

Pinnacle Mines Ltd.

Interim Consolidated Financial Statements

For the third quarter ended

September 30, 2005

(unaudited – prepared by management)

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Note: These interim unaudited consolidated financial statements and the accompanying notes contained herein, have not been reviewed by the auditors.

Contents

	<u>Page</u>
Management's Responsibility for Financial Reporting	1
Consolidated Balance Sheets, unaudited	2
Consolidated Statements of Operations and Deficit, unaudited	3
Consolidated Statements of Cash Flows, unaudited	4
Notes to the Consolidated Financial Statements, unaudited	5-14

Management's Responsibility for Financial Reporting

To the Shareholders of
Pinnacle Mines Ltd.

The accompanying unaudited interim consolidated financial statements of Pinnacle Mines Ltd. have been prepared in accordance with Canadian generally accepted accounting principals consistent with previous quarters and years. Our auditors have not performed a review of these financial statements.

Management is responsible for the integrity of the financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes. Our auditors have provided information regarding areas where our internal controls could be improved and we have undertaken to implement improvements where practicable.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This committee meets with management to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

"Andrew W. Bowering"
Andrew W. Bowering
Director

"Paul F. Saxton"
Paul F. Saxton
Director

Vancouver, Canada
November 30, 2005

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

	September 30 2005	December 31 2004 (audited)
Assets		
Current		
Cash and cash equivalents	\$ 2,450,769	\$ 1,606,968
Marketable securities (Note 3)	24,500	-
Receivables	90,447	18,051
Prepays	<u>33,174</u>	<u>5,619</u>
	2,598,890	1,630,638
Project deposit (Note 4)	10,000	-
Due from director (Note 5)	4,000	4,000
Mineral property interests (Note 6)	2,658,627	1,199,785
Equipment (Note 7)	<u>24,827</u>	<u>5,413</u>
	<u>\$ 5,296,344</u>	<u>\$ 2,839,836</u>
Liabilities		
Current		
Payables and accruals	<u>\$ 62,836</u>	<u>\$ 138,832</u>
Shareholders' Equity		
Capital stock (Note 8)	16,779,883	13,783,369
Unexercised stock options (Note 8)	508,015	257,268
Contributed surplus	15,984	15,984
Deficit	<u>(12,070,374)</u>	<u>(11,355,617)</u>
	<u>5,233,508</u>	<u>2,701,004</u>
	<u>\$ 5,296,344</u>	<u>\$ 2,839,836</u>

Continuance of operations (Note 1)
Commitment (Note 10)

Approved on Behalf of the Board

"Andrew W. Bowering" Director
Andrew W. Bowering

"Paul F. Saxton" Director
Paul F. Saxton

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
General and administrative expenses				
Amortization	\$ 1,281	\$ 238	\$ 3,296	\$ 716
Consulting services	36,566	21,887	62,310	94,600
Management services (Note 11)	74,000	24,000	150,000	57,000
Potential acquisition and general exploration	-	(35,223)	1,363	12,830
Professional fees				
Accounting and audit	1,796	-	10,120	4,775
Legal	8,811	18,177	26,304	44,727
Office (Note 11)	24,733	51,444	122,998	62,313
Rent (Note 11)	4,170	2,200	30,456	40,600
Salaries and benefits	23,717	6,258	43,953	88,294
Shareholder services	53,661	39,173	130,556	62,900
Stock-based compensation	5,000	-	250,747	-
Travel	32,333	22,137	51,933	100,630
	<u>266,068</u>	<u>150,291</u>	<u>884,036</u>	<u>569,385</u>
Loss before undernoted income (expenses)	(266,068)	(150,291)	(884,036)	(569,385)
Write-down of mineral property interests	-	(44,540)	-	(44,540)
Interest income	5,867	-	12,290	555
Other income	100	-	100	-
Loss before income taxes	<u>(260,101)</u>	<u>(194,831)</u>	<u>(871,646)</u>	<u>(613,370)</u>
Future income tax recovery (Note 12)	-	-	156,889	-
Net loss	<u>\$ (260,101)</u>	<u>\$ (194,831)</u>	<u>\$ (714,757)</u>	<u>\$ (613,370)</u>
Net loss per share	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.11)</u>
Weighted average common shares outstanding	<u>11,281,884</u>	<u>5,405,342</u>	<u>11,136,366</u>	<u>5,405,342</u>
Deficit, beginning of period	\$ (11,810,273)	\$ (10,772,329)	\$ (11,355,617)	\$ (10,353,790)
Net loss	<u>(260,101)</u>	<u>(194,831)</u>	<u>(714,757)</u>	<u>(613,370)</u>
Deficit, end of period	<u>\$ (12,070,374)</u>	<u>\$ (10,967,160)</u>	<u>\$ (12,070,374)</u>	<u>\$ (10,967,160)</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Consolidated Statements of Cash Flows, unaudited – prepared by management

	Three Months Ended September 30, 2005		2004		Nine Months Ended September 30, 2005		2004	
Cash derived from (applied to)								
Operating								
Net loss	\$	(260,101)	\$	(194,831)	\$	(714,757)	\$	(613,370)
Amortization		1,281		238		3,296		716
Stock-based compensation		5,000		-		250,747		92,155
Future income taxes (Note 12)		-		-		(156,889)		-
Write-down of mineral properties		-		44,540		-		44,540
Change in non-cash operating working capital (Note 9)		(42,061)		(4,957)		(129,683)		6,474
		<u>(295,881)</u>		<u>(155,010)</u>		<u>(747,286)</u>		<u>(469,485)</u>
Financing								
Shares issued for cash		2,620,475		471,064		3,055,403		1,179,105
Share issue costs		-		(39,376)		-		(101,376)
Deposit on shares		-		438,523		-		398,523
		<u>2,620,475</u>		<u>870,211</u>		<u>3,055,403</u>		<u>1,476,252</u>
Investing								
Mineral property expenditures								
Project deposit		-		-		(10,000)		-
Exploration expenditures		(423,053)		(234,442)		(816,742)		(237,188)
Acquisition costs		-		(512,011)		(568,599)		(512,011)
Purchase of equipment		(2,428)		-		(22,710)		(6,369)
Change in working capital items related to investing transactions		(91,121)		-		(46,265)		-
		<u>(516,602)</u>		<u>(746,453)</u>		<u>(1,464,316)</u>		<u>(755,568)</u>
Net increase in cash (decrease)		1,807,992		(31,252)		843,801		251,199
Cash								
Beginning of period		642,777		362,873		1,606,968		80,422
End of period	\$	<u>2,450,769</u>	\$	<u>331,621</u>	\$	<u>2,450,769</u>	\$	<u>331,621</u>
Cash comprises:								
Cash	\$	325,769	\$	331,621	\$	325,769	\$	331,621
Cashable guaranteed investment certificates		2,125,000		-		2,125,000		-
	\$	<u>2,450,769</u>	\$	<u>331,621</u>	\$	<u>2,450,769</u>	\$	<u>331,621</u>
Non-cash investing and financing transactions not included in cash flows:								
Marketable securities received as option proceeds	\$	24,500	\$	-	\$	24,500	\$	-
Shares issued for mineral property	\$	-	\$	-	\$	98,000	\$	-

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended September 30, 2005

1. Nature of operations and going concern

Pinnacle Mines Ltd., (formerly Broadlands Resources Ltd.), (the Company) was formed April 6, 1995 by the amalgamation of Broadlands Resources Ltd. and Shorewood Explorations Ltd. under the laws of the Province of British Columbia. On June 30, 2003 Broadlands consolidated its share capital on a one new share for five old shares basis and changed its name to Pinnacle Mines Ltd. The company's shares are traded on the TSX Venture Exchange ("TSXV"). The company's business is to acquire, explore and develop interests in mining projects.

These unaudited interim consolidated financial statements have been prepared on the going concern basis, which assumes that the company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The company's ability to continue operation is dependent on its ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Management is actively pursuing such additional financing.

These unaudited interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the company is unable to continue operations or does not receive continued financial support from its shareholders.

2. Basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the presentation of interim financial information. These financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent annual financial statements of the company for the year ended December 31, 2004 (the "Annual Financial Statements"). The financial statements follow the same accounting policies and methods of their application as the Annual Financial Statements.

3. Marketable securities

	<u>Shares/Units</u>	<u>Cost</u>	<u>Market Value</u>	<u>Carrying Value</u>
September 30, 2005				
Mountain Boy Resources Ltd.	98,000	<u>24,500</u>	<u>56,840</u>	<u>24,500</u>
		<u>\$ 24,500</u>	<u>\$ 56,840</u>	<u>\$ 24,500</u>

4. Project deposits

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

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements,
unaudited – prepared by management

For the period ended September 30, 2005

5. Due from director

The amount due from a director bears interest at 5% per annum and has no set terms or repayment.

6. Mineral property interests

The company's mineral property interests are comprised of properties located in British Columbia, Canada and China.

	<u>Canada</u>	<u>China</u>	<u>Total</u>
Balance, December 31, 2003	\$ 178,239	\$ -	\$ 178,239
Acquisition costs	71,700	512,011	583,711
Exploration expenditures			
Assays	32,490	-	32,490
Drilling and metallurgical testing	117,652	-	117,652
Geological and geophysical consulting	214,292	-	214,292
Helicopter and camp	12,998	-	12,998
Labour	21,695	-	21,695
Maintenance	12,490	-	12,490
Supplies	21,823	-	21,823
Shipping	7,147	-	7,147
Travel and accommodation	27,640	-	27,640
Other	14,148	-	14,148
Properties written-down	<u>(44,540)</u>	<u>-</u>	<u>(44,540)</u>
Balance, December 31, 2004	\$ 687,774	\$ 512,011	\$ 1,199,785
Acquisition costs	98,000	568,599	666,599
Exploration expenditures			
Geochemistry	5,875	-	5,875
Drilling and metallurgical	362,098	-	362,098
Geological & engineering	201,314	-	201,314
Helicopter	24,212	-	24,212
General administration	4,068	-	4,068
Geologic mapping	13,231	-	13,231
Maintenance	12,136	-	12,136
Field supplies	72,639	-	72,639
Shipping	12,861	-	12,861
Travel and accommodation	62,097	-	62,097
Trenching & underground	46,212	-	46,212
Options proceeds	<u>(24,500)</u>	<u>-</u>	<u>(24,500)</u>
Balance, September 30, 2005	<u>\$ 1,578,017</u>	<u>\$ 1,080,610</u>	<u>\$ 2,658,627</u>

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements,
unaudited – prepared by management

For the period ended September 30, 2005

6. Mineral property interests (Continued)

Canada

	<u>Silver Coin</u>	<u>Surprise Creek</u>	<u>Kansas</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2003	\$ -	\$ 133,299	\$ -	\$ 44,940	\$ 178,239
Acquisition costs	-	-	71,700	-	71,700
Exploration expenditures					
Assays	28,364	4,015	-	111	32,490
Drilling and metallurgical	117,652	-	-	-	117,652
Environmental	-	-	-	-	-
Geological	171,613	42,679	-	-	214,292
Helicopter and camp	-	3,894	-	9,104	12,998
Labour	17,471	4,224	-	-	21,695
Maintenance	4,730	7,760	-	-	12,490
Supplies	21,823	-	-	-	21,823
Shipping	7,147	-	-	-	7,147
Travel and accommodation	27,152	488	-	-	27,640
Other	9,467	2,500	-	2,181	14,148
Properties written-down	-	-	-	(44,540)	(44,540)
Balance, December 31, 2004	\$ 405,419	\$ 198,859	\$ 71,700	\$ 11,796	\$ 687,774
Acquisition costs	-	98,000	-	-	98,000
Exploration expenditures					
Geochemistry	-	5,875	-	-	5,875
Drilling and metallurgical	362,098	-	-	-	362,098
Geological & engineering	201,314	-	-	-	201,314
Helicopter	15,713	8,499	-	-	24,212
General administration	3,468	-	-	600	4,068
Geologic mapping	7,639	5,592	-	-	13,231
Maintenance	11	12,125	-	-	12,136
Field supplies	69,787	1,708	-	1,144	72,639
Shipping	12,448	413	-	-	12,861
Travel and accommodation	59,441	2,656	-	-	62,097
Trenching & underground	46,212	-	-	-	46,212
Options proceeds	-	-	(24,500)	-	(24,500)
Balance, September 30, 2005	\$ <u>1,183,550</u>	\$ <u>333,727</u>	\$ <u>47,200</u>	\$ <u>13,540</u>	\$ <u>1,578,017</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended September 30, 2005

6. Mineral property interests (Continued)

On April 14, 2005 the company optioned the Surprise Creek property to Pallaum Minerals Ltd., whereby Pallaum can earn up to a 50% interest in the Surprise Creek property by spending \$1,025,000 on exploration and issuing 400,000 common shares over a four year period as follows:

	<u>Exploration Expenditures</u>		<u>Payments</u>
by Aug 9, 2005	\$ 75,000	by Sep 15, 2005	100,000 shares
by Aug 9, 2006	100,000 elective	by Sep 15, 2006	100,000 shares
by Nov 1, 2006	50,000 elective	by Sep 15, 2007	100,000 shares
by Aug 9, 2007	100,000 elective	by Sep 15, 2008	<u>100,000</u> shares
by Nov 1, 2007	200,000 elective		
by Aug 9, 2008	100,000 elective		400,000 shares
by Nov 1, 2008	<u>400,000</u> elective		
	<u>\$ 1,025,000</u>		

Pallum Resources Ltd. did not make the required exploration expenditures by August 9, 2005 and the option agreement was terminated.

On July 30, 2005 the company entered into an agreement to acquire a 100% interest in three more mineral claims in the Surprise Creek property area by issuing 200,000 shares at a deemed price of \$0.49 per share.

China

Yang Wen Chong

Letter Agreement

On January 27, 2005, the Purchase Contract was terminated and replaced by a Letter of Agreement that provided the company with the option to pay an additional 3,730,000 RMB (\$568,599) on or before January 31, 2005 (paid), to own 25% of a joint venture with YGM.

The company can earn an additional 45% of the joint venture by spending 12,600,000 RMB (\$1,960,560) on exploration and development of YWC within five years.

For every additional 280,000 RMB (\$43,568) spent on exploration on YWC the company will earn from YGM's interest a further 1% of the joint venture to a maximum of an additional 45% interest.

Under the Letter Agreement, YGM agrees that if the Chinese authorities do not grant a business license to the joint venture, or do not approve the transfer of title and exploration license to the joint venture, YGM will refund the January 28, 2005 payment of 3,730,000 RMB.

The net effect of the foregoing agreements and amendments is as follows:

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements,
unaudited – prepared by management

For the period ended September 30, 2005

6. Mineral property interests (Continued)

In order for the company to earn a 25% interest in the YWC gold property, the company agreed to make the following payments:

On signing the Purchase Contract	<u>RMB</u> 270,000	\$ 44,370
On the latter of four months from the signing of the Purchase Contract (September 8, 2004) or on receipt of regulatory approval	13,230,000	2,174,130
Within twelve months of the second payment	5,400,000	887,400
By November 18, 2005	<u>8,100,000</u>	<u>1,331,100</u>
	<u>27,000,000</u>	<u>\$ 4,437,000</u>

7. Equipment

			2005	2004
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 16,370	\$ 3,298	\$ 13,072	\$ 4,077
Other equipment	<u>12,708</u>	<u>953</u>	<u>11,755</u>	<u>1,336</u>
	<u>\$ 29,078</u>	<u>\$ 4,251</u>	<u>\$ 24,827</u>	<u>\$ 5,413</u>

Pinnacle Mines Ltd.
Notes to the Consolidated Financial Statements,
unaudited – prepared by management

For the period ended September 30, 2005

8. Capital stock

Capital Stock

Common Shares

Authorized:

Unlimited number of common shares without par value

	<u>Number</u>	<u>Amount</u>
Issued:		
Balance, December 31, 2003	3,572,034	\$ 10,554,045
Private placement, net of share issue costs of \$13,960	1,770,100	646,040
Private placement, net of share issue costs of \$23,984	701,680	416,716
Private placement, net of share issue costs of \$25,000	1,040,000	599,000
Private placement, net of share issue costs of \$127,629	2,684,952	1,432,371
Issued for mineral properties	77,000	46,200
Return of escrow shares	(1,402)	(1,950)
Exercise of warrants	<u>321,097</u>	<u>90,947</u>
Balance, December 31, 2004	10,165,461	13,783,369
Future income tax relating to renounced exploration expenditures applicable to flow-through shares		(156,889)
Exercise of warrants	2,323,423	1,049,603
Private placement	93,000	55,800
Private placement	3,000,000	1,950,000
Issued for mineral properties (Note 6)	<u>200,000</u>	<u>98,000</u>
Balance, September 30, 2005	<u>15,781,884</u>	<u>\$ 16,779,883</u>

Private Placements

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.

During the second quarter of 2005 the company completed a private placement. The private placement consisted of 93,000 units 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 in the first year and \$0.75 per share in the second year.

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended September 30, 2005

8. Capital stock (Continued)

Stock Options

During 1997 the company established a share option plan (the "1997 Plan") whereby the board of directors may from time to time grant to directors, officers, employees or consultants stock options. The maximum number of shares subject to the plan, in the aggregate, may not exceed 20% of the company's issued shares. The maximum term of any option will be ten years, but generally options are granted for five years or less. The exercise price of an option is not less than the greater of \$0.15 per share or the minimum price permitted under the policies of the TSXV. Options vest over a two year period.

This plan was revised on May 16, 2003. The maximum number of shares subject to the plan, in the aggregate, may not exceed 10% of the Company's issued shares. The maximum term of any option will be five years if the company is a "Tier 2" company and ten years if the company is a "Tier 1" company. The vesting is at the direction of the company. However, options granted to consultants performing "investor relations" activities must at a minimum vest in stages over a period of not less than twelve months, with no more than ¼ of the options vesting in any three month period. The exercise price shall be not less than the greater of \$0.10 per share and the last closing price of the company's shares.

Stock option activity for the respective periods is as follows:

	2005	2004
Options outstanding, beginning of period	530,000	350,000
Granted	<u>525,000</u>	<u>180,000</u>
Options outstanding, end of period	<u>1,055,000</u>	<u>530,000</u>

Stock options outstanding and exercisable at September 30, 2005:

Description	Year of Grant	Expiry Date	Outstanding			Exercisable		
			Number of Shares	Price Per Share	Average Remaining Contractual Life (Years)	Number of Shares	Price Per Share	Average Remaining Contractual Life (Years)
Directors' options	2003	November 23, 2008	350,000	\$ 0.40	3.15	350,000	\$ 0.40	3.15
Directors' options	2004	March 16, 2009	90,000	0.70	3.46	90,000	0.70	3.46
Employee's option	2004	June 23, 2009	20,000	0.50	3.73	20,000	0.50	3.73
Consultant's option	2004	June 23, 2009	20,000	0.50	3.73	20,000	0.50	3.73
Consultant's option	2004	June 27, 2007	50,000	0.50	1.74	50,000	0.50	1.74
Consultant's option	2005	April 11, 2010	90,000	0.50	4.53	90,000	0.50	4.53
Employee's option	2005	April 11, 2010	35,000	0.50	4.53	35,000	0.50	4.53
Directors' options	2005	April 11, 2010	400,000	0.50	4.53	400,000	0.50	4.53
			<u>1,055,000</u>	<u>\$ 0.48</u>	<u>3.82</u>	<u>1,055,000</u>	<u>\$ 0.48</u>	<u>3.82</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended September 30, 2005

8. Capital stock (Continued)

Stock Options (Continued)

During the first nine months of 2005, the Company recorded \$250,747 of compensation expense. This represents a portion of the options granted last year that vested in the first, second and third quarters of 2005 plus 525,000 options granted to the directors, consultants and employees. The company used the Black-Scholes option pricing model to estimate the fair value of the options at each grant date using the following weighted average assumptions:

	2005
Risk-free interest rate	4.0%
Dividend yield	0.00%
Expected volatility	134%
Expected option life	5 years

Warrants

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

	September 30, 2005	December 31, 2004
Warrants outstanding, beginning of period	4,347,269	1,180,000
Issued	1,546,500	3,488,366
Exercised	(2,323,423)	(321,097)
Expired	(62,496)	-
Warrants outstanding, end of period	<u>3,507,850</u>	<u>4,347,269</u>

Full share equivalent warrants outstanding and exercisable at September 30, 2005:

Description	Number of Full Share Equivalent Warrants	Price Per Share	Expiry Date	Year of Grant	Average Remaining Contractual Life (Years)
Warrants	520,000	0.75	November 8, 2006	2004	1.11
Warrants	1,441,350	0.75	November 30, 2006	2004	1.17
Warrants	46,500	0.60	April 20, 2007	2005	1.81
Warrants	<u>1,500,000</u>	0.83	September 25, 2007	2005	1.99
	<u>3,507,850</u>	<u>\$ 0.78</u>			<u>1.61</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended September 30, 2005

9. Change in non-cash operating working capital	September 30, 2005	September 30, 2004
Receivables	\$ (72,396)	\$ (12,461)
Prepays	(27,555)	(10,000)
Payables and accruals	<u>(29,732)</u>	<u>28,935</u>
	<u>\$ (129,683)</u>	<u>\$ 6,474</u>

10. Commitment

The company entered into a five year lease agreement for its office space commencing March 1, 2005. The company is committed to making lease payments in 2005 of \$42,865, in 2006 of \$85,730 and for 2007 through 2010 of \$89,180 each year.

11. Related party transactions

During the nine months ended September 30, 2005, the company incurred fees of \$150,000 (2004 - \$57,000) with directors for management consulting services. This amount has been included in management fee expenses on the statement of operations and deficit.

Included in accounts payable is an amount of \$2,035 owed to a director of the company.

The company shares office space with Doublestar Resources Ltd. Starting March 2005 Doublestar reimburses each month to Pinnacle a portion of the rent and office expenses. Doublestar and Pinnacle have one director in common.

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

12. Future income tax liability

During 2004 the company issued 678,000 flow-through shares with gross proceeds of \$440,700. On March 31, 2005 the company renounced these expenditures effective December 31, 2004. The future income tax effect is as follows:

Expenses renounced	\$ 440,700
Marginal tax rate	<u>35.6%</u>
	<u>\$ 156,889</u>

Pinnacle Mines Ltd.

Notes to the Consolidated Financial Statements, unaudited – prepared by management

For the period ended September 30, 2005

14. Financial instruments

(a) Fair value

The company's financial instruments consist of cash, receivables, and accounts payable and accruals. The company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The fair value of the company's financial instruments approximates their carrying values.

(b) Foreign exchange risk

The company's operations in China expose the company to foreign exchange risk. The company does not enter into derivative financial instruments to mitigate this risk.

15. Segmented disclosure

The company has one operating segment which is mineral exploration and all capital assets of the company are located in Canada except for certain of its mineral properties located in China, as disclosed in Note 6.

The company operates in two geographical segments: Canada and China. Corporate administrative activities are conducted from Canada. The income and expenses for the periods ended September 30, 2005 and December 31, 2004 and the assets at the end of those years identifiable to these segments are as follows:

	<u>Canada</u>	<u>China</u>	<u>Corporate</u>	<u>Total</u>
Assets				
September 30, 2005	\$ 1,578,017	\$ 1,080,610	\$ 2,637,717	\$ 5,296,344
December 31, 2004	687,774	512,011	1,640,051	2,839,836
Expenses				
Period ended				
September 30, 2005	-	-	714,757	714,757
Year ended				
December 31, 2004	44,540	-	802,174	846,714

16. Subsequent events

Subsequent to the quarter end the company completed a resigning of the joint venture agreement with Yunnan Geology and Mineral Resources Co. Ltd. (YGM) on the Yang Wen Chong property (YWC) in Yunnan Province. The Articles of Association governing the operation of the property were also signed.