PACIFIC IMPERIAL MINES INC.

Consolidated Financial Statements

June 30, 2005 and 2004

Index

ERNST & YOUNG

AUDITORS' REPORT

To the Shareholders of
Pacific Imperial Mines Inc.

We have audited the balance sheet of **Pacific Imperial Mines Inc.** as at June 30, 2005 and the statement of loss and deficit and cash flows for the year ended June 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2005 and the results of its operations and its cash flows for the year ended June 30, 2005, in accordance with Canadian generally accepted accounting principles.

The financial statements as at June 30, 2004 and for the six-months ended June 30, 2004 and twelve-months ended December 31, 2003 were audited by other auditors who expressed an opinion without reservation on those statements in their reports dated October 27, 2004 and May 17, 2004 respectively.

Ernst & Young LLP

Vancouver, Canada
October 7, 2005

Chartered Accountants

PACIFIC IMPERIAL MINES INC.

(An exploration stage enterprise)
Consolidated Balance Sheets
(Expressed in Canadian Dollars)

(See Note 2 - Basis of Presentation	June 30 2005	June 30 2004
ASSETS		
Current assets		
Cash and cash equivalent (Note 3(c))	$ 1,067,931	$ 126,073
Advances and sundry receivables	30,615	12,027
Total current assets	1,098,546	138,100
Mineral interests (Note 5)	-	-
Equipment (Note 6)	80,543	99,308
Total assets	$ 1,179,089	$ 237,408
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	$ 87,749	$ 70,583
Due to related parties (Note 7)	271,145	663,000
Total current liabilities	358,894	733,583
Due to a related party (Note 7)	-	375,000
Total liabilities	358,894	1,108,583
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital		
Authorized: unlimited common shares		
with no par value (Note 8)	1,960,385	312,500
Contributed surplus (Note 8(c))	1,904,710	495,600
Deficit	(3,044,900)	(1,679,275)
Total shareholders' equity (deficiency)	820,195	(871,175)
Total liabilities and shareholders' equity	$ 1,179,089	$ 237,408

Subsequent events (Note 13)

See accompanying notes

On behalf of the Board:

"Michael Liu"	*"Leo King"*
Michael Liu	Leo King
Director	Director

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PACIFIC IMPERIAL MINES INC.

(An exploration stage enterprise)
Consolidated Statements of Operations and Deficit
(Expressed in Canadian Dollars)

	Year Ended June 30 2005	Six Months Ended June 30 2004	Twelve Months Ended December 31 2003
Exploration costs (Note 5(e))	$ 106,276	$ 708,544	$ 329,483
Expenses (Note 7)			
Accounting and audit	44,980	-	-
Amortization	22,298	10,530	1,011
Consulting fees	40,208	-	-
Foreign exchange loss	23,169	-	-
General exploration	2,768	-	39,108
Interest expenses	202	-	-
Legal	39,497	-	-
Listing and filing fees	996	-	-
Management fees	112,920	-	-
Office and miscellaneous	59,779	127,636	37,384
Promotion and government relations	23,330	8,449	34,275
Salaries and benefits	57,378	36,462	33,571
Stock based compensation	567,969	-	-
Transfer agent fees	10,935	-	-
Travel and transportation	74,654	51,803	28,257
Interest income	(2,090)	-	-
	1,078,993	234,880	173,606
Loss for the period	(1,185,269)	(943,424)	(503,089)
Net liability acquired (Note 4)	(180,356)	-	-
Adjusted for change in accounting policy for exploration costs	-	-	(208,553)
Deficit, beginning of period	(1,679,275)	(735,851)	(24,209)
Deficit, end of period	$ (3,044,900)	$ (1,679,275)	$ (735,851)
Loss per share - basic and fully diluted	$ (0.05)	$ (0.06)	$ (0.03)
Weighted average number of shares outstanding	26,222,345	15,700,000	15,700,000

See accompanying notes

PACIFIC IMPERIAL MINES INC.

(An exploration stage enterprise)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended June 30 2005	Six Months Ended June 30 2004	Twelve Months Ended December 31 2003
Cash flows from (used in) operating activities			
Loss for the period	$ (1,185,269)	$ (943,424)	$ (503,089)
Adjustment for items not involving cash:			
- amortization of equipment	22,298	10,530	10,742
- stock based compensation	567,969	-	-
Change in non-cash working capital items:			
- sundry receivable	34,490	(2,043)	4,585
- accounts payable and accrued liabilities	(142,052)	16,854	30,893
Net cash provided by (used in) operating activities	(702,564)	(918,083)	(456,869)
Cash flows from (used in) financing activities			
Repayment of bank loan	(90,000)	-	-
Shares issued for cash, net of share issuance costs paid in cash	1,788,545	-	312,500
Advances from (to) related parties	(66,374)	846,232	409,731
Net cash provided by financing activities	1,632,171	846,232	722,231
Cash flows from (used in) investing activities			
Purchases of equipment	(2,475)	(5,077)	(77,771)
Cash acquired from reverse takeover	14,726	-	-
Net cash provided by (used in) investing activities	12,251	(5,077)	(77,771)
Increase (decrease) in cash and cash equivalents	941,858	(76,928)	187,591
Cash and cash equivalents, beginning of period	126,073	203,001	15,410
Cash and cash equivalents, end of period	$ 1,067,931	$ 126,073	$ 203,001
Supplemental disclosure of cash flow information:			
Interest paid in cash	$ 202	$ -	$ -
Income tax paid in cash	$ -	$ -	$ -

See accompanying notes

1. Nature of Operation

These consolidated financial statements include the accounts of Pacific Imperial Mines Inc. ("PPM"). GoldChina Holdings Group Limited ("GoldChina") and its wholly owned subsidiary Guangnan Tangshang Gold Co., Ltd. ("GGC") (collectively called the "Company"). PPM was incorporated under the British Columbia Company Act on September 18, 1987 and is now governed by the British Columbia Business Corporation Act. GoldChina was incorporated on December 24, 2003 under the International Business Companies Act of the Territory of the British Virgin Islands. GGC was incorporated under the laws of China on December 28, 2002 and became a wholly owned foreign enterprise on January 19, 2004. On September 20, 2004, the Company completed the acquisition of all of the issued and outstanding shares of 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. The combined entity is considered to be a continuation of GoldChina. The transaction is described in more detail in note 4.

The Company is engaged in the acquisition, exploration and development of mineral properties in China.

2. Basis of Presentation

These consolidated financial statements have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future.

The Company has experienced losses since its inception amounting to $3,044,900 as of June 30, 2005. As of June 30, 2005, the Company had a total of $1,067,931 in cash and cash equivalents, however this amount may be insufficient to sustain operations over the course of the next twelve months. These factors raise substantial doubt about the company's ability to continue as a going concern. The ability of the Company to meet its commitments as they become payable, including the completion of acquisitions, exploration and development of mineral properties and projects, is dependent on the ability of the Company to obtain necessary financing or achieving a profitable level of operations. There are no assurances that the Company will be successful in achieving these goals.

The Company is in the process of exploring and evaluating its mineral properties and projects and has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the mineral properties is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production or sufficient proceeds from the disposition thereof.

These financial statements do not give effect to adjustments to the amounts and classifications to assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

3. Summary of Significant Accounting Policies

(a) Basis of Consolidation

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

(b) 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

(c) Cash Equivalents

Cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturity of three months or less when purchased. As of June 30, 2005, the Company has invested $448,862 in cash equivalents (2004 - $Nil).

(d) Equipment

The capital assets are amortized at the following rates per annum:

Canada –	Declining balance method Computer equipment – 30% Furniture and fixture – 20%
China –	Straight-line method Mining equipment - 5 to 8 years Motor vehicles – 5 years Office equipment and furniture – 5 to 8 years

3. Summary of Significant Accounting Policies (continued)

(e) Environmental Protection and Asset Retirement Obligations

The operations of the Company have been, and may be in the future affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company may vary from region to region and are not predictable.

The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures. The Company recognized the fair value of asset retirement obligations in the period in which they incur and under which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability. As of June 30, 2005 the Company did not have any asset retirement obligations.

(f) Long-lived Assets Impairment

Long-lived assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

(g) Mineral Interests

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

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

3. Summary of Significant Accounting Policies (continued)

(h) 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.

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

(i) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(j) Stock-based Compensation

Effective July 1, 2003, the Company adopted prospectively a new standard for the accounting of *Stock-based compensation and other stock-based payments,* as recommended by the Canadian Institute of Chartered Accountants (“CICA”), under Section 3870 of the CICA Handbook.

The Company has a share option plan which is described in note 8(e). The Company accounts for all non-cash stock-based payments and awards that are direct awards of stock, that call for settlement in cash or other assets, or that are stock appreciation rights which call for settlement by the issuance of equity instruments, granted on or after July 1, 2003 using the fair value based method in compliance with the Canadian Institute of Chartered Accountants Handbook section on *Stock-based compensation and other stock-based payments.* Under this Handbook section, the Company is required to expense, over the vesting period, the fair value of the options at the date of grant. Prior to July 1, 2003, the Company did not grant any stock options.

The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company’s common shares and an expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company’s stock. For the year ended June 30, 2005, $567,969 (six month ended June 30, 2004 - $nil, twelve month ended December 31, 2003 - $nil) was recorded as stock-based compensation and credited to contributed surplus.

3. Summary of Significant Accounting Policies (continued)

(k) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at their prevailing market rate.

As the Company incurred net losses in fiscal 2005, the stock options and share purchase warrants, as disclosed in note 8, were not included in the computation of loss per share as its inclusion would be anti-dilutive.

(l) Comparative Figures

Comparative consolidated statements of operations and cash flows for the corresponding period ended June 30, 2004 are that of GoldChina. GoldChina was a private company and had December 31 as year end. As a result, consolidated statements of operations and cash flows for six months ended June 30, 2004 and for year ended December 31, 2003 are presented for comparison purposes. Certain of the comparative figures have been reclassified to conform to the current year’s presentation.

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

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

On September 20, 2004, PPM completed the acquisition of all of the issued and outstanding shares of GoldChina by issuing 15,700,000 of its common shares. This business combination has been accounted for as a reverse takeover with GoldChina as the accounting parent (see Note 1).

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.

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)
Net liability charged to retained earnings (deficit)	$	(180,356)

The operating results of PPM 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) On August 30, 2004, the Company entered into a Cooperative Agreement (the "Agreement") with Kobex Resources Ltd. ("Kobex"), a company with common directors 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.

As of June 30, 2005, Kobex has not yet executed its options and no shares were received by the Company.

(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 February 5, 2006 for Salachong Gold Property and February 27, 2006 for Tangshang Gold Property. The licenses are renewable on an annual basis.

As at June 30, 2005, the Company has expended totals of $821,811 and $531,045 exploration expenditures on Tangshang and Salachong properties respectively.

5. Mineral Interests (continued)

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.

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.

As of June 30, 2005, the minimum mineable reserve has not been identified.

(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.

As of June 30, 2005, the Company has not executed this option.

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

5. Mineral Interests (continued)

(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 all located in the Yunnan province, China:

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

As of June 30, 2005, the Company has not executed this option.

(e) Exploration costs incurred are as follows:

	Cumulative Exploration Costs as of June 30, 2005		
	Total	Tangshang	Salachong
Exploration and mining licenses fee	$ 546,875	$ 546,875	$ -
Land compensation fee	30,365	30,365	-
Surface facilities	67,850	67,850	-
Professional fee	41,909	20,549	21,360
Road construction	53,543	-	53,543
Valuation Report	77,516	38,758	38,758
Contracted exploration	760,123	343,751	416,372
Labour	13,252	13,252	-
Supplies-common	16,053	15,041	1,012
Land lease	161,059	161,059	-
Recovery - sundry gold sales	(415,689)	(415,689)	-
Total	$ 1,352,856	$ 821,811	$ 531,045

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

5. Mineral Interests (continued)

(e) Exploration costs incurred are as follows (continued):

	Exploration Costs for Year Ended June 30, 2005		
	Total	Tangshang	Salachong
Professional fee	$ 19,273	$ 9,637	$ 9,636
Road construction	12,355	-	12,355
Contracted exploration	72,623	-	72,623
Supplies	2,025	1,013	1,012
Total	$ 106,276	$ 10,650	$ 95,626

	Exploration Costs for Six Months Ended June 30, 2004		
	Total	Tangshang	Salachong
Exploration and mining licenses fee	$ 156,250	$ 156,250	$ -
Professional fee	12,583	5,885	6,698
Road constructions	40,625	-	40,625
Valuation Report	46,266	23,133	23,133
Contracted exploration & supplies	452,820	226,258	226,562
Total	$ 708,544	$ 411,526	$ 297,018

	Exploration Costs for Twelve Months Ended December 31, 2003		
	Total	Tangshang	Salachong
Exploration and mining licenses fee	$ 390,625	$ 390,625	$ -
Land compensation fee	30,365	30,365	-
Surface facilities	39,433	39,433	-
Professional fee	10,053	5,027	5,026
Road constructions	563	-	563
Valuation Report	31,250	15,625	15,625
Contracted exploration and supplies	229,631	112,444	117,187
Labour	13,252	13,252	-
Recovery - sundry gold sales	(415,689)	(415,689)	-
Total	$ 329,483	$ 191,082	$ 138,401

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

6. Equipment

	June 30, 2005		
	Cost	Accumulated Amortization	Net Book Value
Mining equipment	$ 92,193	$ 31,057	$ 61,136
Motor vehicles	20,951	10,162	10,789
Office equipment and furniture	11,823	3,205	8,618
Total	$124,967	$44,424	$80,543

	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

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.

	June 30 2005	June 30 2004
Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina (see note 7d)	$ 148,100	$ 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 with a common director of the Company (see note 7d)	114,159	350,500
Shanghai East Financial Consulting Ltd.- a corporation with a common director of the Company	8,886	-
Subtotal – due on demand	271,145	663,000
A corporation related to a former corporate shareholder (of GoldChina) under common control (see note 7b)	-	375,000
Total	$ 271,145	$ 1,038,000

7. Related Party Transactions (continued)

(b) In 2003, the Company signed a geological cooperation 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. In August 2004 RMB 2,400,000 was forgiven by this corporation and the amount was credited contributed surplus.

(c) During the year ended June 30, 2005, the Company incurred consulting fees of $27,058 (RMB 180,000) (six-month ended June 30, 2004 - $nil and twelve month ended December 31, 2003 - $nil) to a corporation with a common director of the Company.

In September 2004, the Company signed management fee contracts to pay a director of the Company $6,000 per month and a company controlled by a director of the Company $6,380 per month. In year ended June 30, 2005, the Company incurred management fees, office and administration of $112,920 (six-month ended June 30, 2004 - $nil and twelve month ended December 31, 2003 - $nil).

Related party transactions are in the normal course of operations and were measured at the exchange amount, which is the amount of consideration elaborated and agreed to by the related parties.

(d) In August 2004, debts of $325,481 (RMB 2,000,000) owed by the Company were forgiven by the three former corporate shareholders of GoldChina. These amounts were credited to contributed surplus.

(e) In March 2005, the Company signed an exploration agreement with a Chinese corporation whose senior officer is also a director of the Company. Pursuant to this agreement, the Company agreed to pay a total of $121,039 (RMB805,200). As at June 30, 2005, $33,071 (RMB220,000) was paid and $18,954 (RMB127,984) remained unpaid and was included in the accounts payable and accrued liabilities.

June 30, 2005 and 2004 (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 (Note 4)	15,700,000	-
Shares issued pursuant to private placement, net of issuance costs	8,000,000	1,647,885
Shares issued and outstanding as at June 30, 2005	31,546,728	$1,960,385

In September 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. The Company applied the residual approach and allocated the total proceeds to common shares and $nil to attached warrants.

Pursuant to the brokered placement, the Company paid the agent a 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.

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

8. Share Capital (continued)

The Company charged $140,660 as share issuance costs by applying fair value based method of accounting for the options granted to the brokers and credited its contributed surplus by the same amount. The fair value of Broker Warrants granted has been estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	3.00%
Dividend yield	0%
Volatility	131.71%
Expected lives	2 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 Broker Warrants.

(c) Contributed Surplus

Contributed surplus comprise the following:

Balance, December 31, 2003	$ 339,350
Assumption of debt by a former shareholder	156,250
Balance, June 30, 2004	495,600
Forgiveness of debts (Note 7b & 7d)	700,481
Broker Warrants (Note 8b)	140,660
Stock based compensation (Note 8e)	567,969
Balance, June 30, 2005	$1,904,710

(d) Warrants

As at June 30, 2005, the following warrants were outstanding. Each warrant entitles the holder to acquire one common share of the Company.

Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life (Years)
$0.25	560,000	1.2
$0.45	8,000,000	1.2
	8,560,000	1.2

Of the total warrants outstanding at June 30, 2005, 560,000 were broker warrants.

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

8. Share Capital (continued)

(e) Stock Options

During the annual general meeting on December 17, 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, 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 plan 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 June 30, 2005	1,860,000	$ 0.25

The weighted average life of the options outstanding and exercisable is 4.23 years.

A summary of the weighted average fair value of stock options granted during the year ended June 30, 2005 is as follows:

	Weighted Average Exercise Price	Weighted Average Fair Value
Exercise price	$ 0.25	$ 0.31

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

8. Share Capital (continued)

(e) Stock Options (continued)

The Company charged $567,969 stock based compensation by applying fair value based method of accounting for the stock options granted during the year ended June 30, 2005. The fair value of all options granted has been estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

Risk-free interest rate	3.93%
Dividend yield	0%
Volatility	123.18%
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.

(f) Escrow Shares

On September 20, 2004, PPM completed the acquisition of all of the issued and outstanding shares of GoldChina by issuing 15,700,000 of its common shares (Note 4). As of June 30, 2005, 11,775,000 shares were held in escrow. These shares are subject to an escrow agreement providing for release over a thirty-six (36) month period from the date of completion of the GoldChina Agreement.

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

9. Income Taxes

(a) A reconciliation of the statutory tax rate to the effective rate at 34% for Canadian taxable income and 33% for Chinese taxable income for the Company is as follows:

	Year Ended Jun 30, 2005
Tax benefit at statutory rates	422,000
Foreign rate differential	(8,000)
Permanent differences - Canada	(204,000)
Timing differences - Canada	15,000
Timing differences - China	23,000
Valuation allowance	(248,000)
Effective tax rate	-

(b) The approximate tax effect of each type of temporary difference that give rise to the Company's future income tax assets are as follows:

	2005	2004
Future income tax		
Operating loss carry-forwards		
Canada	132,000	-
China	375,000	143,000
Tax value of assets in excess of carrying value of certain long-lived assets		
Canada	60,000	-
China	250,000	426,000
Total future income tax assets	817,000	569,000
Valuation allowance for future income tax assets	(817,000)	(569,000)
	-	-

(c) As of June 30, 2005, the Company has Canadian non-capital losses of approximately $386,000 for income tax purposes. These non-capital losses expire commencing 2007 through 2016 if not utilized.

The Company's subsidiary has Chinese non-capital losses of approximately $1,137,000 and deferred organizational costs and exploration costs of approximately $269,000 and $487,000 as of June 30, 2005 for income tax purposes. These non-capital losses expire commencing 2007 through 2010 if not utilized. The deferred costs can be carried forward between 1 to 3 years.

Future income tax benefits which may arise as a result of these losses have not been recognized in these financial statements as their realization is uncertain.

June 30, 2005 and 2004 (Expressed in Canadian Dollars)

10. Geological Information

The Company's business is considered as operating in one segment, mineral exploration and development. The geographical division of the Company's total assets and operating loss is as follows:

		June 30 2005	June 30 2004
Assets			
	Canada	$ 629,175	$ -
	China	549,914	237,408
		$ 1,179,089	$ 237,408

		Year Ended June 30 2005	Six Months Ended June 30 2004	Twelve Months Ended December 31 2003
Operating Loss				
	Canada	$ 834,087	$ -	$ -
	China	351,182	943,424	735,851
		$ 1,185,269	$ 943,424	$ 735,851

11. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

It is not practical to determine the fair value of the amount due from a shareholder with sufficient reliability due to the nature of the financial instruments, the absence of secondary markets and the significant cost of obtaining outside appraisals.

The carrying value of cash and cash equivalents, receivable and advances, accounts payable and accrued liabilities approximates the fair value because of the short-term nature of those instruments.

The Company is not subject to significant interest and credit risks arising from these financial instruments.

12. Non-Cash Transactions

In August 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).

In September 2004, pursuant to the brokered placement, the Company paid the agent issued 560,000 Broker Warrants (Note 8b)

13. Subsequent Events

In September 2005, 100,000 warrants were exercised to acquire 100,000 common shares of the Company at $0.45 per share.

PACIFIC IMPERIAL MINES INC.
Management Discussion and Analysis
Year Ended June 30, 2005

The following discussion and analysis, prepared as of October 21, 2005, should be read in conjunction with the audited consolidated financial statements of Pacific Imperial Mines Inc. (the "Company") for the year ended June 30, 2005, together with the related notes thereto. The audited financial statements are prepared in accordance with Canadian generally accepted accounting principles.

This Management Discussion & Analysis summarizes the activities of the Company to date, and provides financial information for the year ended June 30, 2005. The discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made.

Description of Business

Pacific Imperial Mines Inc. is a mineral exploration company engaged in the acquisition and exploration of mineral properties in People's Republic of China. In September 2004, the Company was successful in acquiring a mineral exploration venture through a reverse take-over transaction which 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 liabilities of $180,356 of Pacific Imperial Mines Inc. prior to this reverse take-over transaction, deemed to have been assumed by GoldChina. The Company continues to be listed on the TSX Venture Exchange as a Tier 2 natural resource issuer under the symbol "PPM".

During the annual and extraordinary general meeting held in July 2004, the Company's shareholders approved the following by way of special resolutions:

(1) Removal of the pre-existing company provisions under the Business Corporations Act (British Columbia);

(2) Adoption of a new form of Articles for the Company.

The main purpose of the first resolution was to comply with the new Business Corporation Act (British Columbia) and the second resolution, among other things, was to allow the Company to have future special resolutions passed by two thirds of the shareholders in attendance during an extraordinary general meeting instead of seventy five percent that was required previously. In addition, the Company is allowed to change the authorized share capital to unlimited, which the Company has done on August 27, 2004. These resolutions are more particularly described in Page 8 and 10 of the Information Circular dated June 23, 2004.

Business Acquisition

On May 4, 2004 the Company announced the signing of a Share Purchase Agreement (the "GoldChina Agreement") with East Asian Global Finance Limited, Success Period Resources Limited and Gold Carlin Minerals Co., Ltd. (each privately held British Virgin Island companies) and 17 other parties, most of whom are residents of China (collectively the "Vendors") whereby the Company would acquire 100% of the issued and outstanding shares of GoldChina Holdings Group Limited ("GoldChina"), a British Virgin Island company. GoldChina, through its wholly owned Chinese subsidiary, Yunnan Guangnan Gold Company Limited

(“Guangnan Gold”), holds the exploration rights, through an agreement with Yunnan Non Ferrous Metal Geological Bureau (“YNMGB”), to explore two exploration properties located in Yunnan Province, China and known as the Tangshang and Salachong properties, covering a combined area of approximately 61 square kms. In addition, Guangnan Gold holds a right of first refusal to acquire the exclusive exploration rights in respect of 17 additional properties in Yunnan Province (covering an aggregate area of approximately 600 square kms.).

Under the terms of the GoldChina Agreement, the Company agreed to issue to the Vendors an aggregate of 15,700,000 common shares at a deemed price of $0.07 per share (the “Purchase Shares”) in consideration for the shares of GoldChina. The Vendors, East Asian Global Finance Limited, Gold Carlin Minerals Co. Ltd. and Success Period Resources Limited will receive 37.3%, 29.1% and 8.1% of the Purchase Shares respectively. The other 17 Vendors will receive an aggregate of 25.5% of the Purchase Shares, none of whom will individually receive in excess of 5.0% of the Purchase Shares. The Purchase Shares are subject to an escrow agreement providing for release over a 36 month period from the date of completion of the GoldChina Agreement.

On September 20, 2004, the Company completed the acquisition of 100% 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 were applied to record this acquisition. Under this basis of accounting, GoldChina is identified as the acquirer and, accordingly, the combined entity is considered to be a continuation of GoldChina with the net assets of the Company deemed to have been acquired by GoldChina.

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 February 5, 2006 for Salachong Gold Property and February 27, 2006 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.

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.

It should be noted that owing to different methodologies and required data density, the Chinese definitions of resource categories, known as “332”, “333” and “334” differ significantly from current Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards. Also the Chinese classifications may not take into consideration economic viability. As a result, there is a risk that even if economic reserves are not established as defined under National Instrument 43-101, the Company may have to pay the above mentioned additional fees.

Mineral Interests

(1) 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 February 5, 2006 for Salachong Gold Property and February 27, 2006 for Tangshang Gold Property.

(2) 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.

(3) 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 resource 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 Yunnan province, China.

(4) Exploration costs incurred are as follows:

	Cumulative Exploration Costs at June 30, 2005		
	Total	Tangshang	Salachong
Governmental fees	$ 546,875	$ 546,875	$ -
Labour	13,252	13,252	-
Land compensation fees	30,365	30,365	-
Land lease	161,059	161,059	-
Professional fees	41,909	20,549	21,360
Road construction	53,543	-	53,543
Sub-contract geological exploration	760,123	343,751	416,372
Surface facilities and supplies	83,903	82,891	1,012
Valuation and geological report	77,516	38,758	38,758
Recovery – sundry gold sale	(415,689)	(415,689)	-
Total exploration costs for the period	$ 1,352,856	$ 821,811	$ 531,045

	Exploration Costs for the Year Ended June 30, 2005		
	Total	Tangshang	Salachong
Professional fees	$ 19,273	$ 9,637	$ 9,636
Road construction	12,355	-	12,355
Sub-contract geological exploration	72,623	-	72,623
Surface facilities and supplies	2,025	1,013	1,012
Total exploration costs for the period	$ 106,276	$ 10,650	$ 95,626

(5) On August 30, 2004, the Company entered into a Cooperative Agreement with Kobex Resources Ltd. ("Kobex") whereby Kobex was granted a right of first refusal to a acquire a 60% undivided interest in one resource property available to the Company, excluding the Tangshang and Salachong properties. In order to acquire an interest, Kobex will be required to fund US$3,000,000 of exploration and development expenditures on the property within three years of the date Kobex identifies a property to pursue an interest in. The right of first refusal will expire on the earlier of Kobex having identified a property to earn an interest in and three years from the date of the Cooperative Agreement. 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:

- 200,000 shares upon receipt of title to the property;

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

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

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

The president and director of Kobex is also the president and director of the Company.

Other Material Contracts

On June 8, 2004, the Company entered into a Management and Administrative Services Agreement with International Barytex Resources Ltd. ("Barytex"). Under this agreement, Barytex will provide office space and administrative services to the Company for an all inclusive monthly fee of $6,380.00 plus GST. Included in this amount is the sum of $2,500 per month for the services of Leo King as President of the Company and $500 per month for the services of Chelsia Cheam as Corporate Secretary of the Company. Leo King is also the President and director of Barytex.

On September 20, 2004, the Company entered into a service agreement with Huasheng (Canada) Financial Management Ltd., a company controlled by a former director and associated with a current director, whereby the Company agreed to pay $6,000 a month for management services. This agreement was terminated on February 28, 2005 and the Company entered into a similar service agreement with V&D International Holdings Co. Ltd. effective March 1, 2005, which company is controlled by the same director.

On April 14, 2005, the Company entered into an agreement with Shanghai East Financial Consulting Ltd. ("Shanghai East") whereby Shanghai East will provide consulting services to the subsidiary of the Company in China for a monthly fee of RMB 10,000 per month. A director of Shanghai East is also a director of the Company,

Selected Annual Information

Period Ended	Revenue ($)	Operating Income/ (Loss) ($)	Basic & Fully Diluted Loss per Share ($)	Total Assets ($)	Long Term Liabilities ($)	Cash Dividend ($)
Year Ended June 30, 2005	Nil	(1,185,269)	(0.05)	1,179,089	Nil	Nil
Six Months Ended June 30, 2004	Nil	(943,424)	(0.06)	237,408	Nil	Nil
Year Ended December 31, 2003	Nil	(503,089)	(0.03)	317,746	Nil	Nil
Year Ended December 31, 2002	Nil	(232,762)	(0.01)	67,711	Nil	Nil

Under the basis of accounting for reverse take-over which was completed on September 20, 2004, GoldChina is identified as the acquirer and the combined entity is considered to be a continuation of GoldChina with the net assets of the Company deemed to have been acquired by GoldChina. Accordingly, the selected annual information prior to September 20, 2004 is that of GoldChina with the number of common shares outstanding is that of Pacific Imperial Mines Inc. prior to reverse take-over. Financial statements for June 30, 2004 was for a six month period as GoldChina's year end was December 31 and subsequently the year end was changed to June 30 effective January 1, 2004. The operating loss for the year ended December 31, 2003 includes $415,689 recovered from sale of gold produced from test mining.

Change of Accounting Policy

Effective January 1, 2004, the Company changed its accounting policy to expense exploration costs until such time as reserves are proven. The change of accounting policy has been accounted for retroactively. The net effect of the change in policy reduced the mineral interest value at December 31, 2003 by $538,036, increased the opening deficit at January 1, 2003 by $208,553 and increased the loss for the six months ended June 30, 2004 by $708,544.

For comparison purposes, the operating loss for the year ended December 31, 2002 as presented in the Selected Annual Information above includes $208,553 exploration costs expensed as a result of change of accounting policy. Correspondingly, the total assets as of December 31, 2002 were reduced by the same amount.

As at June 30, 2005, the Company did not have proven or probable reserves.

Result of Operations

During the year ended June 30, 2005, the Company incurred a loss of $1,185,269 or $0.05 per share. Exploration costs during the period were $106,276 and administrative expenses were $1,078,993. Major expenses included $106,276 in exploration costs, $112,920 in management fees, $567,969 in stock-based compensation expenses, $74,654 in traveling expenses, $59,779 in office and miscellaneous expenses, $57,378 in salaries and benefits, and $40,208 in consulting fees. The comparable statements of operations and cash flows for the corresponding periods in the prior year are not available as GoldChina was a private company.

For the quarter ended June 30, 2005, the loss was $155,113 as compared to $132,403 during the quarter ended March 31, 2005. The loss was $22,710 higher mainly due to higher exploration costs incurred during the current quarter Major expenses during the current quarter were $71,130 in exploration costs, $37,140 in management fees and $14,124 in salaries and benefits.

Tanshang Property

The Tangshang property is located in Guangnan County, Yunnan Province, China. Access is via paved and secondary roads from Kunming City, the provincial capital. On the property several occurrences of gold mineralization have been exposed by trenching and/or tunnelling and limited diamond drilling in three separate areas extending over a 4 km strike length of an anticlinal structure. At Saiya, the most easterly of these areas, several zones of gold mineralization associated with pyrite and arsenopyrite have been identified in sedimentary units within the Middle Triassic Banna Formation. Gold occurs in disseminated, stratiform deposits and in vein-type structures associated with brittle fracture along anticlinal structures.

The widest zone at Saiya is Zone 3 with an average true width of 28.9 meters grading 1.35 grams per tonne. In the central part of Tangshang, known as Bodanshan, several zones of gold mineralization up to 23 meters in thickness have been exposed in trenching and in a tunnel driven across the zones about 50 meters below the crest of the interpreted Tangshang anticline. Wide, low-grade sections have been sampled; one is 56 meters in width and returned 0.60 g/t gold; another is 26 meters wide and assayed 0.76 g/t gold.

The Anglanshan section, the most westerly on the property, was the site of a test heap-leach project in 2003. Approximately 102,000 tonnes of run-of-mine mineralization grading an estimated 0.87 g/t gold was leached on several pads from which approximately 2,020 ounces of gold are reported to be recovered.

During the period of January 1, 2004 to June 30, 2004, a total of 2,630 meters of diamond drilling, 255 meters of tunnelling and 2356 cubic meters of trenching was carried out on the Tangshang property. Most of the drilling was concentrated on the Saiya Section No. 3 zone where the widest intersections were encountered. Hole No. ZK4002 intersected 47.5 meters grading 1.71 g/t gold. Hole ZK8002 intersected 11.4 meters grading 2.72 g/t gold and Hole ZK0702 encountered 16.94 meters that averaged 2.63 g/t gold. The trenching was carried out on 6 separate zones. The widest zones of mineralization were exposed by trenching of the No. 3 zone. Gold mineralization encountered in the trenching ranged from 12.7 meters grading 1.83 g/t gold to 74.6 meters that averaged 1.21 g/t gold. Two tunnels were driven on the No. 3 zone. Tunnel PD801 encountered 13 meters averaging 0.58 g/t gold at the northern end of the zone. Tunnel PD3601 intersected 56.7 meters that averaged 1.12 g/t gold. It should be noted that sample length may not represent the true width of the mineralization.

During the year ended June 30, 2005, a phase 1 program of geological mapping, tunnelling and trenching to further define the known zones of mineralization at Tangshang was proposed and approved by the Board of Directors on November 4, 2004. Total cost of the program is estimated at $227,000 and the work is expected to take 5 months to complete. During the quarter ended June 30, 2005, the Company had several expressions of interest from third parties regarding the purchase of the Tanshang Property. As a result, work on Tanshang has been deferred to allow time to negotiate a possible sale.

Salachong Property

The Salachong property is located in Guangnan County, approximately 80km to the southeast of the Tangshang property. Gold mineralization occurs in the Middle Triassic Banna Formation and is associated with a plunging anticlinal structure partially exposed by trenching along the crest of a 2 km long ridge.

Work during 2002 and 2003 has partially outlined a zone of gold mineralization extending for up to 2km along strike and for approximately 400m across strike. Several wide sections of mineralization cut by trenching and tunnelling have been reported as a result of the 2002 and 2003 work. To the southeast, a broad triangular-shaped, fault-bounded area hosts six gold soil anomalies that require follow-up work.

During the period of January 1, 2004 to June 30, 2004, 892 meters of diamond drilling, 299 meters of tunnelling and 1,548 cubic meters of trenching was completed on the Salachong property. Trench results included 15.58 meters averaging 1.35 g/t gold and 18.55 meters averaging 1.02 g/t gold that ended in mineralization.

During the year ended June 30, 2005, a phase 1 program of geological mapping, geochemical soil sampling and trenching of several previously defined, multi-element soil geochemical anomalies was proposed and approved by the Board of Directors on November 4, 2004. Total cost of the program was estimated at $128,300 and was expected to take 5 months to complete. During the year ended June 30, 2005, $95,626 had been spent on this property. During March 2005, a 25 km^2 area was covered by a geochemical soil sampling program. To date, a total of 3,756 soil samples were collected and analysed. The soil sampling program was completed during April and trenching of selected geochemical anomalies outlined by previous geochemical surveys was completed in July 2005. Reports summarizing the complete results of the field work are expected within the next month.

Mr. Leo King, P. Geo. has reviewed and approved the content of the above discussion on the mineral properties. Mr. King is a Qualified Person under the terms of National Instrument 43-101.

Other Exploration Activities

In December 2004, the Company signed a Letter of Intent with Hubei Jiayu Shewushan Gold Mine Co. (Shewushan) to establish an Equity Joint Venture Company for gold exploration on licenses held by Shewushan. The licenses cover an area of 120 square kilometers in the vicinity of the Shewushan gold mine located in Hubei province, China. The Joint Venture would also include rights to any gold in sulphide mineralization situated at depth below the gold oxide ore currently being mined by open-pit and recovered by heap leaching. The Company would hold a 70% interest and Shewushan would hold a 30% interest in the Joint Venture. The Company would contribute the first US$5 million of expenditures and Shewushan would contribute the exploration rights to the property. Any additional expenditure would be made on a pro rata basis. After completing due diligence, the Company decided not to proceed with establishing a joint venture.

A number of other mineral resource investment opportunities were examined and evaluated during the quarter.

Management Change

During the Annual and Extraordinary General Meeting of Members on July 23, 2004, Leo King and Geir Liland were re-elected as directors. In addition, Fan Chang, Jeffrey Ma and Michael Liu were elected as directors of the Company, subject to the completion of the GoldChina acquisition. On September 20, 2004, when the reverse take-over transaction was completed, the appointments of Messrs. Chang, Ma and Liu became effective. On the same date, Roman Shklanka was also appointed as a director.

Effective September 20, 2004, Fan Chang was appointed as Chairman, Leo King was appointed as President and CEO, Michael Liu as Chief Financial Officer, and Chelsia Cheam as Corporate Secretary.

On January 19, 2005, Jeffrey Ma passed away in a traffic accident in China.

Investor Relations

The Company is responsible for its own investor relations activities and has not engaged a third party to handle this duty.

Summary of Quarterly Results

Quarter Ended	Revenue ($)	Operating Income (Loss) ($)	Basic & Fully Diluted Loss Per Share ($)	Total Assets ($)	Long Term Liabilities ($)	Cash Dividend ($)
June 30, 2005	Nil	(155,113)	Nil	1,179,088	Nil	Nil
March 31, 2005	Nil	(132,403)	Nil	1,298,966	Nil	Nil
December 31, 2004	Nil	(149,301)	Nil	1,458,330	Nil	Nil
September 30, 2004	Nil	(748,452)	(0.07)	1,743,377	Nil	Nil
June 30, 2004	Nil	(97,585)	(0.01)	237,408	375,000	Nil
March 31, 2004	Nil	(845,839)	(0.05)	176,373	375,000	Nil

Under the basis of accounting for reverse take-over which was completed on September 20, 2004, GoldChina is identified as the acquirer and the combined entity is considered to be a continuation of GoldChina with the net assets of the Company deemed to have been acquired by GoldChina. Accordingly, the quarterly information shown above for March 31, 2004 and June 30, 2004 is that of GoldChina while the related number of common shares outstanding is that of Pacific Imperial Mines Inc. prior to reverse take-over. The quarters ended after the reverse take-over transaction reflect the results from operations of GoldChina, the legal subsidiary, combined with those of Pacific Imperial Mines Inc., the legal parent, from acquisition on September 20, 2004 to September 30, 2004. Comparative quarterly results prior to March 31, 2004 are not available as GoldChina was a private company which financial statements were not prepared according to Canadian generally accepted accounting principles.

Liquidity and Capital Resources

The Company's business is in development stage and does not generate cash flow from operations to adequately fund its activities and has therefore relied principally upon the issuance of securities and loan and advances from directors for financing. During the year ended June 30, 2005, the Company has incurred a loss of $1,185,269 and has accumulated a total deficit of $3,044,900. As of June 30, 2005, the Company had working capital of $739,653.

The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

Financing

In connection with the reverse take-over transaction on September 20, 2004, the Company completed a private placement of 8,000,000 units 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 purchase one common share from the Company at the price of $0.45 per share for a period of two years.

Pursuant to the brokered placement, the Company paid the agent a cash commission and corporate finance fee totalling $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.

Transactions with Related Parties

(1) As of June 30, 2005, the following amounts due to related parties are unsecured and non-interest bearing.

	June 30 2005	June 30 2004
Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina	$ 148,100	$ 234,375
Yunnan Golden Industrial Investment Co., Ltd. - a former shareholder of GoldChina	-	78,125
Beijing United Capital Investment Co., Ltd. – a corporation controlled by two directors of the Company	114,159	350,500
Shanghai East Financial Consulting Ltd. – a company with a common director of the Company	8,886	-
Subtotal – due on demand	271,145	663,000
A corporation related to a former corporate shareholder (see item (b) below) of GoldChina under common control	-	375,000
Total	$ 271,145	$ 1,038,000

(2) In 2003, the Company signed a geological co-operation agreement ("Agreement") with Yunnan Dian Zhong Yuan ("YDZY"), a subsidiary of Yunnan Non Ferrous Metals Geological Bureau, a Chinese Government agency. YDZY is also related to Gold Carlin Minerals Co. Ltd., 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. In August 2004, RMB 2,400,000 was forgiven by YDZY and the amount was credited to contributed surplus (See note 7(b) of the consolidated financial statements).

(3) During the year ended June 30, 2005, the Company incurred consulting fees of $27,058 (RMB 180,000) to two private corporations (Beijing United Capital Investment Co. Ltd., controlled by Michael Liu and Jeff Ma, and Shanghai East Financial Ltd., controlled by Michael Liu) and incurred management fees of $112,920 payable to Geir Liland, a director of the Company, and to Huasheng (Canada) Financial Limited, a corporation associated with Michael Liu, a director of the Company and V&D International Holdings Co. Ltd., a corporation controlled by Michael Liu. During the year ended June 30, 2005, management fees were actually $125,713 paid to two directors (Geir Liland, and Richard Chan) and three companies (International Barytex Resources Ltd., Huasheng (Canada) Financial Limited, and V&D International Holdings Co. Ltd.) For financial statement purposes, the Consolidated Statement of Operations and Deficit only shows $112,920 in management fees as it only covers the period from date of the reverse take-over on September 20, 2004 through June 30, 2005. Two directors of the Company (Leo King and Roman Shklanka) are also directors of International Barytex Resources Ltd.

(4) In August 2004, debts of $325,481 (RMB 2,000,000) owed by the Company were forgiven by the three former corporate shareholders of GoldChina, namely Beijing United Capital Investment Co. Ltd., Bridge 306 of Yunnan Non-Ferrous Metals Geological Bureau, and Yunnan Golden Industrial Investment Co. Ltd. These amounts were credited to contributed surplus (See note 9 of the consolidated financial statements). Beijing United Capital Investment Co. Ltd. is a private corporation controlled by Jeff Ma, Zhigiang Guan, and Yunhai Chen.

Latest Outstanding Share Data

As of October 21, 2005, the Company had the following outstanding securities:

(1)	Common shares issued	31,646,728
(2)	Stock options	1,860,000
(3)	Share purchase warrants	8,460,000