# PACIFIC IMPERIAL MINES INC.

Consolidated Balance Sheets
(Unaudited - Prepared by management)
**(Expressed in Canadian Dollars)**

| | September 30 2004 | June 30 2004 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ 1,605,747 | $ 126,073 |
| Advances and sundry receivables | 42,802 | 12,027 |
| **Total current assets** | 1,648,549 | 138,100 |
| **Mineral interests** (Note 5) | - | - |
| **Equipment** (Note 6) | 94,828 | 99,308 |
| **Total assets** | $ 1,743,377 | $ 237,408 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 102,100 | $ 70,583 |
| Due to related parties (Note 7) | 384,265 | 663,000 |
| **Total current liabilities** | 486,365 | 733,583 |
| **Due to a related party** (Note 7) | - | 375,000 |
| **Total liabilities** | 486,365 | 1,108,583 |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | |
| **Share capital** | | |
| Authorized: unlimited common shares with no par value | | |
| Issued and outstanding: 31,546,728 shares (Note 8) | 1,920,689 | 312,500 |
| **Contributed surplus** | 1,764,050 | 495,600 |
| **Deficit** | (2,427,727) | (1,679,275) |
| **Total shareholders' equity (deficiency)** | 1,257,012 | (871,175) |
| **Total liabilities and shareholders' equity** | $ 1,743,377 | $ 237,408 |

**Approved by the Directors:** *"Geir Liland"* Geir Liland     *"Leo King"* Leo King

# PACIFIC IMPERIAL MINES INC.

Consolidated Statement of Operations and Deficit
(Unaudited - Prepared by management)
**(Expressed in Canadian Dollars)**

| | | Three Months Ended September 30 2004 |
|---|---|---|
| **Exploration costs** (Note 5e) | $ | 31,322 |
| **General and Administrative Expenses** | | |
| Accounting and audit | | 130 |
| Amortization of equipment | | 5,538 |
| Foreign exchange loss | | 16,494 |
| Interest expenses | | 172 |
| Legal | | 14,884 |
| Listing and filing fees | | 333 |
| Management fees | | 1,500 |
| Office and miscellaneous | | 40,569 |
| Promotion and government relations | | 4,751 |
| Salaries and benefits | | 17,389 |
| Shareholder communication | | 326 |
| Stock based compensation | | 567,969 |
| Transfer agent fees | | 76 |
| Travel and transportation | | 47,010 |
| Interest income | | (11) |
| | | 717,130 |
| **Loss for the period** | | (748,452) |
| **Deficit,** beginning of period | | (1,679,275) |
| **Deficit,** end of period | $ | (2,427,727) |
| **Loss per share** | $ | (0.07) |
| **Weighted average number of common shares outstanding** - basic and diluted | | 10,422,815 |

# PACIFIC IMPERIAL MINES INC.

Consolidated Statement of Cash Flows
(Unaudited - Prepared by management)
**(Expressed in Canadian Dollars)**

| | Three Months Ended September 30 2004 |
|---|---|
| **Cash flows from (used in) operating activities** | |
| Loss for the period | $ (748,452) |
| Adjustment for items not involving cash: | |
| - amortization of equipment | 5,538 |
| - stock based compensation | 567,969 |
| Change in non-cash working capital items (net of effect of acquisition of subsidiary): | |
| - sundry receivable | (13,022) |
| - accounts payable and accrued liabilities | (136,193) |
| **Net cash used in operating activities** | (324,160) |
| **Cash flows from (used in) financing activities** | |
| Repayment of bank loan | (90,000) |
| Advances from related parties | 39,109 |
| Shares issued for cash, net of issuance costs | 1,788,545 |
| **Net cash provided by financing activities** | 1,737,654 |
| **Cash flows from investing activities** | |
| Cash acquired from acquisition of subsidiary (Note 4) | 66,180 |
| **Net cash provided by investing activities** | 66,180 |
| **Increase in cash and cash equivalents** | 1,479,674 |
| **Cash and cash equivalents,** beginning of period | 126,073 |
| **Cash and cash equivalents,** end of period | $ 1,605,747 |

# PACIFIC IMPERIAL MINES INC.



## 1. Basis of Presentation

These interim financial statements have been prepared using the same accounting policies and methods of their application as the most recent annual financial statements of the Company. These interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended June 30, 2004. Interim results are not necessary indicative of the results expected for the fiscal year.

Comparative statements of operations and cash flows for the corresponding period ended September 30, 2003 are not available as GoldChina (see note 2 and note 4) was a private company.

## 2. Nature of Operations

On September 20, 2004, the Company completed the acquisition of all of the issued and outstanding shares of GoldChina Holdings Group Limited ("GoldChina") by issuing 15,700,000 common shares of the Company. This business combination has been accounted for as a reverse takeover with GoldChina as the accounting parent (see Note 4).

GoldChina through its wholly-owned subsidiary, Guangnan Tangshang Gold Co., Ltd. ("GGC"), holds the exploration rights to explore two exploration properties, known as Tangshang and Salachong properties, located in Yunnan province, China. It also holds a right of first refusal to acquire the exclusive exploration rights in respect of 17 additional properties in Yunnan province, China.

## 3. Significant Accounting Policies

### (a) Mineral Interests

The Company follows the method of accounting for its mineral interest whereby all costs related to acquisition, exploration and development are expensed when incurred until such time as reserves are proven.

### (b) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries GoldChina and GGC. All significant inter-company balances and transactions have been eliminated.

### (c) Foreign Currency Translation

The functional currency of GoldChina is the Chinese Renminbi Yuan (RMB) and its accounts are considered to be integrated foreign operations, and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the period end exchange rates. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenues and expenses are translated at average rates for the period and exchange gains and losses on translation are included in income.

**(Expressed in Canadian Dollars)**

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at transaction dates.

## 4. Acquisition of GoldChina Holdings Group Limited ("GoldChina")

On September 20, 2004, the Company completed the acquisition of Goldchina by issuing 15,700,000 common shares in exchange for all of the issued and outstanding shares of GoldChina.

This transaction resulted in the former shareholders of GoldChina owning the majority of the issued and outstanding shares of the combined entity. Accounting principles applicable to reverse take-over have been applied to record this acquisition. Under this basis of accounting, GoldChina has been identified as the acquirer and, accordingly, the combined entity is considered to be a continuation of GoldChina with the net liabilities of $180,356 of the Company deemed to have been assumed by GoldChina.

The net liabilities assumed are summarized as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 14,726 |
| Receivable and advances | | 53,078 |
| Equipment | | 1,058 |
| Bank loan | | (90,000) |
| Accounts payable and accrued liabilities | | (159,218) |
| | $ | (180,356) |

The operating results of the Company for the period July 1, 2004 to September 20, 2004 (date of reverse take-over) are summarized as follows:

| | | |
|---|---|---|
| Accounting and audit | $ | 260 |
| Amortization | | 74 |
| Consulting | | 1,375 |
| Interest expenses | | 633 |
| Legal | | 29,769 |
| Listing and filing fees | | 18,146 |
| Management fees | | 12,793 |
| Office and miscellaneous | | 950 |
| Shareholder communication | | 653 |
| Transfer agent fees | | 4,479 |
| Travel and promotion | | 15,814 |
| Interest income | | (43) |
| Net loss for the period | $ | 84,903 |

**5. Mineral Interests**

(a) During the period ended September 30, 2004, the Company has entered into a Cooperative Agreement (the “Agreement”) with Kobex Resources Ltd. (“Kobex”), a company controlled by a director of the Company. Pursuant to the Agreement, Kobex is granted a right of first refusal to acquire a 60% undivided interest in one resource property available to the Company (the “Property”), excluding the Tangshang and Salachong properties. In order to acquire the interest, Kobex is required to fund US$3,000,000 of exploration and development expenditures on the property within three years from the date that Kobex identifies a property to pursue an interest in, but no later than three years from the date of the Agreement. If this requirement is not met, Kobex’s rights under this Agreement will be terminated.

For the property selected, Kobex will also be required to issue to the Company up to an aggregate of 1,000,000 shares from its treasury on a staged basis as follows:

(i) 200,000 shares upon receipt of title to the property;

(ii) 200,000 shares upon expenditures by Kobex of US$1,000,000 on the property;

(iii) 200,000 shares upon expenditures by Kobex of a cumulative amount of US$3,000,000 on the property;

(iv) 400,000 shares upon a production decision being made by the parties in respect of the property.

(b) The Company was granted two (2) mineral exploration licenses, called “Tangshang Gold” and “Salachong Gold”, by the Government of China. These two properties are located in Guangnan County, Yunnan province, China. The exploration licenses are valid until September 30, 2004 for Salachong Gold Property and November 7, 2004 for Tangshang Gold Property. The licenses are renewable on an annual basis.

The Company has agreed that if the minimum mineable gold reserve is six tons or higher, the Company would pay $2,296,875 (RMB 14,700,000) to its two former shareholders, as follow:

(i) $1,312,500 (RMB 8,400,000) is due on:

- the completion of all of the exploration work on the Tangshang and Salachong properties; and
- the confirmation of the exploration results and resource reserves by the Reserve Evaluation Centre of the State Ministry of Land & Resources or Provincial Department of Land and Resources (the “Reserve Confirmation”).

(ii) $984,375 (RMB 6,300,000) is due and payable 360 business days following payment of the amount due on Reserve Confirmation.

**(Expressed in Canadian Dollars)**

In the event that the aforementioned payments become due prior to December 31, 2005 and the Company has insufficient funds, certain shareholders of the Company will pay on behalf of the Company and the Company shall reimburse such payments to them on the earlier of December 31, 2005 or the date that the Company has sufficient funds.

(c) On October 22, 2003, the Company through GGC entered into a Preferable Co-operation Agreement with Yunnan Non-Ferrous Metals Geological Bureau, a Chinese Government Agency. Pursuant to the agreement, the Company was granted, for two years, the first right of refusal to acquire the exploration rights in respect of eight (8) natural resource properties (Shededi Gold, Xiaoguanzhai Gold, Liangshan Gold, Gaoliang Gold, Bawai Gold, Shangzhemeng Gold, Dongmujin Gold and Shangliantang Gold). All these properties are located in Yunnan province, China.

(d) On February 11, 2004, the Company through GGC entered into a second Preferable Cooperation Agreement with Yunnan Non-Ferrous Metals Geological Bureau. Pursuant to the agreement, the Company was granted, for two years, the first right of refusal to acquire the exploration rights in respect of the following nine (9) additional resources properties:

- Jinduo Gold;
- Liuchaichong Gold;
- Wujiazhai Gold & Silver;
- Shihaduo Gold;
- Yanjia Gold & Copper;
- Manlonggou Gold;
- Epu Gold;
- Liaobei Gold; and
- Xiazhai Gold.

All these properties are located in the Yunnan province, China.

(e) Exploration costs incurred are as follows:

| | Cumulative exploration costs at September 30 2004 | Three Months Ended September 30 2004 |
|---|---|---|
| Governmental fees | $ 546,875 | $ - |
| Sub-contract geological exploration | 687,500 | - |
| Land lease | 161,059 | - |
| Professional fees | 54,063 | 31,425 |
| Surface facilities and supplies | 81,775 | (103) |
| Valuation and geological report | 77,516 | - |
| Sundry | 84,803 | - |
| Recovery – sundry gold sale | (415,689) | - |
| Total exploration costs for the period | $1,277,902 | $ 31,322 |

**(Expressed in Canadian Dollars)**

## 6. Equipment

| | September 30, 2004 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Mining equipment | $ 92,193 | $ 18,812 | $ 73,381 |
| Motor vehicles | 20,951 | 7,124 | 13,827 |
| Office equipment and furniture | 9,348 | 1,728 | 7,620 |
| Total | $122,492 | $27,664 | $94,828 |

| | June 30, 2004 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Mining equipment | $ 92,193 | $ 14,672 | $ 77,521 |
| Motor vehicles | 20,951 | 6,097 | 14,854 |
| Office equipment and furniture | 7,435 | 502 | 6,933 |
| Total | $120,579 | $21,271 | $99,308 |

**(Expressed in Canadian Dollars)**

## 7. Related Party Transactions

The following are related party transactions which are not disclosed elsewhere in the consolidated financial statements:

(a) Amounts due to related parties are unsecured and non-interest bearing.

| | September 30 2004 | June 30 2004 |
|---|---|---|
| Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina (see note 7d) | $ 152,700 | $ 234,375 |
| Yunnan Golden Industrial Investment Co., Ltd. - a former shareholder of GoldChina (see note 7d) | - | 78,125 |
| Beijing United Capital Investment Co., Ltd. – a corporation controlled by two directors of the Company (see note 7d) | 222,972 | 350,500 |
| Due to shareholder of the Company | 8,593 | - |
| Subtotal – due on demand | 384,265 | 663,000 |
| A corporation related to a former corporate shareholder (of GoldChina) under common control (see note 7b) | - | 375,000 |
| Total | $ 384,265 | $ 1,038,000 |

(b) In 2003, the Company signed a geological operation agreement ("Agreement") with a corporation related to a corporate shareholder under common control. Pursuant to the Agreement, the Company agreed to pay a total of $723,438 (RMB 4,630,000), subsequently amended to $687,500 (RMB 4,400,000) for certain geological exploration services. As at June 30, 2004, $375,000 (RMB 2,400,000) remained unpaid. During the three-months ended September 30, 2004 RMB 2,400,000 was forgiven by this corporation and the amount was credited to contributed surplus (Note 9).

(c) During the three-months ended September 30, 2004, the Company incurred consulting fees of $18,949 (RMB 120,000) to a corporation controlled by two directors of the Company and incurred management fees of $1,500 to a director of the Company and to a corporation controlled by a director of the Company.

(d) During the three-months ended September 30, 2004, debts of $318,400 (RMB 2,000,000) owed by the Company were forgiven by the two former corporate shareholders (of GoldChina and a corporation related to a former corporate shareholder of GoldChina under common control. These amounts were credited to contributed surplus (Note 9).

**(Expressed in Canadian Dollars)**

## 8. Share Capital

(a) Authorized: unlimited common shares with no par value

(b) Issued:

| | Shares | Amount |
|---|---|---|
| Shares issued and outstanding immediately before reverse acquisition | 7,846,728 | $ 312,500 |
| Shares issued to effect the acquisition of GoldChina and recapitalization | 15,700,000 | (180,356) |
| Shares issued pursuant to private placement, net of issuance costs | 8,000,000 | 1,788,545 |
| Shares issued and outstanding as at September 30, 2004 | 31,546,728 | $1,920,689 |

During the three-months ended September 30, 2004, the Company completed two private placements of 8,000,000 units in total; 6,000,000 units brokered and 2,000,000 units non-brokered, at a price of $0.25 per unit for aggregate gross proceeds of $2,000,000. Each unit consists of one common share and one purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at $0.45 per share for a period of two years, subject to an accelerated expiry clause.

Pursuant to the brokered placement, the Company paid the agent cash commission and corporate finance fee totaling $211,455, and issued 560,000 Broker Warrants. The Broker Warrants entitles the holder to acquire one common share of the Company at $0.25 per share for a period of two years. There were no commissions or fees paid for the non-brokered private placement.

**(Expressed in Canadian Dollars)**

(c) Warrants

As at September 30, 2004, the following warrants were outstanding. Each warrant entitles the holder to acquire one common share of the Company.

| Exercise Price | Number of Shares | Weighted Average Remaining Contractual Life (Years) |
|---|---|---|
| $0.25 | 560,000 | 2.0 |
| $0.45 | 8,000,000 | 2.0 |
| | 8,560,000 | 2.0 |

Of the total warrants outstanding at September 30, 2004, 560,000 were Broker warrants.

(d) Stock Options

During the period ended September 30, 2004, the Company adopted a stock option plan whereby the Company can grant stock options to directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding share capital of the Company from time to time.

On September 20, 2004, pursuant to the stock option plan adopted, the Company granted to its directors and officers incentive stock options to purchase an aggregate of 1,860,000 common shares of the Company exercisable at the price of $0.25 per share for a period of five years from date of grant. The options are vested immediately.

A summary of the status of options granted under the Company's stock option plans is presented below. No options have been exercised during the period.

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at June 30, 2004 | - | $ - |
| Granted | 1,860,000 | 0.25 |
| Options outstanding and exercisable at September 30, 2004 | 1,860,000 | $ 0.25 |

The weighted average life of the options outstanding and exercisable is 4.97 years.

**(Expressed in Canadian Dollars)**

## 8. **Share Capital** (continued)

(d) Stock Options (continued)

A summary of the weighted average fair value of stock options granted during the period ended September 30, 2004 is as follows:

| | Weighted Average Exercise Price | Weighted Average Fair Value |
|---|---|---|
| Exercise price less than market price at grant date: | $ 0.25 | $ 0.31 |

The Company charged $567,969 stock based compensation by applying fair value based method of accounting for the stock options granted during the period ended September 31, 2004. The fair value of all options granted has been estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

| | 2004 |
|---|---|
| Risk-free interest rate | 3.93% |
| Dividend yield | 0% |
| Volatility | 123.18% |
| Average expected lives | 5 years |

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

## 9. **Non-Cash Transactions**

During the three-months ended September 30, 2004, debts of $700,481 (RMB 4,400,000) owed by the Company were forgiven by the two former corporate shareholders, a corporation related to a former corporate shareholder under common control, and a corporation controlled by two directors of the Company (Notes 7b &7d).