

Management Discussion and Analysis

All amounts are stated in Canadian Dollars unless otherwise noted
THIRD QUARTER ended September 30, 2008.

November 24th, 2008

President's Message to Shareholders

Dear Shareholders:

The third quarter of the year saw the Company in full exploration mode at the Silver Coin property near Stewart BC. Also the Company continued work at the Rio Minas property just south of La Calavera Property, in Oaxaca, Mexico. At Silver Coin the 2008 exploration got underway in late May. The 2008 exploration program is focusing on expanding the resource and improving the resource categories. Each planned drill hole for the 2008 program has been laid out taking into consideration not only the potential to increase resources but also to improve the quality of the resources already defined. The entire drill program of 89 holes was completed by mid September and all split core had been sent out for assaying by the end of September. No exploration work was carried out on the Surprise Creek property. The Company completed its acquisition of the Kansas Property from Tenajon Resources Corp. by the end of September when the court gave final approval for the acquisition. Subsequent to the end of the quarter the Company arranged for a private placement of \$2.5 million to cover administrative costs and advancement of the Silver Coin into pre-feasibility

Advancing the Silver Coin property is the prime objective for Pinnacle. This project takes up most of our time and money. The property already has a significant defined resource of gold at a cutoff of 0.75 grams per tonne divided into 423,002 ounces in the measured and indicated categories and 947,988 ounces in the inferred category. This year's drill program of 89 holes for a total of 9600 meters is designed to try and add to that resource and move some gold resource from the inferred category to the indicated and measured categories. The budget this year for exploration at Silver Coin was \$2.4 million. Included in the budget was drilling, metallurgical studies, and detailed mapping. At the end of the field season a new resource estimate will be calculated by Snowden. Snowden Consultants were hired in 2007 to take over from MineFill Services with respect to resource calculations, drill-hole location planning, scoping studies and structural analyses. All MineFill data has been entered on the Snowden computer system now and the 2008 drill results will be entered as they are available. The 2008 drilling program on Silver Coin property lasted from the middle of June to the end of August. During the program a total of 40,080 feet of BTW and NQ core in 88 holes were drilled. Fifty of these holes totaling 25,401 feet were drilled on Kansas claim. The remaining 38 holes totaling 14,679 feet were drilled to the north of Kansas claim, mostly on Big Missouri and to lesser extent on Silver Coin 4 and Silver Coin 9 claims.

A full range of metallurgical test work is being performed in 2008. Pinnacle believes this work is essential to the understanding and continued exploration of the property. This metallurgical program is intended to develop the conceptual flow sheet. The program will look at flotation and cyanidation processes and will carry out investigations of these processes to determine the most effective recovery method for the gold, silver and zinc. Pinnacle has provided sufficient split core for these studies. Some gravity separation work is included. Our metallurgical consultant, Mr. Frank Wright, has outlined studies that are required for the preliminary assessment of mineral processing at the Silver Coin. Most of the test work will be carried out at Process Research

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Associates in Richmond. Subsequent to the end of the quarter it was determined to focus our metallurgical efforts on the recovery of metals by a flotation process.

We believe that Mexico will continue to be an important part of the Company's future despite the fact that the Silver Coin project in B.C. is our most important project at this time. Also we realize that we cannot expect "overnight success" in Mexico. As an example the La Calavera project has been a bit of a disappointment. While we have not given up on the project, mediocre drill results and local politics have created a situation that has given management a reason to pause and take a second look at the project.

At the Rio Minas property a program of soil and rock sampling along with an IP survey was initiated in the fall of 2007. The program was halted for a short time over the winter months but was started again in June 2008. We have had a team of three geologists working on site completing a geochemical survey. The initial soils program was completed in September and detailed geochemical maps of the property have been completed. The geochemical program has defined a large anomalous area. This anomalous area appears to be growing and getting stronger to the east so the next exploration program at Rio Minas will be more soils geochemistry in the western part of the property.

As was reported in the first quarter report discussions began with Tenajon Resources Corp. on the acquisition of the remaining 40% of the Kansas claim owned by them. A binding letter of agreement was signed on April 15, 2008 whereby Pinnacle could purchase Tenajon's wholly owned subsidiary, 0781639 B.C. Ltd. which holds the undivided 40% ownership interest in and to the Kansas Claim and a 100% ownership interest in and to the Summit Lake property. Pinnacle has completed the purchase the Corporation for an aggregate deemed purchase price of approximately \$3,015,000, subject to an adjustment as a result of certain events occurring before December 31, 2008. Pinnacle now owns an undivided [70.6%] interest in and to the Kansas Claim and 100% of the Summit Lake Property. The remaining [29.4%] undivided interest in the Kansas Claim is owned by Mountain Boy Minerals Ltd. The agreement also included the purchase of the Summit Lake property. This past producer is located approximately 20 kilometers past the Silver Coin property along the Granduc Road. No work will be performed by Pinnacle on this property in 2008. In fact Pinnacle is looking for a partner for this project.

Much has yet to be done to take the Silver Coin property to production, including completing a feasibility study. However, with the positive exploration work that is being carried out this year the property continues to move in the right direction.

Subsequent to the end of the quarter the Company has arranged for a private placement which should be completed in early December. The funding is required to keep the Company viable and also to progress the Silver Coin through pre-feasibility. Unfortunately the market has collapsed in general and Pinnacle's stock has dropped to its lowest level ever. The next financing will have to be done at these low levels.

We wish to thank the shareholders for their continued interest and support in these very difficult financial times.

Respectfully submitted,

Paul Saxton
President, CEO and Director

Pinnacle Mines Ltd.

November 24, 2008

Management's Discussion and Analysis (MD&A) supplements, but does not form part of the unaudited interim financial statements of the Company and the notes thereto for the period ended September 30, 2008. Consequently, the following discussion and analysis of the financial condition and results of operations for Pinnacle Mines Ltd. should be read in conjunction with the unaudited interim financial statements for the period ended September 30, 2008 and related notes therein, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

This discussion and analysis should also be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2007, and the notes thereto. The audited financial statements for the year ended December 31, 2007 including the notes thereto, and other information issued by the Company, can be found on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain statements contained in the following MD&A and elsewhere are considered forward-looking statements. Such statements include a number of unknown risks, uncertainties and other factors that may affect the performance of various programs underway and actual results of the programs may be materially different from any results expressed or implied. Readers are cautioned not to place undue reliance on the forward-looking statements put forward by the Company in light of the risks that are set out below.

Corporate Governance

Management of the Company is responsible for the preparation and presentation of the annual and quarterly financial statements and notes thereto. Management is also responsible for the MD&A and other information contained in these reports. Additionally, it is management's responsibility to ensure the Company complies with the laws and regulations applicable to its activities.

All Policy and Procedure aspects of the Company continued to be reviewed 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.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006. Management's evaluation was that the disclosure controls were generally effective.

Company management believes that the financial statements and MD&A filed conformed in all other respects with the requirements of form 51-102F1. Management believes that the Company's accounting systems, staffing, policies and procedures are appropriate to the size and nature of the Company's operations, although the Company's auditors have noted a lack of appropriate segregation of duties in respect of accounting procedures caused by the modest scale of these operations. Management oversight and approval of transactions and disbursements, however, limits the scope for inappropriate transactions and an independent, qualified audit committee oversees the Company's reporting.

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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.

General Corporate Review

Pinnacle Mines is a Canadian-based junior resource exploration company engaged in the exploration and development of base and precious metal resource properties located in British Columbia, Canada, and Oaxaca, Mexico.

This is now the fifth year of exploration for the Company in the Stewart area. Our activities in the area have focused on two main properties of interest, the Surprise Creek and the Silver Coin. Last year the Company expanded its activities at the Surprise Creek with a 4hole drill program and continued the exploration of the Silver Coin property with a 15 hole drill program. This year the planned exploration program at the Silver Coin was expanded to 89 holes for a total of 12,220 meters. No exploration work was completed on the Surprise Creek property in 2008.

An agreement with Chesapeake Gold Corp. was approved by the Exchange in late May of 2007 and work began immediately at the two properties that are part of the agreement, the La Calavera and Rio Minas. At the La Calavera geological mapping has been completed throughout as well as geophysical work and 14 holes were drilled. The results of the drill program at La Calavera were not particularly encouraging. A decision must be made on the next exploration program if there is one. A \$400,000 payment by Chesapeake has been turned down by the local community which controls the area and until that situation is resolved there will be no further exploration. An IP survey and soil geochemical survey was completed at Rio Minas with very encouraging results. However in September the exploration at Rio Minas was curtailed due to a lack of money and the downturn in the market. While the Company's operating office in Oaxaca City has been particularly effective because of its close location to all projects we have terminated all but two employees and reduced the size of the office. The Company continues to look for exploration opportunities in North America.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, and useful lives for depreciation and amortization. Financial results as determined by actual events could differ from those estimates.

Accounting for Stock Options

The fair value of stock options used to calculate compensation expense has been estimated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly subjective assumptions including the expected price volatility of the Company's shares. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Asset Retirement Obligation

The Company's reclamation and closure cost obligation is calculated using highly subjective assumptions that include the Company's long-term credit-adjusted risk-free interest rate, the long-term inflation rate, the year in which the reclamation obligation is expected to begin and the

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current estimate of the reclamation obligation. Any changes in these subjective assumptions could materially affect the Company's reclamation and closure cost obligation. The Company has two bonds in place for reclamation requirements in BC, one at Silver Coin and the other at Surprise Creek.

Resource Property Interests

The Company's current business activity focus is on the exploration and development of precious metal properties. The cost of acquiring, exploring, and developing mineral properties is capitalized. In the event that the Company elects to proceed with the development of a project, capitalized acquisition, exploration and development expenditures will be amortized against future production upon commencement of commercial production, or written off if the properties are sold or abandoned.

CANADA

Surprise Creek Property

The Company acquired 40 claims units in 2003 in the Stewart area by staking an area covering several old reverted crown grants in the Bear River pass near Surprise Creek. Renamed the El Dorado, this property has had very little exploration in the last 30 years and sporadic work efforts since the early 1900s.

The property is now roughly 15,000 hectares in size within one claim block after some of the claims were dropped. The property follows the contact zone between the Mt. Dilworth rhyolite and overlying Salmon River sedimentary formations, the same stratigraphic sequence that is host to numerous gold deposits including Eskay Creek, Snip and Premier-Big Missouri mines. The rhyolite horizon was traced along the entire north-south length of the Surprise Creek claim group.

Four holes were completed in 2007 for just under 2000 meters of drilling. The results were encouraging in that the general geology is becoming better understood and future drilling, if any, will reflect this knowledge. The Company is still gathering geological information on the area and the drilling program is part of that process.

No physical work was carried out on the property in 2008.

Silver Coin Property

On August 4, 2004 the Company entered into an option agreement with Mountain Boy Minerals Ltd. whereby The Company could earn 51% of Mountain Boy's wholly-owned Silver Coin and FR claims and 55% owned Dauntless projects by spending \$1.75 million on exploration over a three year period. In addition, the Company has the right to earn an additional 9% in the projects by bringing one of the projects to production. All claims are contiguous and are located 24 kilometers north of Stewart, BC.

The Silver Coin property includes the former producing Kansas property from which approximately 100,000 tons of ore were mined and processed in the nearby Premier Mill. According to past published results, it appears that several thousand tonnes may remain in the zones.

There are two styles of mineralization contained in a number of different zones on the property, a high sulphide, base metal lower gold mineralization style and a low sulphide gold rich mineralization style. These are consistent with the two types of mineralization at the nearby Silbak-Premier mine that yielded 4.7 million tons containing 1.8 million ounces of gold, 41 million ounces of silver, 4.2 million pounds of copper, 62 million pounds of lead and 20 million pounds of zinc.

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On October 13, 2004 the Company signed a letter agreement with Tenajon Resources Corp. to earn up to a 70% interest in the Kansas property in the Stewart area of BC. The Kansas property is a 19.5 hectare crown grant and 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.

In December of 2007 discussions began with Tenajon Resources Corp. on the acquisition of the remaining 40% of the Kansas claim that is owned by them. A binding letter agreement was signed on April 15, 2008 whereby Pinnacle would purchase Tenajon wholly owned subsidiary, 0781639 B.C. Ltd. which holds the undivided 40% ownership interest in and to the Kansas Claim and a 100% ownership interest in and to the Summit Lake property. Pinnacle has agreed to purchase the Corporation for an aggregate deemed purchase price of approximately \$3,015,000, subject to an adjustment as a result of certain events occurring before December 31, 2008. The acquisition has now been completed and Pinnacle now owns an undivided [70.6%] interest in and to the Kansas Claim and 100% of the Summit Lake Property. The remaining [29.4%] undivided interest in the Kansas Claim is owned by Mountain Boy Minerals Ltd.

This latest mineral resource has significantly increased and improved on the last resource estimate published in March 2006, which only referred to inferred resources. MineFill was able to upgrade roughly 40 percent of the resources from Inferred to Measured and Indicated. The new resource estimate includes 947,988 ounces of gold in the inferred category and 423,002 ounces of gold in the measured and indicated category.

This updated resource includes 182 surface diamond drill holes completed in 2005 and 2006 under the supervision of the Company's geologists and 417 historical drill holes of which 288 were drilled from underground. The resource is based on drilling along 700 meters of strike length within a mineralized zone that has been identified over a distance of at least 2500 meters that remains open to the south, east and north. Trenching to the north along the mineralized structure has returned values up to 22 g/t gold.

The current resource estimate is located primarily within the Kansas claim and the immediate surrounding area including the Big Missouri claim (51% The Company-49% Mountain Boy), as drilling was concentrated in these areas. In 1991 the Facecut zone, located on the Big Missouri, produced 102,539 tonnes at an average grade of 8.9 g/t Au and 55.50 g/t Ag. Work during 2005 and 2006 has extended this high grade mineralization (Facecut Zone) at least 200 meters north of the stoped area. DDH-2005-89 intersected 11.59 meters of 9.89 g/t gold approximately 100 meters north of the mined area.

(Above a Cutoff Grade of 0.75 g/t Au-eq.)

Class	Tonnes	Au	Ag	Zn	Au	Au-Eq (oz)
		g/t	g/t	%	(oz)	(Au, Ag only)
Measured	1,073,891	3.481	14.191	0.432	120,181	129,513
Indicated	8,633,606	1.091	10.567	0.288	302,822	358,689
M+I	9,707,497	1.355	10.968	0.304	423,002	488,202
Inferred	15,947,629	1.849	5.377	0.273	947,988	1,000,499

* Au-eq values calculated from \$525/oz for Au, \$10/oz for Ag.

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* Metallurgical recoveries and net smelter returns are assumed to be 100%.

The inferred total has been almost doubled plus we have added an additional 423,002 to the measured and indicated categories. In addition to the above results, MineFill reported the following resources at a range of cutoff values.

Updated Mineral Resource Estimate for Silver Coin

Cutoff Grade	Tonnes	Au	Ag	Zn	Au	Au-Eq (oz)
Au-Eq		g/t	g/t	%	(oz)	(Au, Ag only)
0.25	76,599,380	0.717	3.781	0.155	1,765,689	1,943,044
0.5	41,636,771	1.161	5.54	0.217	1,554,100	1,695,353
0.75	25,655,126	1.662	7.492	0.285	1,370,803	1,488,505
1	16,760,494	2.259	9.629	0.363	1,217,231	1,316,059
1.25	11,426,111	2.982	12.059	0.451	1,095,408	1,179,784
1.5	8,245,680	3.809	14.919	0.535	1,009,735	1,085,067

This resource was classified in accordance with CIMM (2000) standards.

The updated resource includes a high grade core of 8.25 million tonnes grading over 5.0 g/t Au-equivalent (3.8 g/t Au, 14.9 g/t Ag, 0.04% Cu and 0.54% Zn) containing just over 1 million ounces of gold.

Resources on the Kansas claim, at a 0.75 g/t Au-equivalent cutoff include 7.225 million tonnes measured and indicated grading 1.532 g/t Au, 9.998 g/t Ag, 0.013% Cu and 0.329% Zn, and 10.256 million tonnes inferred grading 2.146 g/t Au, 5.572 g/t Ag, 0.009% Cu and 0.26% Zn. Contained metal on the Kansas claims include 355,924 ounces of measured and indicated gold and 2.322 million ounces of silver, and 707,605 ounces of inferred gold and 1.837 million ounces of silver.

The 2007 - 2008 Exploration Program

A program of 29 holes was proposed by Pinnacle in 2007 to better define and expand the in-pit resource estimate outside the Kansas claim, specifically to the north of that claim. The drilling began in late August and continued until mid-October when heavy snow falls stopped the program. A total of 15 holes of the 29 hole program were completed.

The 2008 drilling program on Silver Coin property lasted from the middle of June to the end of August. During the program a total of 40,080 feet of BTW and NQ core in 88 holes were drilled. Fifty of these holes totaling 25,401 feet were drilled on Kansas claim. The remaining 38 holes totaling 14,679 feet were drilled to the north of Kansas claim, mostly on Big Missouri and to lesser extent on Silver Coin 4 and Silver Coin 9 claims.

In addition to the drill program, environmental base line studies are planned and a program of metallurgical testing is also underway. Results to date are very encouraging pointing to a process which will include flotation of the sulphides to get most of the gold. Pinnacle believes that this limited work has to be completed now so that all future exploration and development programs can be better designed.

Late in 2007 the Company contracted Snowden Mining Group in Vancouver to compile and evaluate all drill data on the property. Snowden will evaluate data from nearly 600 core holes and recommend deposit infill and edge drilling to upgrade the resource confidence categories. Also

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during this process, Snowden will identify and recommend drilling in areas of potential underground mining. An updated data base and a new NI 43-101 technical report will be compiled by Snowden using the drilling that has been conducted during 2008 and that completed in 2007.

MEXICO

Oaxaca State Properties

In September 2006, the Company Ltd. announced that it had reached an agreement with Chesapeake Gold Corp. (TSX.V-CKG) to purchase up to a 70% interest in its wholly-owned La Calavera and Rio Minas copper-silver-gold properties in Oaxaca, Mexico. Both the La Calavera and Rio Minas properties occur within a hundred kilometer long NW trending structural belt which host several skarn prospects and other advanced exploration projects. Regional reconnaissance has delineated an extensive zone of intrusions along this belt that have affected the limestone rocks generating numerous skarn occurrences over an area of more than 100 square kilometers around Rio Minas. At Rio Minas, the skarn zones are associated with a large circular feature about 5 kilometers in diameter and are believed to represent the surface expression of a major intrusive stock underlying the calcareous rocks.

The Company commenced work on the La Calavera property in the Sierra Madre Sur, 52 kilometers southeast of Oaxaca City in the community of San Baltazar Guelavila. The large property consists of two concessions totaling 8,267 hectares adjacent to the Cobre Grande property controlled by Linear Metals Corporation. The target at La Calavera is a copper-zinc skarn that lies on the flank of a granodiorite stock. The Company recently completed the cutting of lines and the IP survey which covered the "El Manguito" showing. Permitting for drilling was completed for 15 core holes. The drilling contractor Cabo Drilling moved its drills on site early in November and drilling is now underway subsequent to the end of the quarter. Linear recently announced that one of its core holes in skarn encountered 270.2 meters from surface averaging 1.0% copper, 23.2 gpt silver, and 0.4% zinc.

By the end of February 2008 the Company had completed five holes before the program was halted. The Company's initial drill program on the property was slated for 14 holes, each 300-400 meters in depth. Targets for all holes had been identified based on geophysical and geochemical data compiled in September. Assays have been received on all holes, none of which are exciting. On February 21, 2008, a US\$430,000 option payment was due to be paid by Chesapeake to the original concession (claim) holders located at the town of San Baltazar. Unfortunately there appears to be a problem between the claim holders who are part of the town and the town itself. As a consequence the Chesapeake payment has been refused and the situation is uncertain at this time. The Company has decided that because of the poor drill results and the problems within the community it will quit the project and focus on Rio Minas. The Company has the option to return to the property at any time.

The Company has also commenced work on the Rio Minas property which is located approximately 37 km southeast of the La Calavera property. The property consists of two concessions totaling 19,510 hectares in steep terrain. The target is silver-rich, polymetallic skarn adjacent to a granodiorite intrusive. Five skarn zones have been identified. At Rio Minas, the skarn zones are associated with a large circular feature about 5 kilometers in diameter and are believed to represent the surface expression of a major intrusive stock underlying the calcareous rocks. A geochemical survey was completed in August of this year. An area that measures approximately 4 kilometers by 2.5 kilometers has been soil sampled. Soil sampling to date has revealed a number of "highs" in silver and copper. In addition rock sampling of a road that crosses the property has picked up some very high values including one 27 meter long cut that

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grades 25.9 gpt Silver and 0.54% copper, another 63 meter section grading 75.1 gpt of silver and 0.90% copper as well as another cut 57 meters long grading 35 gpt silver and 0.54% copper.

The 2008 exploration program included the continuation of the soils and rock chip sampling program started in 2007. The actual gathering of samples was completed subsequent to the end of the second quarter and assaying of the samples has been completed. The next exploration program is being planned and will likely consist of more geochemistry work.

Financial Results

All of the financial information referenced below has been prepared in accordance with Canadian generally accepted accounting principals, applied on a consistent basis.

Financial Data for last eight Quarters (in CDN\$)

Three months end	Sept - 08	Jun-08	Mar - 08	Dec - 07	Sept - 07	Jun- 07	Mar - 07	Dec -06
Total Revenues	\$-	\$-	\$ -	\$-	\$ -	\$ -	\$ -	\$ -
Loss before extraordinary items	\$169,529	\$264,517	\$275,671	\$317,954	\$313,189	\$453,116	\$317,954	\$452,781
Loss (Gain)	\$194,317	\$263,473	(\$370,162)	\$328,679	\$355,928	\$431,176	\$328,679	\$444,904
Loss (Gain) per share	(\$0.01)	(\$0.01)	(\$0.01)	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02

The Company's operations during the three month period ended September 30, 2008 produced a net loss of \$194,317 or \$0.01 per share compared to a net loss of \$355,928 or \$0.02 per share for the same period in 2007. The reduced quarterly net loss over last year is due to a large reduction in expenditures in all areas. As the Company does not own any revenue-producing resource properties, no mining revenues have been recorded to date. By October of last year the Company had spent heavily on a drilling campaign at the La Calavera property in Oaxaca but the exploration program at Silver Coin and Surprise Creek was not that large in 2007. This year there were minimal expenditures in Mexico but the amount of expenditure at the Silver Coin increased substantially over last year. The expenditures in Canada were mainly covered by flow through funds in 2008. The Company has cut costs in many areas. Investor relations activities were much lower this year, as were management service costs. Investor relations costs were down to \$14,675 in 2008 from \$43,311 in 2007 reflecting much less activity in this area. There was an increase in stock based compensation charges and a slight increase in travel expenses. There was also a large decrease in foreign exchange losses. Salaries and benefits were slightly higher. Regulatory and shareholder service costs were lower as were legal services. Shareholder service and regulatory costs decreased in the period ended September 30, 2008 to \$1,271 from \$3,567 in 2007. Shareholder service costs include such things as regulatory fees, and shareholder costs associated with the transfer agent. Management services were down while office fees associated with running the Vancouver operation were higher because of a loss of one of the renters in the office. Pinnacle has had to cover that loss. Management fees /service costs in the quarter ended September 2008 of \$17,500 was down from the previous year's quarter of \$66,668. This all reflects on an exploration and development company that has been cutting costs and hiring fewer people at its exploration sites. Travel costs were relatively unchanged from last year.

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Liquidity, Financial Position and Capital Resources

The Company had a working capital surplus at September, 30 2008 of \$479,316 compared to \$2,720,375 at December 31, 2007. There were no financings carried out during the quarter.

The working capital at September 30, 2008 is sufficient to complete the 2008 work programs at the Silver Coin project and to carry out corporate administrative details for the next 2 months. To cover the cost of the drill program at the Rio Minas property, planned for the fall of 2008, additional property acquisitions in Mexico, the acquisition of new projects in other places, and have enough money for administrative costs for the next 12 months the Company will need to raise a minimum of \$1.5 million.

The Company is in the process of arranging a financing to raise an additional \$2.5 million before the middle of December 2008. The financing will be a Private Placement with a number of investors.

Funding requirements may vary from those planned for a number of reasons, including but not limited to exploration progress and interim development advancement as well as foreign capital exchange rates. The Company is looking at various means to reduce its dependency on raising equity capital to finance its exploration and development expenses.

Capital Stock, Stock Options and Warrants

A number of share issues have taken place in the Company since its reorganization in 2003. The timing of the most recent issuances was as follows:

As of September 30, 2008 the Company had 43,776,147 common shares issued (fully diluted 50,552,647 shares) compared to 21,013,647 common shares issued (fully diluted 22,088,647 shares) as of September 30, 2007. As of the time of writing of this report there are 43,776,147 shares issued and outstanding.

Transactions with Related Parties

During the nine months ended September 30, 2008, the Company incurred fees of \$58,334 (2007 - \$156,668) with directors for management consulting services. This amount has been included in management services expense on the statement of operations and deficit.

Included in payables is an amount \$4,438 (2007 – nil) owed to directors and officers of the Company.

The Company shares office space with Lincoln Gold Corp and Southern Gold Resources Ltd. Lincoln and Southern Gold reimburse each month to the Company a portion of the rent and office expenses. During the nine-month period ended September 30, 2008, these reimbursements totalled \$67,441 (2007: \$17,818). Lincoln and the Company 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.

Risk Factors

Mineral exploration and operations in the mining industry face a variety of risks. There is no certainty that money invested in mineral exploration will result in a profitable mining operation. Many risks, such as interest rate fluctuations, metal price changes and monetary exchange rates are beyond the control of any one company. Management tries to reduce the impact of these and

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other risks as much as possible. Property titles may be affected by prior agreements and other undetectable defects. The latter part of this year has seen a market collapse which has essentially reduced to zero the ability of junior exploration and mining companies to raise funds in the market. This condition is not expected to change in the near future.

Metal Prices

The principal activity of the Company is exploration of resource properties for various metals. The feasibility of finding and then developing a profitable operation is highly dependent on the price of metals.

Industry

Exploration and development of mining projects is inherently risky. Few exploration projects ever proceed beyond basic exploration and fewer still are taken to development. Moreover even when projects are good enough to be taken to feasibility there are various factors that may negatively affect the viability of such projects. The Company has to continually monitor the various factors that might affect mining projects and as such hires professional consulting groups to advise the Company. These professional groups include, but are not limited to, engineering companies, legal advisors, financial experts and environmental consultants.

Political Risk

The Company is actively pursuing properties in Canada, and Mexico. In Mexico, the Company has to deal with government policies that are different than in Canada and can change. The Company may consider exploration of projects in other parts of the world and will evaluate the political risk as required. The Company does not maintain political risk insurance for its foreign exploration projects. Although the legal system in Mexico is different than in Canada, mining law is well established and the Company does not expect any political risk.

Environmental

The Company has studied the environmental rules and regulations of all countries that it is actively involved in and ensures that it conducts its operations according to those rules. The Company or its consultants, keep up to date on such regulations as they are subject to change.

Outlook

General increases in the prices of precious metals have raised investor interest in exploration projects. The Company continues to have four active projects, two in British Columbia, and two in Mexico. The Silver Coin is our most important project at this time.

Last year's exploration program in northern BC on the Silver Coin property got underway in August. In 2007 there were 15 holes completed. This year work at the Silver Coin got underway in June. A total of 59 holes were planned for 9,600 meters however this program has been increased to 88 holes for over 40,000 feet of drilling. It is also planned that a major metallurgical program be completed this year to determine a preferable process system, and other prefeasibility work will be started by the end of the year. Assays still have to be obtained for all holes and a revised resource program will be carried out at the end of the year by Snowden Consultants.

In Mexico, Company personnel started the 2008 exploration program at the Rio Minas property in Oaxaca in June with a soil and rock survey program. A drill program is being planned for October or November.

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The Company continues to look at and investigate other projects that are brought to its attention. The Company will investigate all worthwhile properties. As well, the Company plans to expand into other areas in Mexico.

The Company is planning to raise additional funds this fall for its work programs and administrative needs but the amount and timing of this has not been fixed.