656	454,656

14. Subsequent events

- (a) On July 7, 2006 the company closed a funding through private placement and a partial brokered financing consisting of 2,804,021 units at a price of \$1.15 per unit for net proceeds of \$3,224,624 of which \$1,123,574 was received prior to June 30, 2006. Each unit entitles 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 paid an agent fee of 8% of the gross proceeds on the brokered portion of the financing in a combination of cash and units. In addition, the agent received a corporate finance fee of 40,000 units and agent's warrants equal to 10% of the aggregate number of units sold under the brokered financing, with the same terms as the warrants in the placement. The company paid an additional finder's fee on the private placement financing of 8% cash commission on the gross proceeds received from the sale of the units in the private placement.

Pinnacle Mines Ltd.
Notes to the Financial Statements
Unaudited – prepared by management

For the Period Ended June 30, 2006

14. Subsequent events (Continued)

(b) On July 24, 2006 the company signed an option agreement with Almaden Minerals Ltd. (“Almaden”) whereby the company can acquire up to a 60% interest in the Tuligtic Project located in the State of Puebla Mexico by undertaking a work program on the Tuligtic Project aggregating US\$6,000,000 and issuing an aggregate of 1,000,000 shares. The exploration expenditures and share issuance are as follows:

to earn 51%	<u>Exploration Expenditures</u>	<u>Payments</u>
by August 9, 2006	US\$	by September 5, 2006
by August 9, 2007	300,000 elective	100,000 shares
by August 9, 2008	1,000,000 elective	by August 9, 2007
by August 9, 2009	1,000,000 elective	150,000 shares
by August 9, 2010	1,200,000 elective	by August 9, 2008
		150,000 shares
		by August 9, 2009
		150,000 shares
		by August 9, 2010
		<u>150,000</u> shares
	US\$ <u>3,500,000</u>	700,000 shares
to earn additional 9%		
by August 9, 2011	US\$ 1,500,000	by August 9, 2011
by August 9, 2012	<u>1,000,000</u>	150,000 shares
		by August 9, 2012
		<u>150,000</u> shares
	US\$ <u>2,500,000</u>	300,000 shares

(c) In July 2006 the company granted 325,000 options to an employee and three consultants. The options are exercisable at \$1.26 over a term of 5 years for the employee and 3 years for the consultants.