

Management Discussion and Analysis

All amounts are stated in Canadian Dollars unless otherwise noted
FIRST QUARTER ended March 31, 2006.

May 26th, 2006

President's Message to Shareholders

Dear Shareholder:

During the first quarter of 2006 the Company worked on completing a 43-101 on the Silver Coin project, visiting and analyzing projects that came to our attention, and arranging for a financing that was announced and completed subsequent to the quarter end. No physical exploration work was carried out in Canada or China during the quarter.

During the first quarter the Company's main focus was on working with an independent consulting company preparing and having issued the Silver Coin 43-101 for the 2005 year. In December 2005 the Company hired Minefill Services, Inc. an independent Seattle based mine planning and design services company to complete the 43-101 report on the Silver Coin project in the Stewart area of British Columbia, Canada. During the quarter the Company carried out no drilling or exploration activity at any of its properties. The Company's properties are, in the most part, only available for exploration in the summer months. However, subsequent to the end of the quarter the Company prepared itself for another season of exploration in the Stewart area of British Columbia at the Silver Coin and Surprise Creek properties. This year the amount of snow in the area is considerably less than last year and so it is expected that the 2006 drilling program will start by mid-May with a minimal amount of snow removal required. Over 16,000 meters of drilling is planned for the Silver Coin property along with trenching and mapping. Pinnacle along with its partner Mountain Boy Minerals is establishing a joint office in Stewart where office duties, core logging, core splitting, core storage and management of systems can all take place in one central area. Surprise Creek operations will also be headquartered from this office. At the time of writing the Company and Mountain Boy are finalizing the details of the Silver Coin Joint Venture Agreement that will cover all future operations at the Silver Coin. It is expected that the agreement will be signed momentarily. Title transfer will occur at that time.

Over the last four months the Company has been working to get title transfer on its 25% interest on the Yang Wen Chong property in Yunnan Province. The Company's 25% interest in the property is recognized by the Chinese however title transfer has been a complex issue involving the Provincial government which has put a general halt on all title transfers until it has sorted out its title issues on all properties in the province. Also subsequent to the end of the quarter the Company announced that it would be completing a private placement to fund the Company's administrative and exploration needs over the next year or two.

At the date of this message the Company is projecting its 2006 field season to start at the Silver Coin by mid-May. One drill will begin work on the Dan claim and a second drill is expected to start by the end of the first week in June. The plan is to start work on the southern part of the claim block where the snow is not so deep and move north as the weather warms and the snow disappears. By the end of the 2006 exploration season the Company hopes to increase the overall resource on the property and also to improve the quality of the resource already defined as an inferred resource to an indicated resource. As results are received on the drilling and trenching programs they will be entered into a data base and the resource calculated on an ongoing basis.

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The Company is also planning increased exploration on its Surprise Creek property. A program of mapping, airborne geophysics and drilling of two holes, at least, is planned. Because of the location of the Surprise Creek property it is expected that this work will not begin until August. The Company now has approximately 25,000 hectares staked on the Surprise Creek property.

Management continues working with Zijin, our Chinese partner, to have the Company become more involved in China including being a partner in production. This possibly could take the form of acquiring an operating mine or partnering production there. As well Zijin will continue working with Pinnacle to advance the YWC project.

Subsequent to the end of the quarter the Company announced a funding through a private placement and a partial brokered financing. The Company plans to sell as many as 8 million units. Each unit will consist of one share priced at \$1.15 and a half share warrant. Two half share warrants will be required to purchase one common share at \$1.40 and the warrants will have an exercise period of one year.

Management is looking forward to 2006 with great anticipation. We believe that this year the Company will move one step closer to becoming a producer in Canada and possibly will acquire some production in China.

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

Respectfully submitted,

Andrew Bowering
President and CEO

Pinnacle Mines Ltd.

May 19, 2006

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 March 31, 2006. 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 March 31, 2006 and related notes therein, which have been prepared in accordance with Canadian Generally Accepted Accounting Principals.

This discussion and analysis should also be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2005, and the notes thereto. The audited financial statements for the year ended December 31, 2005 including the notes thereto, and other information issued by the Company, including an Annual Information Form, 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.

The Company's Management is held accountable to the Board of Directors ("Directors"), each member of which is elected annually by the shareholders of the Company. The Directors are responsible for reviewing and approving the annual audited financial statements and the MD&A. Responsibility for the review and approval of the Company's quarterly unaudited interim financial statements and the MD&A is delegated by the Directors to the Audit Committee, which is comprised of three directors, two of whom are independent of management. Additionally, the Audit Committee pre-approves the audit and other services provided by the Company's auditors.

The auditors are appointed annually by the shareholders to conduct an audit of the financial statements in accordance with generally accepted auditing standards. The external auditors have complete access to the Audit Committee to discuss audit, financial reporting and related matters resulting from the annual audit as well as assisting the members of the Audit Committee in discharging their corporate governance responsibilities.

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In January 2004, the Canadian Securities Administrators (CSA) released a draft of a proposed policy establishing 'best practices' for the boards of directors for public companies, covering: composition of the boards of directors; adoption of a board mandate; development of position descriptions for directors and chief executive officers; adoption of a written code of business conduct and ethics; orientation and continuing education for directors; board nominations; requiring appointment of a compensation committee composed entirely of independent directors; and the implementation of regular board assessments. While every reporting issuer is encouraged, but not yet required to adopt these practices, they are under active review by the Directors and such corporate governance practices, where appropriate, are considered to be essential to the effective operation of the company. The disclosure of Pinnacle Mines' corporate governance policies is contained in the Company's Information Circular prepared for the 2005 Annual General Meeting, which is available for review at www.sedar.com.

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 Yunnan, China.

Corporate activities during the first quarter 2006 were focused on completing a 43-101 on the Silver Coin project and preparing for the 2006 exploration activities at the Silver Coin and Surprise Creek properties near Stewart, BC. This is now the third year of exploration for the Company in the Stewart area. Subsequent to the end of the quarter the Company investigated a number of properties in Canada and Mexico. The Company is looking to acquire a property or properties that can be explored year round. In addition the Company has been in contact with Yunnan Geology to have its 25% interest in the Yang Wen Chong property transferred to the Company as soon as possible. The Company will not be doing any exploration on the property until property title has been transferred.

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.

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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 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, 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.

Yang Wen Chang (the "YWC")

On May 8th, 2004, Pinnacle Mines Ltd. announced that it had executed a formal purchase contract with Yunnan Geology and Mineral Resources Co., Ltd. ("YGM") to acquire, subject to regulatory approval, a 100% interest in the Yang Wen Chong ("YWC") gold property located in the highly prospective southeast region of Yunnan Province, PRC, as initially announced on April 21, 2004.

As consideration for YWC, Pinnacle was to pay YGM a total of 27,000,000 RMB (CDN\$4,437,000) over a two year period following the signing of the purchase contract. In addition, in connection with the purchase of YWC, Pinnacle agreed to pay a finder's fee of up to 700,000 shares. During 2004, Pinnacle advanced a total of 3,270,000 RMB (CDN\$512,011) to YGM towards the purchase price for YWC.

However, in late 2004, Pinnacle began renegotiating its relationship with YGM and subsequent to the end of the fourth quarter, reached an agreement with YGM to form a Sino-Foreign Joint Venture to further explore and develop YWC (the "Joint Venture"). Under the terms of a Letter of Agreement dated January 26, 2005 the Joint Venture will be deemed to have an initial registered capital of 27,000,000 RMB and Pinnacle has agreed to pay to YGM a further 3,730,000 RMB (CDN\$568,599) on or before January 31, 2005 (paid) (the "January 2005 Payment") as consideration for a 25% interest in the Joint Venture. Subsequent to the end of the second quarter, 2005, Pinnacle finalized the formal Joint Venture agreement with YWC. The Company is working to have its 25% title transferred from Yunnan Geology to itself.

Initially YGM will own 75% of the Joint Venture but has granted Pinnacle the option to earn up to an additional 45% of the Joint Venture by spending 12,600,000 RMB (CDN\$1,960,560) on exploration and development of YWC over a five year period. Pursuant to the terms of the letter agreement, Pinnacle will earn, beyond its initial 25% ownership, an additional 1% of the Joint Venture for every 280,000 RMB (CDN\$43,568) spent on exploration at YWC. If, prior to the five year anniversary date of the letter agreement, Pinnacle has spent 12,600,000 RMB in exploration, it will own 70% and YGM will own 30% of the Joint Venture.

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YGM has agreed to apply for all necessary business licenses and government approvals to form the Joint Venture which is anticipated to take approximately 9 months to complete. In the event regulatory approval for the Joint Venture is not received, YGM has agreed to refund the January 2005 Payment of 3,730,000 RMB (CDN\$568,599) to the Company; however the Company will forfeit its previous payments totalling 3,270,000 RMB (CDN\$512,011).

The YWC property is a 51.2 square kilometre mineral exploration license located in Funing County, Yunnan Province, PRC. During the period 1996-2000, YWC was part of a joint venture between YGM and BHP Exploration. Limited work carried out by the joint-venture and current field work by YGM, has identified several zones of mineralization of economic interest. To date, 12 holes have been drilled on the property; numerous trenches, test pits and tunnels have been completed. One hole is reported by the BHP/Yunnan Geological team to have a gold-mineralized intersection of 1.63 grams/tonne (g/t) over 83 metres. In addition, significant mineralization has been identified over a length of 3 kilometres in the contact/alteration zone between a Devonian siltstone/mudstone and a Cambrian limestone. Individual trenches that have been chip sampled have widths and grades varying from 3.25 g/t over 10.63 metres to 3.15 g/t over 98.15 metres. The mineralization is open along strike and dip. The contact zone is well defined.

These exploration results are not compliant with National Instrument 43-101, and have been obtained from BHP Exploration reports on YWC. Pinnacle management believes the results and calculations were generated using accepted and proven geologic and engineering practices and are reliable and relevant, however, Pinnacle has begun an exploration program to bring the current information to National Instrument 43-101 standards. Until such time, the potential quantity and grade of any mineral resource on YWC is conceptual in nature and there can be no assurances that further exploration will confirm the existence of any mineral resources on the property.

The first report completed for Pinnacle was by consulting geologist, Jeffrey Wilson, and subsequently filed with the regulatory authorities in early August. During the third quarter of 2004 personnel from the Yunnan Geology and Mineral Resource Company, Ltd were on site and completed some mapping and sampling. Soil and chip samples confirmed the wide spread nature of gold on the property. A far more aggressive and detailed work plan for the property is being formulated.

No physical work took place on the YWC during the first three months of 2006.

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Canada

Surprise Creek

The property is now roughly 25,000 hectares in size within one claim block. 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.

As a result of a program of exploration on the property during August and September 2005 the Company staked additional 10,000 hectares to bring the total to approximately 25,000 hectares.

The 2005 exploration at Surprise Creek consisted of prospecting and reconnaissance geological mapping. Altogether 279 rock samples and 8 silt samples were collected during the program. As a result of this work the Company is planning an expanded program for 2006. The 2006 program will most likely start in August 2006 and will include mapping, drilling and airborne geophysics.

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. A 1946 report indicates several silver-rich boulders assaying up to 10.3 g/t gold and 5,136 g/t silver were located but their source was not found. With the additional staking at Surprise Creek the El Dorado claims are now part of the Surprise Creek claim block.

Silver Coin

On August 4, 2004 the Company entered into an option agreement with Mountain Boy Minerals Ltd. whereby Pinnacle can earn a 51% of Mountain Boy's interest in its 100% owned Silver Coin and 55% owned Dauntless projects as well as the 100% owned FR claims by spending \$1.75 million on exploration over a three year period. In addition, Pinnacle 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 kilometres north of Stewart, BC.

The Silver Coin property includes the former producing Silbak Premier 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 crown grant and is 19.5 hectares in size. The property is surrounded by the Silver Coin property. A technical report by Westmin Resources Limited in 1995 calculated the uncut gold reserves on the Kansas at 1,774,000 tons grading 2.20 g/t (124,889 ounces of gold). This calculation was completed prior to National Instrument 43-101, is historic in nature and has not been reclassified to current categories; however management believes that the results and calculations were generated using accepted and proven geologic and engineering practices and are reliable and relevant.

During the latter part of 2004 the Company drilled 26 holes totaling 2032 metres on the Silver Coin property. Since start up in May 2005 and to the end of the drill season of 2005 the Company had drilled approximately 8,000 meters in 50 holes, some of which were not completed due to poor ground conditions.

The 2005 Program at Silver Coin

Initially 3500 meters of drilling, as well as several kilometers of trenching, and over 1000 soil samples were planned for the 2005 exploration season. However part way through the summer the Company completed a private placement of \$1,950,000. As a result of the new funding the drilling program was expanded and close to 8,000 meters of drilling was completed. Mr. Alex Walus, P. Geol., Pinnacle senior geologist, supervised the exploration program on behalf of the Company. Pinnacle was still in an earn-in mode in 2005 and Mountain Boy Minerals was in charge of the exploration program. Mr. Ed Kruchkowski, of Mountain Boy, was the project manager. The 2005 drilling was designed to extend and better define the known mineralization in an area that contains the Perseverance zone, the Snowball zone, the Kansas and Kansas West zones and the 35 zone. Enough drilling was completed in 2005 to start constructing a mineral resource estimate according to 43-101 standards.

The 2006 Program for Silver Coin

All of the drill results can be found in the 2005 year end report and on the Company's website. During the last quarter of 2005 and first quarter of 2006 all of the drilling data (including verifiable assays), trenching information, geological mapping that was available from all exploration programs on the property from 1988 onwards were given to Minefill Services, Inc. to complete an estimate of resources until the strict controls and guidelines of National Instrument 43-101. This report was completed in early May. The Silver Coin property is estimated, at this time, to contain 500,000 ounces of gold and 2,000,000 ounces of silver in the inferred resource category. The 2006 exploration program will hopefully add to this total and improve the resource estimation to above the inferred category. The 43-101 report has been filed with SEDAR and is also on our website. The 2006 exploration started as of the second week in May.

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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 | Mar-06 | Dec-05 | Sep-05 | Jun-05 | Mar-05 | Dec-04 | Sep-04 | Jun-04 |
|---------------------------------|-----------|---------|---------|---------|---------|---------|---------|---------|
| Total Revenues | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Loss before extraordinary items | \$241,331 | 522,325 | 266,068 | 417,154 | 200,814 | 219,867 | 150,291 | 304,929 |
| Loss | \$242,119 | 522,325 | 260,101 | 414,594 | 40,062 | 233,344 | 194,831 | 304,374 |
| Loss per share | \$0.01 | \$0.04 | \$0.02 | \$0.04 | \$0.00 | \$0.04 | \$0.03 | \$0.06 |

The Company's operations during the three month period ended March 31, 2006 produced a net loss of \$242,119 or \$0.01 per share compared to a net loss of \$40,062 or \$0.00 per share for the same period in 2005. As the Company does not own any revenue-producing resource properties, no mining revenues have been recorded to date. The increase in net loss is mainly due to the increase in exploration activity during the quarter and the increase in management and office costs associated with running the Vancouver operation. In the past the Company rented office space in West Vancouver from Doublestar Resources Ltd, whereas in March 2005 the Company moved offices to Vancouver and became the main landlord and subleased office space to two other companies that share the space.

During the quarter ended March 31, 2006, the Company had substantially lower exploration expenditures. The reduction in exploration costs was associated with the time of year. All of the Company's exploration properties, around Stewart, BC, were shut down for the winter months. Shareholder service costs increased slightly in the period ended March 31, 2006 to \$7,529 from \$5,580 in 2005. The small change was primarily due to similar amounts of work being performed in each year. Shareholder service costs include such things as investor relations, regulatory fees, and shareholder costs associated with the Transfer Agent. Management fees /service costs in 2006 increased slightly over the previous year to \$39,000 from \$37,000. This slight increase came about as a result of the Company having to pay regular management fees and the addition of one person. This all reflects on an exploration and development company that is now becoming very active and is looking at projects both in Canada and China. Costs were up significantly in travel and for salaries and benefits from the previous year. This reflects a more active period in 2006 including travel to eastern Canada, China, and Mexico to investigate properties being offered to the Company.

Liquidity and Capital Resources

The Company had a working capital surplus at March 31, 2006 of \$1,920,594 compared to \$1,058,898 at March 31, 2005. The reason for the change was due mainly to the funding of the company during 2005, specifically the \$1,950,000 private placement by Zijin in July. At December 31 of 2005 the Company had a working capital surplus of \$1,736,492. As of March 31, 2006 the Company had 16,583,201 common shares

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issued (fully diluted 21,174,410 shares) compared to 10,906,918 common shares (fully diluted 14,980,234 shares) as of March 31, 2005. As of the time of writing of this report there are 16,630,401 shares issued and outstanding. The increase in shares issued and outstanding is a reflection on the private placements and warrants being exercised. 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:

On July 9, 2003, the common shares of the Company were consolidated on a one new for five old basis, resulting in 1,186,035 common shares being issued and outstanding. Subsequent to the consolidation, 600,000 common shares were issued at a deemed price of \$0.16 per share in settlement of certain outstanding liabilities. In addition, 606,000 common shares were issued at a deemed price of \$0.16 per share as payment for the 100% interest in the Surprise Creek property. At the same time, 1,180,000 units of the Company were issued through a private placement to raise gross proceeds of \$188,000. Each unit consisted of one common share and one share purchase warrant, each warrant being exercisable into an additional common share at \$0.21 for a two year period.

In the first quarter of 2004, the Company completed a private placement of 1,650,000 units to raise gross proceeds of \$660,000. Each unit consisted of one common share and one share purchase warrant, two warrants being exercisable for a period of one year into an additional common share at \$0.50. The Company also issued 120,100 units in finders' fees in conjunction with the private placement.

There were no shares issued, no warrants exercised and no options exercised in the second quarter.

During the third quarter 47,343 warrants were exercised ranging in price from 21 cents to 50 cents. Escrow shares that were returned totaled 1,402 and 4 shares were transferred to Computershare

On September 23, 2004 the Company completed a flow through financing of 678,000 units at \$0.65 per unit for gross proceeds of \$440,700. Each unit consisted of one common flow through share and one share purchase warrant. Two of these warrants entitle the holder to purchase one non-flow-through share at a price of \$0.75 per share on or before September 23, 2005. The Company also issued 23,680 agent units to Canaccord Capital in conjunction with the private placement.

On November 8, 2004 the company closed a private placement of 1,040,000 units at \$0.60 per unit for gross proceeds of \$624,000. Each unit consisted of one common flow through share and one share purchase warrant, with two warrants entitling the holder to purchase one non-flow-through share for a two year period from the date of offering at a price of \$0.75 per share in the first year and \$0.85 per share in the second year.

On November 30, 2004 the Company closed a private placement of 2,600,000 units at \$0.60 per unit for gross proceeds of \$1,560,000. Each unit consisted of one common flow through share and one share purchase warrant, with two warrants entitling the holder to purchase one non-flow-through share for a two year period from the date of offering at a price of \$0.75 per share in the first year and \$0.85 per share in the second year. The agent in the private placement received Agent's warrants to acquire that

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number of common shares equal to 15% of the number of units sold under the offering. The agent also received a corporate finance fee of 60,000 units and 30,000 warrants.

During the first quarter of 2005, 741,457 full share equivalent warrants were exercised at a price of 21 cents for net proceeds of \$370,729.

During the second quarter of 2005, 40,000 full share equivalent warrants were exercised at a price of 21 cents for net proceeds of \$8,400. During the second quarter of 2005 the Company completed a private placement. The private placement consisted of 93,000 units at a price at a price of \$0.60 per unit for net proceeds of \$55,800. 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 \$0.60 per share for the first year and \$0.75 per share in the second year.

During the third quarter of 2005 the Company completed a private placement. The private placement consisted of 3,000,000 units at a price of \$0.65 per unit for net proceeds of \$1,950,000. Each unit consisted of one common share and on-half share purchase warrant with one whole warrant being exercisable into one additional common share for a period of two years at a price of \$0.83 per share.

At the beginning of the 2005 there were 4,347,269 warrants outstanding. During the year a total of 1,546,500 were issued, part of the private placement, 2,323,423 were exercised, and 62,496 warrants expired leaving a total of 3,507,850 warrants outstanding at the end of the third quarter. During the first quarter of 2006 the Company closed a private placement consisting of 353,117 units at a price of \$0.85 per unit. The unit also contained a warrant. Two warrants can purchase a share for 2 years at \$1.00 during the first year and \$1.20 during the second year.

At the beginning of 2006 the number of issued shares stood at 15,984,531 and by the end of the first quarter 2006 the number was 16,583,201.

The working capital at March 31, 2006 is sufficient to complete the 2006 drill program at the Silver Coin, near Stewart BC and to carry out corporate administrative details for the next 2 to 3 months. To complete the drilling at Silver Coin, the exploration at Surprise Creek, any exploration in China, the acquisition of new projects, and have enough money for administrative costs for the next 12 months the Company will need to raise \$3 to \$4 million. A private placement is now underway. A total of up to \$8,625,000 is to be raised. The issue totals up to 7,500,000 units. Each unit will include a share priced at \$1.15 and a half warrant. Two half warrants will be needed to purchase a share at \$1.40. The warrant is good for a term of one year.

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. The financial data for the last three years is shown below.

During the three months ended March 31, 2005, the Company incurred fees of \$39,000 (2005 - \$37,000) with directors for management consulting services. This amount has

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been included in management services expense on the statement of operations and deficit.

The Company is owed \$4,000 from a director of the Company and the amount due bears interest at 5% per annum and has no set terms or repayment schedule.

All related party transactions have been recorded at the exchange amount, which is the amount of consideration established and agreed to between the parties.

Financial Data for Last Three Fiscal Years

| Selected annual Information for the fiscal year ended | December 31, 2005 | December 31, 2004 | December 31, 2003 |
|---|-----------------------|---------------------|--------------------|
| Total revenue | 16,213 | 990 | nil |
| Loss before Mineral Property Write Downs Per Share Basis* | (1,237,082) (0.10) | (802,174) (0.14) | (90,146) (0.02) |
| Loss after Mineral Property Write Downs Per Share Basis* | (1,237,082) (0.10) | (846,714) (0.15) | (90,146) (0.02) |
| Total assets | 5,416,160 | 2,839,836 | 260,261 |
| Total long-term liabilities | nil | nil | nil |
| Cash dividends declared | nil | nil | nil |

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 other risks as much as possible. Property titles may be affected by prior agreements and other undetectable defects.

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.

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

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. Pinnacle now has three active projects, two in central British Columbia and another in Yunnan Province, China.

The 2005 exploration program in central BC on the Silver Coin property got underway in May and finished in early November. This year, 2006, the exploration program started also in May, subsequent to the end of the quarter. In 2005 a total of 50 holes were drilled for just under 8000 meters before winter conditions stopped the work. The exploration program for 2006 is some 16,000 meters of drilling, trenching, and geological mapping. It is expected that at one time or another three drills will be operating on site so that the program can be completed by November. Trenching, mapping and sampling of the property will be carried out over the same time period as the drilling. As work progresses all drill and trenching data will be collected and sent to our consultants who are continuously working on the resource estimate so that it can be updated as the year progresses. It is anticipated that by the end of the 2006 exploration year a substantially upgraded resource will be shown and the Company will start to put together a feasibility study to determine the merits of a mining operation.

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As well it is expected that exploration at the Surprise Creek property will get underway in August and be completed by the end of September. This year a program of geophysics and drilling is planned to go along with geological mapping and sampling. The Surprise Creek property was doubled in size last year and more ground may be added. The Company remains excited about the prospects associated with the Surprise Creek. Thus far the geological modeling has held up to find a Karoko type of mineral deposit.

In China, efforts will focus on having the title to our 25% interest in the Yang Wen Chong property transferred to Pinnacle. This process has been held up for some time now due to the Yunnan provincial government not transferring any titles on any properties in the province until the backlog of ownership has been sorted out. The Company will not spend any additional funds on the property until the title transfer has been completed.

Pinnacle continues to look at and investigate other projects that are brought to its attention. In China a number of exploration properties have been brought to the Company's attention. As well Company geologist and engineers have been studying a number of opportunities in Mexico. It is possible that one or two properties will be acquired there.

Company management will look to close the financing announced on May 16th. This financing will allow the Company to proceed with all of its exploration, marketing and administrative plans for the next couple of years.