Management Discussion and Analysis

All amounts are stated in Canadian Dollars unless otherwise noted
THIRD QUARTER ended September 30, 2006.

November 28th, 2006

President's Message to Shareholders

Dear Shareholder:

During the third quarter the Company moved into high gear on its exploration work on the Silver Coin project near Stewart, BC. Three drills were operating during the period of heaviest activity. The drilling continued throughout the quarter and was completed subsequent to the end of the quarter. This year's program included nearly 25,000 meters of drilling in 115 holes, substantial trenching, geological mapping and a new topographic survey. As well, during the quarter, surface exploration and reconnaissance was performed on the Surprise Creek property with one drill pad being established although poor weather meant no drilling was carried out. Subsequent to the end of the quarter a drill program was carried out on the BA claims which lie to the east of Stewart near the Bear Glacier. The Company visited and analyzed a number of projects that came to our attention, including some in China and Mexico. A property joint venture was struck with Almaden Resources of Vancouver on a property in Puebla State in Mexico and as well a Letter of Intent was signed with Chesapeake regarding two properties in Oaxaca State in Mexico. In July the Company finalized a financing in excess of $3 million which had been started in the second quarter.

During the third quarter, the Company's main focus was on working with our joint venture partner, Mountain Boy Minerals to advance the drilling on the Silver Coin property. At the beginning of the quarter drilling was well underway due to an early start and a minimal amount of snow removal. By the end of the 2006 exploration season, which occurred subsequent to the end of the quarter, a total of 24,198.84 meters of drilling had been completed in 115 holes. It is expected that the overall resource on the property will be increased and also that the quality of the resource will be significantly improved because of the 2006 drill program. Some of the inferred resource will be upgraded to an indicated resource. As results are received on the drilling and trenching programs they are entered into a data base and the resource calculated on an ongoing basis by MineFill Services, Inc. The new resource estimate should be completed by the end of the year and a scoping study is underway to give us some idea of the potential viability of the project. Unfortunately assay results have been slow in coming and final calculations on the resource estimate have been held up. Early in the year Pinnacle along with its partner Mountain Boy Minerals established an upgraded field office in Stewart where office duties, core logging, core splitting, core storage and management of all programs take place. The new centralized area increased the efficiencies of the operation significantly. Our Surprise Creek operations are also headquartered from this office.

While the Company planned increased exploration on its Surprise Creek property in 2006 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. 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. This volcanic centre encompasses a stretch of some 20 kilometres of felsic rocks with associated exhalites and VMS type Zn, Pb, Ag mineralization present on both properties. The VMS mineralization seems to be associated with felsic rocks of the Mt. Dilworth Formation and/or Betty Creek Formation. 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. The Company was able to complete 14 holes on the BA property before winter conditions set in. A report is being prepared on the drilling of the BA.

During the last several months the Company has been working to get title transfer on its 25% interest on the Yang Wen Chong property in Yunnan Province. The Company’s 25% interest in the property is recognized by the Chinese however title transfer has been a complex issue involving the Provincial government and other Chinese authorities. Subsequent to the end of the quarter, the Company was informed that the transfer is progressing and that the formal Sino-Joint Venture between the Company and its partner, Yunnan Geology and Mineral Resources Co., Ltd., would be granted approval during the third quarter. The Directors of the Company have decided to not continue with the YWC and have requested Yunnan Geology to return the 7 million RMB, ($1,000,000) paid by the Company towards the purchase.

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

During the quarter the Company completed a private placement financing raising in excess of $3.2 million.

During the quarter, the Company contracted with the investor relations firm, I Tell AG of Baar, Switzerland, to increase awareness of the Company in the European markets. Company personnel attended one trade show in Munich during the month of October.

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

Respectfully submitted,

Andrew Bowering
President and CEO

November 27, 2006

Management's Discussion and Analysis (MD&A) supplements, but does not form part of the unaudited interim financial statements of the Company and the notes thereto for the period ended September 30, 2006. Consequently, the following discussion and analysis of the financial condition and results of operations for Pinnacle Mines Ltd. should be read in conjunction with the unaudited interim financial statements for the period ended September 30, 2006 and related notes therein, which have been prepared in accordance with Canadian Generally Accepted Accounting Principals.

This discussion and analysis should also be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2005, and the notes thereto. The audited financial statements for the year ended December 31, 2005 including the notes thereto, and other information issued by the Company, can be found on SEDAR at www.sedar.com.

Forward-Looking Statements

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

Corporate Governance

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

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

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

In January 2004, the Canadian Securities Administrators (CSA) released a draft of a proposed policy establishing 'best practices' for the boards of directors for public companies, covering: composition of the boards of directors; adoption of a board mandate; development of position descriptions for directors and chief executive officers; adoption of a written code of business conduct and ethics; orientation and continuing education for directors; board nominations; requiring appointment of a compensation committee composed entirely of independent directors; and the implementation of regular board assessments. While every reporting issuer is encouraged, but not yet required to adopt these practices, they are under active review by the Directors and such corporate governance practices, where appropriate, are considered to be essential to the effective operation of the company. The disclosure of Pinnacle Mines' corporate governance policies is contained in the Company's Information Circular prepared for the 2006 Annual General Meeting, which is available for review at www.sedar.com.

General Corporate Review

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

Corporate activities during the third quarter 2006 were focused on continuing the 2006 exploration program at the Silver Coin project, preparing for and starting the 2006 exploration activities at its Surprise Creek and BA properties near Stewart, BC and continuing the investigation of the gold properties in China.

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. During and subsequent to the quarter the Company investigated a number of properties in Canada and Mexico. In July 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 Company is looking to acquire a property or properties that can be explored year round. The exploration program for the Tuligtic is expected to start early in 2007. 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. Subsequent to the quarter end Company personnel contacted Yunnan Geology, owners of the Yang Wen Chong property, and gave formal notice that Pinnacle did not wish to continue with the Yang Wen Chong and asked to have its investment money returned. Yunnan Geology has acknowledged that it has received the notice and will pay the money back.

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.

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 100% interest in the Yang Wen Chong ('YWC") gold property located in the highly prospective southeast region of Yunnan Province, PRC, as initially announced on April 21, 2004.

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

However, in late 2004, Pinnacle began renegotiating its relationship with YGM and subsequent to the end of the fourth quarter, reached an agreement with YGM to form a Sino-Foreign Joint Venture to further explore and develop YWC (the "Joint Venture"). Under the terms of a Letter of Agreement dated January 26, 2005, Pinnacle agreed to pay YGM a further 3,730,000 RMB (CDN$568,599) on or before January 31, 2005 (paid) (the "January 2005 Payment") as consideration for a 25% interest in the Joint Venture.

Subsequent to the end of the second quarter 2005, Pinnacle finalized the formal Joint Venture agreement with YWC. The Company is working to have its 25% title transferred from Yunnan Geology to itself.

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 would appear that the process could take as little as a month and a half to complete but probably longer.

Subsequent to the end of the quarter 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. However the Board believes that it is in the best interests of the Company to look for more advanced projects in China that are closer to production or in production and to relinquish the YWC property which is still very much in the exploration stage. 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.

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 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 reconnaisaance 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.

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, Pinnacle has the right to earn an additional 9% in the projects by bringing one of the projects to production. All claims are contiguous and are located 24 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. By the end of the 2005 exploration season, the Company had drilled approximately 8,000 meters in 50 holes, some of which were not completed due to poor ground conditions.

The 2005 Program at Silver Coin

Initially, 3,500 meters of drilling, as well as several kilometers of trenching and over 1,000 soil samples were planned for the 2005 exploration season. However part way through the summer the Company completed a private placement of $1,950,000. As a result of the new funding the drilling program was expanded and approximately 8,000 meters of drilling were completed. Mr. Alex Walus, P. Geol., Pinnacle's senior geologist, supervised the exploration program on behalf of the Company. Pinnacle was still in an earn-in mode in 2005 and Mountain Boy Minerals was in charge of the exploration program. Mr. Ed Kruchkowski, of Mountain Boy, was the project manager. The 2005 drilling was designed to extend and better define the known mineralization in an area that contains the Perseverance zone, the Snowball zone, the Kansas and Kansas West zones and the 35 zone. Enough drilling was completed in 2005 to start constructing a mineral resource estimate according to 43-101 standards.

All of the drill results can be found in the 2005 year end report and on the Company's website. During the last quarter of 2005 and first quarter of 2006 all of the drilling data (including verifiable assays), trenching information, geological mapping that was available from all exploration programs on the property from 1988 onwards were given to Minefill Services, Inc. to complete an estimate of resources 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.

By the end of 2005 the Company had spent enough to earn its 51% interest from Mountain Boy Minerals.

The 2006 Program at Silver Coin

The 2006 exploration drill program started in May and is 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 2005 43-101 report has been filed with SEDAR and is also on our website. 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. The drilling was terminated at the end of October and involved some 115 holes. A significant amount of surface trenching was also completed. All of the holes were drilled on the Kansas, Big Missouri and Indi claims. The drilling is 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. Assay results were at least five weeks behind during the length of the program and as of this date there are still assay results pending which seems to be the norm for the industry this year. As the assay results are received from the assay lab they are tabulated and sent to MineFill Services Inc. to be incorporated into the new 2006 resource calculation. It is expected that the new resource calculation will be completed by the end of the year. The Company will also begin a scoping study on the project by year end to give us some idea on the economics of the project.

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. Before the year end a metallurgical test program will be undertaken. A program of environmental base line studies is planned for 2007.

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.

The approximately 11,000 hectare Tuligtic project covers an area of intensely altered rocks over an area 5 by 5 kilometers in size. 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.

The epithermal gold-silver target area, which is exposed roughly one kilometer to the south of the outcropping intrusive is also characterized by extensively clay altered and silicified volcanic rocks. The alteration is indicative of the upper parts of an epithermal system and includes replacement silicification and sinter, the precipitate or sediment that was deposited from a hot spring. Quartz-calcite veins with textural evidence of boiling have been identified outcropping in limestone roughly 100 meters beneath the exposed sinter. Initial sampling of these veins and from float boulders of breccia containing quartz vein fragments have returned anomalous values in gold and silver as high as 600 g/t Ag and 6.1 g/t Au. The sinter and the overlying altered volcanic rocks are highly anomalous in Hg, As and Sb.

Subsequent to the third quarter, the Company established a Mexican operating subsidiary. Company geologists will visit the site and 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.

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.

Subject to regulatory approval and a formal joint venture agreement with Chesapeake, Pinnacle can earn 51% of 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.

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	Sep - 06	Jun - 06	Mar-06	Dec-05	Sep-05	Jun-05	Mar-05	Dec-04
Total Revenues	$ -	$ -	$ -	$ -	$ -	$ -		$ -
Loss before extraordinary items	$494,838	$300,271	$241,331	522,325	266,068	417,154	200,814	219,867
Loss	$471,406	$304,882	$242,119	522,325	260,101	414,594	40,062	233,344
Loss per share	$0.02	$0.02	$0.01	$0.04	$0.02	$0.04	$0.00	$0.04

The Company's operations during the three month period ended September 30, 2006 produced a net loss of $471,406 or $0.02 per share compared to a net loss of $260,101 or $0.02 per share for the same period in 2005. As the Company does not own any revenue-producing resource properties, no mining revenues have been recorded to date. The increase in net loss over the same period last year is due to the increased exploration activity 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, professional fees and shareholder services. Salaries and benefits were lower. Office fees associated with running the Vancouver operation stayed about the same.

During the quarter ended September 30, 2006, the Company had significantly increased exploration expenditures. The increase in exploration costs was associated with the major 2006 drill program being well underway. This year costs are being shared by all partners whereas for part of last year Pinnacle was still earning its interest in the Silver Coin project. Shareholder service costs increased slightly in the period ended September 30, 2006 to $27,396 from $14,416 in 2005. The small change was primarily due to increased amounts of work being performed in 2006. Shareholder service costs include such things as regulatory fees, and shareholder costs associated with the Transfer Agent. Management fees /service costs in 2006 of $65,000 decreased over the previous year at $74,000. This all reflects on an exploration and development company that was very active in the third quarter and is now looking at projects in Canada, Mexico and China. Travel costs were about the same as last year. This reflects an active period in 2006 including travel to China, and Mexico to investigate properties being offered to the Company. Investor relations costs were up considerably to $79,371 in 2006 from $39,245 in 2005. This represents a more active investor relations campaign this year in terms of mail-outs, shows and promotional materials. In addition the IR department was reorganized and a new individual was hired.

Liquidity and Capital Resources

The Company had a working capital surplus at September, 30 2006 of $2,562,529 compared to $2,536,054 at September 30, 2005. Although there was virtually no change in the working capital surplus from 2005 the Company did complete a funding of $3,224,624 involving a private placement and a partial brokered financing completed in July 2006. At December 31 of 2005 the Company had a working capital surplus of $1,736,492. As of September 30, 2006 the Company had 19,608,596 common shares issued (fully diluted 26,062,942 shares) compared to 15,781,884 common shares (fully diluted 20,344,734 shares) as of September 30, 2005. As of the time of writing of this report there are 19,989,647 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:

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.

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 September 30, 2006 is sufficient to complete the 2006 drill program at the Silver Coin, to start the exploration of the Surprise Creek and the BA claims, to drill the FR, to start the exploration programs in Mexico and to carry out corporate administrative details for the next 3 months. To cover the cost of other work at Silver Coin in 2007, the exploration at Surprise Creek and the BA in 2007, any future exploration or property acquisitions in China, the acquisition of new projects in other places, exploration into 2007 in Mexico and have enough money for administrative costs for the next 12 months the Company will need to raise a minimum of $3 to $4 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 September 30, 2006, the Company incurred fees of $65,000 (2005 - $74,000) 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.

Financial Data for Last Three Fiscal Years

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

Risk Factors

Mineral exploration and operations in the mining industry face a variety of risks. There is no certainty that money invested in mineral exploration will result in a profitable mining operation. Many risks, such as interest rate fluctuations, metal price changes and monetary exchange rates are beyond the control of any one company. Management tries to reduce the impact of these and other risks as much as possible. Property titles may be affected by prior agreements and other undetectable defects.

Metal Prices

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

Industry

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

Political Risk

The Company is actively pursuing properties in Canada, China and Mexico. In China, the Company has to deal with government policies that can change quickly with no prior warning. The country is improving its investment climate but it still remains difficult to transfer funds. Legal problems can be a concern as there is generally limited recourse to the foreign companies that may have problems that need legal remedies. The Company may consider exploration of projects in other parts of the world and will evaluate the political risk as required. The Company does not maintain political risk insurance for its foreign exploration projects. 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. Pinnacle now has five active projects, three in central British Columbia, one in Mexico and another in Yunnan Province, China. Another two projects are in the planning stage for Mexico.

This year's exploration program in central BC on the Silver Coin property got underway in May. In 2005 a total of 50 holes were drilled for a total of just less than 8,000 meters on the Silver Coin property before winter conditions stopped the work. In 2006 there were almost 25,000 meters of drilling completed in 115 holes. Trenching, mapping and sampling of the property increased in 2006 compared to 2005. Since all drilling and trenching is now complete in 2006 all the data will be sent to MineFill Services and a new resource calculation will be completed. As well a scoping study will be completed on the Silver Coin by the early part of 2007. The exploration programs for 2007 in the Stewart area have not been planned yet and will depend on the final results of the 2006 program.

In Mexico Company personnel will start its exploration program early in 2007 so as to avoid the summer heat. The initial program of mapping and sampling is needed to better define targets for a drill program.

Pinnacle continues to look at and investigate other projects that are brought to its attention. In China a number of exploration properties have been brought to the Company's attention as well as a production situation. The Company will investigate all worthwhile properties. As well, the Company plans to expand into other areas in Mexico.