

PINNACLE MINES LTD.

INTERIM FINANCIAL STATEMENTS (Unaudited – Prepared by management)

For the third quarter ended September 30, 2004

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

President's Message

Pinnacle's corporate activities during the third quarter focused on the exploration of the Surprise Creek property, drilling on the Silver Coin property, and the acquisition of an additional property in the Stewart area of British Columbia. Almost all work on the Yang Wen Chong property in Yunnan Province, PRC related to corporate matters associated with property payments and the writing of a 43-101 compliant Technical Report. A small amount of exploration was carried out at Yang Wen Chong.

A flow-through private placement was completed during the quarter through the issuance of 678,000 units for gross proceeds of \$440,700. Each unit consisted of one share and one share-purchase warrant, two warrants and \$0.75 being required to purchase an additional share of Pinnacle for a one year period.

As previously noted in the second quarter review, on May 8, 2004, Pinnacle executed a formal Purchase Contract with Yunnan Geology and Mineral Resources Co., Ltd. ("YGM") to acquire a 100% interest in the Yang Wen Chong ("YWC") gold property, located in the highly prospective south-eastern region of Yunnan Province, PRC. As consideration for YWC, Pinnacle will pay YGM 27,000,000 RMB (CDN \$4,437,000). The details of the payments have been described in the second quarter report. It is worth noting again that YGM has agreed to transfer title to YWC to the Company upon completion of 70% of the required payments. On May 9, 2004 the Company made a deposit of 270,000 RMB to YGM. According to the agreement, the Company was required to deliver a first payment by September 8th. The contract was amended to make the first payment of 3,000,000 RMB on September 23rd. This payment has been made. The second payment of 10,230,000 RMB was due on November 8, 2004. This payment has not been made as YGM agreed to extend the payment date to December 31, 2004. Pinnacle is in the process of contacting YGM to discuss more changes to the agreement, which if effected would see a substantial exploration program carried out while the property payments would be spread out over a longer period.

On July 31, Pinnacle's consulting geologist, Jeffrey Wilson, completed a National Instrument 43-101 Technical Report on YWC. Mr. Wilson has written in his report, which has been submitted to the regulatory authorities as the property's 43-101 submission, "that YWC is a target-rich environment for Carlin-type gold deposits". The author suggests a Phase 1 Exploration Program (12-months) to advance early and intermediate stage targets by continuing trenching, core drilling, and metallurgical testing. Core drilling of 20 holes for 3100 metres is recommended to increase the Issuer's geologic knowledge and confidence in the gold for size and grade. A Phase 1 Exploration Program budget of CDN \$2,250,000 is proposed. Subsequent exploration programs will be required to bring the property to a decision point. During the quarter the YGM team was on site and took samples in trenches and soils. Their work confirmed the general nature of gold occurrences on the property.

During the third quarter, Mr. Ed Kruckowski, P. Geol., continued exploration programs on the Company's 100% owned Surprise Creek property. The work program involves prospecting, trenching, and geochemical sampling of the property in three areas of prime importance. These three areas include locations that have been shown to host high grade copper, zinc, gold and silver assays. Some mapping and sampling was carried out. A total of 252 samples were taken and a 36 element ICP was performed on most of the samples. Nineteen of the samples were only tested for gold and silver. Elevated gold, silver and copper assays have been noted and a follow up program of exploration for 2005 is being designed.

In August, Pinnacle entered into an option agreement with Mountain Boy Minerals Ltd to earn a 51% interest in its 100% owned Silver Coin and FR claims and its 55% owned Dauntless claims in the Stewart, BC area from Mountain Boy Minerals Ltd. by incurring exploration expenditures totalling \$1.75 million over three years. In addition, Pinnacle can earn an additional 9% in the

projects by bringing one to commercial production. All claims are contiguous and are located 24 kilometres north of Stewart, BC.

Subsequent to the end of the quarter, the Company entered into an agreement with Tenajon Resources Corp. to acquire a 60% interest in its Kansas property by incurring exploration expenditures totalling \$1 million over a four year period, making a \$50,000 cash payment and issuing 77,000 common shares. Pinnacle can increase its ownership in the Kansas property to 70% by completing a feasibility study within four years of earning its 60% interest. The letter agreement was signed on Oct. 23, 2004 and the companies agreed to complete a full option agreement within six months.

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.

Starting in August and continuing into early November the Company drilled 26 holes totalling 2,000 metres at Silver Coin locating a major zone of mineralization we call the Perseverance zone. It has been traced for over 700 metres on surface and drilling is confirming continuity of mineralization at depth. Two types of mineralization are prevalent. One type has high grade gold and silver with lower polymetallics while a second type has higher polymetallics and silver and lower gold. Drilling was halted in early November and is expected to start again in May of 2005.

Subsequent to the end of the quarter, Pinnacle completed a private placement of 1,040,000 units at \$0.60 per unit for gross proceeds of \$624,000. Each unit consisted of one share and one share purchase warrant, two warrants being exercisable into an additional share at \$0.75 in the first year and \$0.85 in the second year. Directors and officers purchased the majority of the placement.

Subsequent to the end of the quarter, Pinnacle entered into an agency agreement with Canaccord Capital Corp. to place 2.5 million units on the same terms as the financing completed by insiders of Pinnacle. In connection with the private placement, Canaccord will receive a cash commission equal to 8% of the gross proceeds of the offering as well as Agents' Warrants entitling Canaccord to acquire that number of common shares as is equal to 15% of the number of units sold under the offering, the Agents' Warrants having the same terms as the share purchase warrants. This financing is expected to close on November 30, 2004.

On behalf of the Board of Directors,

"Andrew W. Bowering"

Andrew W. Bowering
November 29, 2004

Pinnacle Mines Ltd.
Balance Sheet
(unaudited – prepared by management)

	September 30, 2004	September 30 2003	December 31 2003
Assets			
Current			
Cash	\$ 331,621	\$ 104,825	\$ 80,422
Receivables	4,331	21,912	-
GST receivable	10,061	-	1,600
Prepays	10,000	-	-
	<u>356,012</u>	<u>126,737</u>	<u>82,022</u>
Long Term			
Mineral property interests (Note 3)	890,019	173,756	178,239
Capital assets (Note 4)	5,652	-	-
	<u>895,671</u>	<u>173,756</u>	<u>178,239</u>
	<u>\$ 1,251,684</u>	<u>\$ 300,493</u>	<u>\$ 260,261</u>
Liabilities			
Current			
Payables and accruals	\$ 42,359	\$ 30,175	\$ 5,971
Deposit on shares (Note 5)	438,523	-	40,000
	<u>480,883</u>	<u>30,175</u>	<u>45,971</u>
Shareholders' Equity			
Capital stock (Note 6)	11,631,773	10,554,045	10,554,045
Value assigned to stock options (Note 6)	92,155	-	-
Contributed surplus	14,034	14,034	14,034
Deficit	<u>(10,967,160)</u>	<u>(10,297,761)</u>	<u>(10,353,790)</u>
	<u>770,801</u>	<u>270,318</u>	<u>214,289</u>
	<u>\$ 1,251,684</u>	<u>\$ 300,493</u>	<u>\$ 260,261</u>

Continuance of operations (Note 1)

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.

STATEMENT OF OPERATIONS AND DEFICIT

(unaudited – prepared by management)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
General and administrative expenses				
Amortization	\$ 238	\$ -	\$ 716	\$ -
Consulting services	21,887	5,348	94,600	5,348
Management fees	24,000	-	57,000	-
Property identification and exploration	(35,223)	-	12,830	-
Professional fees				
Accounting and audit	-	(4,600)	4,775	(900)
Legal	18,177	2,453	44,727	4,444
Office and rent	53,643	1,293	102,912	1,913
Salaries and benefits	6,258	-	88,294	-
Shareholder services	39,173	11,008	62,900	22,296
Travel and entertainment	22,137	331	100,630	1,016
	<u>150,291</u>	<u>15,833</u>	<u>569,385</u>	<u>34,117</u>
Loss before undernoted income (expenses)	(150,291)	(15,833)	(569,385)	(34,117)
Write-down of mineral property interests	(44,540)	-	(44,540)	-
Interest income	-	-	555	-
Net loss	<u>\$ (194,831)</u>	<u>\$ (15,833)</u>	<u>\$ (613,370)</u>	<u>\$ (34,117)</u>
Net loss per share	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.11)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding	<u>5,405,342</u>	<u>5,405,342</u>	<u>5,405,342</u>	<u>5,405,342</u>
Deficit, beginning of period	\$ (10,772,329)	\$ (10,281,928)	\$ (10,353,790)	\$ (10,263,644)
Net loss	<u>(194,831)</u>	<u>(15,833)</u>	<u>(613,370)</u>	<u>(34,117)</u>
Deficit, end of period	<u>\$ (10,967,160)</u>	<u>\$ (10,297,761)</u>	<u>\$ (10,967,160)</u>	<u>\$ (10,297,761)</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.
STATEMENT OF CASH FLOWS
(unaudited – prepared by management)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Cash derived from (applied to)				
Operating				
Net loss	\$ (194,831)	\$ (15,852)	\$ (613,370)	\$ (34,117)
Amortization	238	-	716	-
Stock-based compensation	-	-	92,155	-
Write-down of mineral properties	44,540	-	44,540	-
Change in non-cash operating working capital (Note 7)	(4,957)	(133,340)	6,474	(113,935)
	<u>(155,010)</u>	<u>(149,192)</u>	<u>(469,485)</u>	<u>(148,052)</u>
Financing				
Shares issued for cash	471,064	188,800	1,179,105	188,800
Share issue costs	(39,376)	-	(101,376)	-
Deposit on shares (Note 5)	438,523	-	398,523	-
Shares issued for debt settlement	-	96,000	-	96,000
Shares issued for property purchase	-	96,960	-	96,960
	<u>870,211</u>	<u>381,760</u>	<u>1,476,252</u>	<u>381,760</u>
Investing				
Mineral property expenditures				
Exploration expenditures (net)	(234,442)	(129,216)	(237,188)	(129,216)
Acquisition costs	(512,011)	-	(512,011)	-
Purchase of equipment	-	-	(6,369)	-
	<u>(746,453)</u>	<u>(129,216)</u>	<u>(755,568)</u>	<u>(129,216)</u>
Net (decrease) increase in cash	(31,252)	103,352	251,199	104,492
Cash				
Beginning of period	<u>362,873</u>	<u>1,473</u>	<u>80,422</u>	<u>333</u>
End of period	<u>\$ 331,621</u>	<u>\$ 104,825</u>	<u>\$ 331,621</u>	<u>\$ 104,825</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.
STATEMENT OF MINERAL PROPERTY INTEREST
COSTS DEFERRED
(unaudited – prepared by management)

	Nine Months Ended September 30		December 31,
	2004	2003	2003
Properties in Canada			
Balance, beginning of period	\$ 178,239	\$ 44,540	\$ 44,540
Acquisition costs	-	100,640	101,040
Exploration expenditures			
Assays	13,685	-	1,538
Drilling and metallurgical testing	55,496	-	-
Environmental	-	-	-
Geological and geophysical consulting	101,314	11,650	11,650
Helicopter and camp	12,020	5,650	5,650
Labour	10,374	-	-
Maintenance	7,760	6,800	6,800
Supplies	8,582	-	-
Shipping	4,843	-	-
Travel and accommodation	22,999	4,476	4,476
Other	7,236	-	2,545
Properties written-down	<u>(44,540)</u>	<u>-</u>	<u>-</u>
Balance, end of period	<u>\$ 378,008</u>	<u>\$ 173,756</u>	<u>\$ 178,239</u>
Properties in China			
Balance, beginning of period	-	-	-
Acquisition costs	<u>512,011</u>	<u>-</u>	<u>-</u>
Balance, end of period	<u>\$ 512,011</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.
STATEMENT OF MINERAL PROPERTY INTEREST
COSTS DEFERRED (Continued)

	Nine Months Ended September 30		December 31,
	2004	2003	2003
Summary for all mineral properties			
Balance, beginning of period	\$ 178,239	\$ 44,540	\$ 44,540
Acquisition costs	512,011	100,640	101,040
Exploration expenditures			
Assays	13,685	-	1,538
Drilling and metallurgical testing	55,496	-	-
Environmental	-	-	-
Geological and geophysical consulting	101,314	11,650	11,650
Helicopter and camp	12,020	5,650	5,650
Labour	10,374	-	-
Maintenance	7,760	6,800	6,800
Supplies	8,582	-	-
Shipping	4,843	-	-
Travel and accommodation	22,999	4,476	4,476
Other	7,236	-	2,545
Properties written-down	<u>(44,540)</u>	<u>-</u>	<u>-</u>
Balance, end of period	<u>\$ 890,019</u>	<u>\$ 173,756</u>	<u>\$ 178,239</u>

See accompanying notes to the consolidated financial statements.

Pinnacle Mines Ltd.

NOTES TO THE FINANCIAL STATEMENTS

(unaudited – prepared by management)
September 30, 2004

1. NATURE OF OPERATIONS AND GOING CONCERN

Pinnacle Mines Ltd., formerly Broadlands Resources Ltd., (the Company) is a public Company 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, which are widely held, are traded on the TSX Venture Exchange ("TSXV"). The Company's business is to acquire, explore and develop interests in mining projects. The Company considers itself to be an exploration stage company.

These unaudited interim financial statements have been prepared on the going concern basis, which assumes that the company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company had a deficit of \$124,871 in working capital as at September 30, 2004. 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 financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company is unable to continue operations or does not receive continued financial support from its shareholders.

2. BASIS OF PRESENTATION

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the presentation of interim financial information. These financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent annual financial statements of the company for the year ended December 31, 2003 (the "Annual Financial Statements"). The financial statements follow the same accounting policies and methods of their application as the Annual Financial Statements.

3. MINERAL PROPERTY INTERESTS

Silver Coin Property

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

These properties, which are contiguous, are located 24 kilometres north of Stewart, BC. The Silver Coin property consists of 59 units in 21 claims and the Dauntless property has 30 units in 4 claims all of which are located along the Big Missouri ridge. The Silver Coin property includes the former producing SB property from which approximately 100,000 tons of ore was mined from two zones called the Facecut and "35" Zone and processed in the nearby Premier Mill.

Pinnacle Mines Ltd.

NOTES TO THE FINANCIAL STATEMENTS

(unaudited – prepared by management)
September 30, 2004

3. MINERAL PROPERTY INTERESTS (continued)

Surprise Creek Property

During the summer of 2003 the Company agreed to purchase, on an arm's length basis, a total of 24 modified grid mineral claims located in the Skeena Mining Division of British Columbia, known as the "Surprise Property", in consideration for a total of 606,000 common shares in the capital stock of the Company and a 2% net smelter returns royalty.

El Dorado Property

During the 2003 season, the Company acquired 40 claims units in the Stewart area by staking an area covering several old reverted crown grants in the Bear River pass. Renamed the El Dorado, this property has had very little exploration in the last 30 years and sporadic work efforts since the early 1900s. There has been considerable tunneling on the property but no documented drilling. The *BC Minister of Mines Annual Reports*, over several decades, document numerous gold and silver showings. In 1928, a sample across 1.5 metres, from a cut 27 metres above the Frenchman Tunnel, assayed 27.4 g/t gold, 68.6 g/t silver and 2.3% copper. 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.

Yuen Jia Ping Property

In February 2004, the Company entered into a letter of intent to acquire an 80% working interest in the producing Yuen Jia Ping gold property in Guangnan County, Yunnan Province, PRC. Under the terms of the letter of intent, the Company agreed to make staged payments totaling \$2.25 million Canadian. The Company advanced \$290,000 on February 24, 2004 and agreed to complete a formal agreement within three months. On March 23, 2004 the Company was informed by the owner of the Yuen Jia Ping property that the owner was canceling the letter of intent and would refund all payments made by the Company to date. The Company withholds the right to seek damages and compensation, both within China and abroad, for its costs and losses in respect of this transaction.

Yang Wen Chong

On May 8, 2004, Pinnacle executed a formal Purchase Contract with Yunnan Geology and Mineral Resources Co., Ltd. ("YGM") to acquire a 100% interest in the Yang Wen Chong ("YWC") gold property, located in the highly prospective southeast region of Yunnan Province, PRC.

As consideration for YWC, Pinnacle will pay YGM 27,000,000 RMB (CDN \$4,437,000) as follows: 270,000 RMB on signing the Purchase Contract (paid May 9, 2004); 13,230,000 RMB on the latter of four months from the signing of the Purchase Contract (September 8) or on receipt of regulatory approval; 5,400,000 RMB within twelve months; and 8,100,000 RMB within eighteen months of signing the Purchase Contract. YGM has agreed to transfer title to YWC upon completion of 70% of the required payments. In addition, Pinnacle has agreed to pay YGM 500,000 RMB for every tonne of gold in excess of 11 tonnes, if such resources are established prior to Pinnacle obtaining the property title. Pinnacle has contracted YGM to complete some trenching and pit testing of many of the mineralized zones on the property. In connection with the purchase of YWC, Pinnacle has agreed to pay a finder's fee of up to 700,000 shares.

Pinnacle Mines Ltd.
NOTES TO THE FINANCIAL STATEMENTS
(unaudited – prepared by management)
September 30, 2004

3. MINERAL PROPERTY INTERESTS (continued)

On September 27, 2004 the payment schedule was modified to the following:

September 23, 2004	3,000,000 RMB	(paid September 2004)
November 8, 2004	10,230,000 RMB	

Subsequent to the end of the quarter the November 8th date was further modified to December 30, 2004.

In addition to the payments outlined above, Pinnacle has agreed to pay a further 1,000,000 RMB as consideration for current work being completed by Yunnan Geology on YWC, which has led to the discovery of two new zones of mineralization.

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 tunneling 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.

4. CAPITAL ASSETS

			2004	2003
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	4,797	540	4,257	-
Other equipment	<u>1,572</u>	<u>177</u>	<u>1,395</u>	-
	\$ 6,368	\$ 716	\$ 5,652	\$ -

5. DEPOSIT ON SHARES

The Company has received monies from two shareholders to purchase shares in a private placement that has not been completed by the end of the third quarter. The monies are recorded as a loan until such time as the placement closes.

Pinnacle Mines Ltd.
NOTES TO THE FINANCIAL STATEMENTS
(unaudited – prepared by management)
September 30, 2004

6. SHAREHOLDERS' EQUITY

Capital Stock

	<u>Common Shares</u>	
	<u>Number</u>	<u>Amount</u>
Authorized:		
Unlimited number of common shares without par value		
Issued:		
Balance, December 31, 2002	5,930,177	\$ 10,172,285
Share consolidation	(4,744,143)	
Private placement	1,180,000	188,800
Issued for mineral properties	606,000	96,960
Issued for debt	600,000	96,000
	<u>3,572,034</u>	<u>10,554,045</u>
Balance, December 31, 2003	3,572,034	10,554,045
Private placement, net of share issue costs of \$62,000	1,770,100	646,040
Exercise of warrants	47,347	14,972
Private placement, net of share issue costs of \$39,376	701,680	416,716
Return of escrow shares	(1,402)	-
	<u>6,089,759</u>	<u>\$ 11,631,773</u>
Balance, September 30, 2004	6,089,759	\$ 11,631,773

Share Consolidation

On June 30, 2003, the Company, by way of a special resolution at an extraordinary general meeting of shareholders, approved a share consolidation on a one new share for five old shares basis and a change of the Company's name from Broadlands Resources Ltd. to Pinnacle Mines Ltd.. Subsequent to this resolution the Company had 1,186,034 common shares issued, without par value.

Private Placements

On January 29, 2004 a private placement took place whereby the Company issued 1,650,000 units for consideration of \$660,000. Each unit consisted of one common share and one share purchase warrant. Each two warrants entitle the holder to purchase one common share at a price of \$0.50 per share on or before February 5, 2005. Finders' fees of \$13,960 and 120,100 units were paid.

On September 24, 2004 the Company completed its flow through financing whereby 678,000 units were issued 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. Each two warrants entitle the holder to purchase one non-flow-through share at a price to \$0.75 per share on or before September 23, 2005. Finders' fee of \$23,984 and 23,680 units were paid.

Pinnacle Mines Ltd.
NOTES TO THE FINANCIAL STATEMENTS
(unaudited – prepared by management)
September 30, 2004

6. SHAREHOLDERS' EQUITY (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 Canadian Venture Exchange. Options vest over a two year period.

This plan was revised on June 30, 2003. The maximum number of shares subject to the plan, in the aggregate, may not exceed 10% of the Company's issued shares.

Stock option activity for the respective years is as follows:

	2004	2003
Options outstanding, beginning of year	350,000	-
Granted	130,000	350,000
Cancelled	-	-
Expired	-	-
	<hr/>	<hr/>
Options outstanding, end of year	480,000	350,000

Stock options outstanding and exercisable at September 30, 2004:

<u>Description</u>	<u>Number of Shares</u>	<u>Price Per Share</u>	<u>Expiry Date</u>	<u>Year of Grant</u>	<u>Average Remaining Contractual Life (Years)</u>
Directors' options	350,000	\$ 0.40	November 23, 2008	2003	3.90
Directors' options	90,000	0.70	March 16, 2009	2004	4.21
Employee's option	20,000	0.50	June 23, 2009	2004	4.48
Consultant's option	20,000	0.50	June 23, 2009	2004	4.48
	<hr/>				
	480,000				

During the first two quarters of 2004, the Company recorded \$92,155 of compensation expense. 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:

Risk-free interest rate	5.0%
Dividend yield	0.00%
Expected volatility	150%
Expected option life	4.0 years

Pinnacle Mines Ltd.
NOTES TO THE FINANCIAL STATEMENTS
(unaudited – prepared by management)
September 30, 2004

6. SHAREHOLDERS' EQUITY (continued)

The following pro forma financial information presents the net loss and net loss per common share had the Company recognized stock based compensation expense of \$155,113 in the year ended December 31, 2003 using a fair based accounting method:

Net loss for the year	\$ (90,146)
Stock-based compensation	<u>155,113</u>
Pro forma net loss for the year	<u>\$ (245,259)</u>
Basic loss per share as reported	<u>\$ (0.02)</u>
Pro forma basic loss per share	<u>\$ (0.07)</u>

The pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years.

Warrants

During February 2004 a private placement took place that resulted in 1,770,100 warrants being created and placed. Two of these warrants entitle the owner to purchase one common share without par value for a period of one year from closing of the private placement at a price to \$0.50 per share. These warrants expire February 4, 2005.

On September 23, 2004 a private placement took place that resulted in 701,680 warrants being created and placed. Two of these warrants entitle the owner to purchase one common share without par value for a period of one year from closing of the private placement at a price to \$0.75 per share. These warrants expire September 23, 2005.

Warrant activity for the respective years is as follows:

	2004	2003
Warrants outstanding, beginning of year	1,180,000	-
Granted	2,471,780	1,180,000
Exercised	(64,686)	
Expired	<u>-</u>	<u>-</u>
Warrants outstanding, end of year	<u>3,587,094</u>	<u>1,180,000</u>

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6. SHAREHOLDERS' EQUITY (continued)

Warrants outstanding and exercisable at September 30, 2004:

<u>Description</u>	<u>Number of Shares</u>	<u>Price Per Share</u>	<u>Expiry Date</u>	<u>Year of Grant</u>	<u>Average Remaining Contractual Life (Years)</u>
Warrants	1,150,000	\$ 0.21	September 25, 2005	2003	0.99
Warrants	1,735,414	0.50	February 4, 2005	2004	0.35
Warrants	701,680	0.75	September 25, 2005	2004	0.98
	<u>3,587,094</u>				

Escrow Shares

The Company has no shares remaining in escrow at September 30, 2004.

7. Change in non-cash operating working capital	3 months ended September 30	9 months ended September 30
GST receivable	\$ (4,183)	\$ (8,461)
Receivables	(4,000)	(4,000)
Prepays	(10,000)	(10,000)
Payables and accruals	<u>13,226</u>	<u>28,935</u>
	<u>\$ (4,957)</u>	<u>\$ 6,474</u>

8. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2004, the Company incurred fees of \$57,000 (2003 - \$0) with directors for management consulting services. This amount has been included in management fee expenses on the statement of operations and deficit.

Included in the receivables is a loan of \$4,000 which the Company advanced to Andrew Bowering, a director and shareholder in the Company. This obligation is interest bearing at 5% per annum and has no set terms of repayment.

Included in the accounts payable is an amount of \$27,697.58 CDN (\$20,463.76 US) owed to Steven Chi, a director of the company. Subsequent to the end of the quarter this amount was paid.

The Company shares office space with Doublestar Resources Ltd. and makes a monthly payment to Doublestar of \$6,400 which covers rent and office expenses. Doublestar and Pinnacle have one director in common.

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9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, and accounts payable and accruals. It is management's opinion that the Company is not exposed to significant interest, foreign currency or credit risks arising from these financial instruments. The Company limits its exposure to credit loss by placing its cash and term deposits with high credit quality financial institutions. The fair value of these financial instruments approximates their carrying values.

10. SUBSEQUENT EVENTS

- (a) On October 13, 2004 the Company entered into an option agreement with Tenajon Resources Corp. whereby the Company can earn up to a 60% interest of Tenajon's 100% owned Kansas property by spending \$1.0 million on exploration and development over a 4 year period, making a cash payment of \$50,000 on signing and issuing, and 77,000 common shares of the Company. In addition, the Company has the right to earn an additional 10% in Kansas property by bringing it through a positive feasibility study within 4 years of earning its 60% interest.

The Kansas property is a crown grant claim, 19.5 hectares in size, and is surrounded by the Silver Coin project, where the Company is earning up to a 60% interest from Mountain Boy Minerals Ltd. Pursuant to an option agreement dated July 29, 2004 wherein an area of mutual interest is set out between Pinnacle and Mountain Boy, Mountain Boy will be participating in the option of Kansas and is entitled to a 49% interest therein. If Pinnacle elects to put Kansas or any adjoining property into production, Mountain would be reduced to owning 40% of the Company's interest.

- (b) On November 2, 2004 the Company agreed to place, through private placement, 2,500,000 units at \$0.60 per unit for gross proceeds of \$1,500,000. Each unit will consist of one common share and one-half share purchase warrant, with a whole share purchase warrant entitling the holder to acquire an additional share for a period of two years from the date of the offering at a price of \$0.75 per share in the first year and \$0.85 in the second year. Canaccord Capital Corporation ("Canaccord") will act as the agent in the private placement and receive a cash commission of 8% of the gross proceeds of the offering as well as Agents' Warrants entitling Canaccord to acquire that number of common shares as is equal to 15% of the number of units sold under the offering, the Agents' Warrants having the same terms as the share purchase warrants. Canaccord will also receive a corporate finance fee payable in units.
- (c) 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 share and one-half share purchase warrant, with a whole share purchase warrant entitling the holder to acquire an additional share for a period of two years from the date of the offering at a price of \$0.75 per share in the first year and \$0.85 in the second year.
- (d) Subsequent to the end of the third quarter, the Company was granted an extension from November 8, 2004 to December 31, 2004 on the payment due on Yang Wen Chong.