

Management Discussion and Analysis

All amounts are stated in Canadian Dollars unless otherwise noted
FIRST QUARTER ended March 31, 2007.

May 28th, 2007

President's Message to Shareholders

Dear Shareholder:

During the first quarter the Company concentrated on completing the 43-101 report for the Silver Coin property in conjunction with MineFill Services and also started our exploration of properties in Mexico. No physical exploration activity took place in Canada. In Mexico, the Company started exploration work on the Tuligtic property in Puebla State, Mexico. Corporate headquarters for Mexico have been established in Oaxaca City, Oaxaca and bank accounts have been opened. The Company also worked on completing the final agreement with Chesapeake Gold Corp. The final agreement was signed subsequent to the quarter end. Also subsequent to the end of the quarter Mr. Jeffrey Wilson was named Vice President of Exploration. We welcome Jeff's expertise and organizing talents to the Company and we look forward to working with him. As well Mr. Andrew Bowering stepped down as President and CEO of the Company to become Vice President of Finance. Mr. Paul Saxton took over the job as CEO.

During the first quarter, the Company's main focus was the preparation of the 43-101 on the Silver Coin project near Stewart, BC in conjunction with MineFill Services, Inc. Drilling had been completed on the project late in 2006 and drill core samples had been sent out for assaying. By early 2007 all assaying had been completed and the results entered into MineFill's computers for resource calculations. By March 14 a new resource calculation was received by the Company and the results were published in a news release which was issued at that time. A comprehensive program of data verification was undertaken by MineFill Services prior to the building of the block model on SURPAC, the program which calculates the resources. The mineral resource estimate was generated by ordinary kriging using uncapped gold, silver and zinc values. The Company was pleased to be able to report that the gold resource had been increased to 423,002 ounces of Measured and Indicated Resource and 947,988 ounces of Inferred Resource. Please refer to our website www.pinnaclemines.com for a complete review. Approximately 60 days later MineFill completed the 43-101 compliant report and it was filed on SEDAR.

Plans for the upcoming 2007 exploration season include initiating metallurgical, environmental and engineering studies which will include the drilling of 20 high priority holes within the preliminary pit diameter. Additional exploration drilling may be carried out if additional financing is obtained.

The Company has commenced work on the Tuligtic property in the southern portion of the Sierra Madre Oriental Province, approximately 150 km east of Mexico City. The large concession consists of 5,515 hectares located 50 air kilometers northeast of the town of Apizaco in the State of Puebla. Two target types are present on the property, a large copper porphyry target and an epithermal gold-silver target. Past exploration work was conducted by Almaden Minerals Ltd. to include an induced polarization survey and soil, rock-chip, and stream-sediment sampling. The Company has conducted additional geologic work and has selected 14 prospective drill sites from the geophysical-geological data base. Acquisition of surface rights and permitting is in progress. Reverse-circulation drilling is planned to commence as soon as a suitable drill rig or rigs are

Pinnacle Mines Ltd.

contracted. The Company can earn up to a 60% interest in the Tuligtic property by making US\$6.0 million in expenditures and issuing 1 million shares to Almaden within 6 years.

As well the Company has signed the final Option and Joint Venture Agreement with Chesapeake Gold Corp. to earn up to a 70% interest in its La Calavera and Rio Minas properties in Oaxaca State, Mexico. The Company also has a right of first refusal on the other Chesapeake properties in Oaxaca. Full details of the joint venture have been put out in a news release and can be found on the Company's website. The Company plans to start its exploration program in Oaxaca immediately.

While the Company planned increased exploration on its Surprise Creek property last year weather became a problem and very little was actually completed due to the inability of helicopters to reach the site. A program of mapping, airborne geophysics and drilling of two holes, at least, was planned. Although no drilling was completed some geological mapping was started and one drill pad was constructed before the weather limited access to the property. This year it is planned that at least two deep holes will be completed at Surprise Creek. The Surprise Creek property covers a large area which is thought to potentially host a VMS style, Kuroko, deposit.

The Company owns a property, the BA, along with Mountain Boy to the south of the Surprise Creek property. Company geologists believe the BA claims cover the southern part of this large system and that the newly discovered zone on the BA property represents only a small portion of a major volcanic center located on Surprise Creek and BA properties. Both BA and Surprise Creek properties have a potential to host a large VMS deposit. The Company now has approximately 25,000 hectares staked on the Surprise Creek property and 4,565 hectares in the BA property. Exploration on the BA is under consideration.

During the latter part of 2006 the Company had been working diligently to recover its 7,000,000 RMB investment on its 25% interest on the Yang Wen Chong property in Yunnan Province. Subsequent to the end of the quarter, the Company received full payment on its interest. We would like to acknowledge the professional way in which Yunnan Geology and Mineral Resources Co., Ltd. conducted itself on this matter.

In 2007, the Company looks forward to another year of successful exploration in Canada and now in Mexico. Management believes that the Silver Coin property has a chance to become a producer in the near future. 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 was completed last year and the increase and improvement in resources the property is heading in the right direction.

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

Respectfully submitted,

Paul Saxton
CEO and Director

Pinnacle Mines Ltd.

May 28, 2007

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, 2007. 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, 2007 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, 2006, and the notes thereto. The audited financial statements for the year ended December 31, 2006 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 have been under review 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.

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

Pinnacle Mines Ltd.

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 and Puebla, Mexico.

This is now the third year of exploration for the Company in the Stewart area. Our activities in the area have increased in magnitude and scope over this time. Not only is the Company expanding its activities at the Silver Coin but also is now starting an exploration program on the BA claims which are located just to the east of Stewart near the Bear Glacier. The Company is looking to acquire a property or properties that can be explored year round. During and subsequent to the quarter the Company investigated a number of properties in Mexico. In July 2006 the Company signed an option agreement with Almaden Minerals Ltd. to acquire an interest in its Tuligtic property in Puebla, Mexico. This property is new to Almaden and has large gold and copper porphyry potential. The exploration program for the Tuligtic was started early in 2007 and already drill hole locations have been determined. The final agreement with Chesapeake Gold Corp. was approved by the Exchange in late May and work is already underway at the La Calavera property. Geological mapping has been completed and the layout of 14 holes has been completed. Drilling is planned as soon as all permits are in place. We also plan to start work on the Rio Minas by the end of June. Contact has been made with a mining legal firm in Chihuahua and the firm is looking after the setting up of all corporate matters including incorporating a Mexican company, bank accounts and all work permits.

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 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.

Pinnacle Mines Ltd.

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.

CHINA

Yang Wen Chong ("YWC") Property

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 25% 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.

In August 2006 personnel from the Company visited the offices of YGM in Kunming, Yunnan to get an update on the status of the transfer of the 25%. They were told that the process is underway and were given a timetable of events that had to occur before the interest was assigned to Pinnacle. It appeared that the process could take as little as a year and a half to complete but probably longer.

Toward the end of 2006 and after much discussion by the Board of Directors of Pinnacle the Company has decided to not continue with the Yang Wen Chong project. This was a difficult decision. The Company has requested that the 7 million RMB that it has paid to Yunnan Geology and Mineral Resource Co., Ltd be repaid to Pinnacle as per the Memorandum of Understanding ("MOU") that has been signed between the two companies. Early in the quarter the money was repaid by Yunnan.

The Company has decided to forego further exploration in China. It has become evident that with the constraints put on junior mining companies operating in China by the regulatory authorities and the limited resources of Pinnacle it is best if we focus our efforts in Canada and Mexico.

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. 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.

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.

Initially the property was only 15,000 hectares in size but as a result of a program of exploration on the property during August and September 2005 the Company staked additional 10,000

Pinnacle Mines Ltd.

hectares to bring the total to the above noted number. Mapping and rock sampling work already completed in 2006 suggests that some of these hectares will be dropped later this year.

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 planned an expanded program for 2006.

In July of 2006 some surface reconnaissance was carried out on the property by corporate geologists. As well it was planned to drill two long holes from two locations to confirm the rock types at depth. In August one drill pad site was prepared and the second was to be constructed. Unfortunately the weather turned very bad and further work at the site was not possible and as a consequence the second pad never got constructed and the drill program was cancelled for 2006.

It is planned to carry out this work in 2007. To that end a drilling contractor has been identified and a contract signed to drill at Surprise Creek or other of our properties in the Stewart area.

Silver Coin Property

On August 4, 2004 the Company entered into an option agreement with Mountain Boy Minerals Ltd. whereby Pinnacle 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 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.

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.

During the latter part of 2004 the Company drilled 26 holes totaling 2,032 meters on the Silver Coin property.

The 2005 Program at Silver Coin

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

Pinnacle Mines Ltd.

and the 35 zone. Enough drilling was completed in 2005, approximately 8,000 meters, to start constructing a mineral resource estimate according to 43-101 standards.

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 under the strict controls and guidelines of National Instrument 43-101. This report was completed in early May 2006 and estimates that the resource contains approximately 500,000 ounces of gold and 2,100,000 ounces of silver in the inferred category.

The 2006 Program at Silver Coin

The 2006 exploration drill program started in May and was designed to explore nearby areas to add to the resource total and to improve the resource estimation to a category higher than inferred resource described in the 2005 report. The expenditures made in 2005 allowed Pinnacle to earn a 51% interest in the property from Mountain Boy Minerals and take over management of the project.

The 2006 exploration program involved significant amounts of drilling and trenching. Over 24,206 meters of drilling was completed and involved some 115 holes. The drilling was terminated at the end of October. Significant amount of surface trenching was also completed. All of the holes were drilled on the Kansas, Big Missouri and Indi claims. The drilling was along the northern boundary of the Kansas claim and the southern boundary of the Big Missouri claim as well as the eastern part of the Indi claims. As the assay results were received from the assay lab they were tabulated and sent to MineFill Services Inc. to be incorporated into the new 2006 resource calculation. This calculation was started in December of 2006.

An accurate survey of all the drill holes was also completed and a new topographic survey has been constructed for the entire drilled out area. New survey control points were established and an accurate specific gravity measurement for various rock types was also completed.

The 2007 Program at Silver Coin

A great deal has been accomplished already in 2007 on the Silver Coin project. An updated resource calculation was completed by MineFill Services Inc. and on March 14, 2007 the new estimate was released.

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 an additional 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% Pinnacle-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

Pinnacle Mines Ltd.

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.

* 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 report 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

The new 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.

A comprehensive program of data verification was undertaken by MineFill Services prior to the building of a block model in SURPAC. The mineral resource estimate was then generated by ordinary kriging using uncapped gold, silver and zinc values.

Pinnacle Mines Ltd.

The 2007 exploration program will start early in July. A program of 20 holes is planned to better define and expand the in-pit resource. In addition to the drill program, environmental base line studies will start and a program of metallurgical testing will get underway. It is planned that feasibility work will commence later in the year.

MEXICO

Tuligtic Property, Puebla State

On July 24, 2006, Pinnacle entered into an option agreement with Almaden Minerals Ltd. on the Tuligtic property in Puebla State, Mexico. Pinnacle can earn a 60% interest in the Tuligtic project by making property expenditures of US\$6 Million and issuing 1,000,000 shares of Pinnacle to Almaden within 6 years. Pinnacle has commenced work on the Tuligtic property in the southern portion of the Sierra Madre Oriental Province, approximately 150 km east of Mexico City. The large concession consists of 5,515 hectares located 50 air kilometers northeast of the town of Apizaco in the State of Puebla. Two target types are present on the property, a large copper porphyry target and an epithermal gold-silver target.

Within this area a field program carried out by Almaden identified both a porphyry copper and an epithermal gold target. The copper porphyry target occurs within K-silicate altered intrusive rocks that intrude deformed limestone which is overlain by intensely altered volcanic rocks and geologically recent, post-mineralization ash deposits. Calc-silicate altered limestone occurs in proximity to the intrusive contacts and is associated with skarn-type copper mineralization, identified in boulders. Multiple phases make up the intrusive body which has been altered and veined. Stockwork quartz pyrite veining dominates the alteration and is associated with minor copper mineralization. This alteration is observed to overprint earlier potassic alteration. An IP geophysical survey was carried out and indicated that the exposed mineralization represents a portion of a much larger intrusive hosted system characterized by an elevated chargeability response anomaly which is open in three directions and increasing in tenor with depth. Soil sampling has returned highly anomalous copper, molybdenum, silver and gold in soil samples over areas where the altered and mineralized intrusive rocks are exposed, and elevated chargeability responses have been recorded at surface.

Already in 2007 Pinnacle has conducted additional geologic work and has selected 14 prospective drill sites from the geophysical-geological data base. Acquisition of surface rights and permitting is in progress. Reverse-circulation drilling is planned immediately provided a drill rig can be contracted.

The Company has rented a house in the nearby town of San Francisco where it intends to set up an office and accommodation for its employees.

Early in the first quarter, the Company established a Mexican operating subsidiary and opened bank accounts. Our legal counsel is in Chihuahua City, Chihuahua while our Mexican office will be centered Oaxaca City. The office is fully functional and the Company is sharing three employees with Chesapeake Gold Corp.

Company geologists have visited the sites to organize the work program for the early part of 2007. Because of the heat of the summer in this part of Mexico it has been decided to delay intensive exploration until the fall, winter and spring periods. An initial program of topographic and geologic mapping and an expanded rock chip and soils sampling program are planned to better define the copper and gold system and help focus on the targets.

Pinnacle Mines Ltd.

Oaxaca State Properties

In September Pinnacle Mines 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.

Under the terms of the agreement which has been approved by the EXchange Pinnacle can earn a 51% interest in the properties by issuing 100,000 common shares and a US\$50,000 cash payment upon signing the agreement and a further 150,000 shares on June 1, 2007. On or within the first anniversary of the agreement, Pinnacle will pay an additional US\$50,000 cash and issue 250,000 shares and commit US\$500,000 for work expenditures on the properties. On the second, third, and fourth anniversaries, Pinnacle will pay Chesapeake US\$400,000 per year by way of cash or shares and commit to work expenditures in years 2-5 of US\$1,250,000; \$1,250,000; \$1,500,000 and \$1,500,000 respectively. Pinnacle has an option to earn an additional 19% by completing a bankable feasibility study by year 8, providing Chesapeake with a US\$3 million payment (cash and/or shares) and providing production financing for the properties.

The Company has 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 has commenced the cutting of lines for an induced polarization survey which will cover the "El Manguito" showing. Permitting is also in progress for completion of an access road into the target area and the drilling of 8 to 10 core holes during 2007. 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.

The Company has also just 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. Past sampling of road cuts and outcrops have revealed one zone that contains 63 meters of 0.90% copper with significant silver credits. The Company has recently conducted additional reconnaissance work in the area and line cutting for an induced polarization survey is planned to commence in late May.

Pinnacle Mines Ltd.

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 - 07	Dec -06	Sep - 06	Jun - 06	Mar-06	Dec-05	Sep-05	Jun-05
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss before extraordinary items	\$317,954	\$452,781	\$494,838	\$300,271	\$241,331	522,325	266,068	417,154
Loss	\$328,679	\$444,904	\$471,406	\$304,882	\$242,119	522,325	260,101	414,594
Loss per share	\$0.02	\$0.02	\$0.02	\$0.02	\$0.01	\$0.04	\$0.02	\$0.04

The Company's operations during the three month period ended March 31, 2007 produced a net loss of \$328,679 or \$0.02 per share compared to a net loss of \$242,119 or \$0.01 per share for the same period in 2006. As the Company does not own any revenue-producing resource properties, no mining revenues have been recorded to date. The increase in net loss over the same period last year is due to the increased exploration activity in Mexico and engineering studies in Canada on the Silver Coin property during the quarter and an increase in stock based compensation over the corresponding period. There was an increase in consulting services, investor relations costs, legal fees, and professional fees. Salaries and benefits were lower. Office fees associated with running the Vancouver operation were slightly higher.

During the quarter ended March 31, 2007, the Company had increased exploration expenditures because of exploration in Mexico. There were no expenditures in Mexico in the previous year as the Company only started exploration in Mexico in the last six months. Shareholder service costs decreased slightly in the period ended March 31, 2007 to \$6,653 from \$7,529 in 2006. The small change was primarily due to decreased amounts of work being performed in 2007. Shareholder service costs include such things as regulatory fees, and shareholder costs associated with the Transfer Agent. Management fees /service costs in 2007 of \$45,000 increased over the previous year at \$39,000. This all reflects on an exploration and development company that was very active in the first quarter in Mexico. Travel costs were down from last year. This mainly reflects fewer trips to China which were very expensive. Investor relations costs were up to \$68,298 in 2007 from \$40,627 in 2006. This represents a more active investor relations campaign this year in terms of mail-outs, shows and promotional materials and an additional person.

Liquidity and Capital Resources

The Company had a working capital surplus at March, 31 2007 of \$3,488,369 compared to \$2,536,054 at March 31, 2006. There were no financings carried out in the first quarter of 2007. At December 31, 2006 the Company had a working capital surplus of \$3,910,051. As of March 31, 2007 the Company had 20,723,647 common shares issued (fully diluted 25,496,015 shares) compared to 15,781,884 common shares (fully diluted 20,344,734 shares) as of March 31, 2006. As of the time of writing of this report there are 20,723,647 shares issued and outstanding.

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:

Pinnacle Mines Ltd.

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 of 2004.

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 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.

Pinnacle Mines Ltd.

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 one-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.

During the first quarter of 2006 the Company completed 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.

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. 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

The working capital at March 31, 2007 is sufficient to complete the 2007 drill program and technical work at the Silver Coin and Surprise Creek, to start the exploration in Mexico and to carry out corporate administrative details for the next 6 months. To cover the cost of other additional drilling at Silver Coin in 2007, any additional or 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 \$2 to \$3 million.

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, 2007, the Company incurred fees of \$45,000 (2005 - \$39,000) with directors for management consulting services. This amount has been included in management services expense on the statement of operations and deficit.

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

Pinnacle Mines Ltd.

Financial Data for Last Three Fiscal Years

Selected annual Information for the fiscal year ended	December 31, 2006	December 31, 2005	December 31, 2004
Total revenue	86,039	16,213	990
Loss before Mineral Property Write Downs Per Share Basis*	(1,444,369) (0.08)	(1,237,082) (0.10)	(802,174) (0.14)
Loss after Mineral Property Write Downs Per Share Basis*	(1,463,311) (0.08)	(1,237,082) (0.10)	(846,714) (0.15)
Total assets	8,441,755	5,416,160	2,839,836
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.

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.

Pinnacle Mines Ltd.

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 now has six active projects, three in central British Columbia, and three in Mexico

Last year's exploration program in central BC on the Silver Coin property got underway in May. In 2006 there were almost 25,000 meters of drilling completed in 115 holes. This year work will not start there until July due to heavy snow pack. In addition this year's drilling program will be much reduced in size. It is planned that environmental base line studies, metallurgical work, and other prefeasibility work will get underway. The exploration programs for 2007 in the Stewart area have not been approved by the Board of Directors.

In Mexico Company personnel have started its exploration program at the Tuligtic since early in 2007 so as to avoid the summer heat. The initial program of mapping and sampling is well advanced at the Tuligtic to better define targets for a drill program. Work in Oaxaca will commence with line cutting for an IP survey at the La Calavera and similar work will start as weather and time permits at the Rio Minas.

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.