PACIFIC IMPERIAL MINES INC.

Consolidated Financial Statements

(Unaudited and Unreviewed)

Six Months Ended December 31, 2005 and 2004

Index

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

These financial statements have been prepared by management of the Company and have not been reviewed by the Company's independent auditor.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

PACIFIC IMPERIAL MINES INC.
(An exploration stage enterprise)
Consolidated Balance Sheets
(Unaudited and Unreviewed)
(Expressed in Canadian Dollars)

	December 31 2005	June 30 2005
ASSETS		
Current		
Cash and cash equivalents	$ 798,030	$ 1,067,931
Advances and sundry receivables	31,602	30,615
Due from related parties (Note 7)	3,454	-
Total current assets	833,086	1,098,546
Mineral interests (Note 5)	-	-
Equipment (Note 6)	69,156	80,543
Total assets	$ 902,242	$ 1,179,089
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 37,321	$ 87,749
Due to related parties (Note 7)	223,384	271,145
Total liabilities	260,705	358,894
SHAREHOLDERS' EQUITY		
Share capital		
Authorized: unlimited common shares with no par value (Note 8)	2,005,385	1,960,385
Contributed surplus (Note 8)	1,904,710	1,904,710
Deficit	(3,268,558)	(3,044,900)
Total shareholders' equity	641,537	820,195
Total liabilities and shareholders' equity	$ 902,242	$ 1,179,089

Approved by the Directors: ***"Michael Liu"*** Michael Liu ***"Leo King"*** Leo King

PACIFIC IMPERIAL MINES INC.

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

	Three Months Ended December 31		Six Months Ended December 31	
	2005	2004	2005	2004
Exploration costs (Note 5(e))	$ 43,609	$ 302	$ 54,106	$ 31,624
Expenses				
Accounting and audit	36,634	32,110	44,524	32,240
Amortization	5,692	5,617	11,387	11,155
Consulting fees	4,353	9,150	8,769	28,099
Foreign exchange loss (gain)	(712)	13,430	3,922	29,924
Interest expenses	6	-	84	172
Legal	2,335	4,635	2,335	19,519
Listing and filing fees	-	663	-	996
Management fees	37,140	37,140	74,280	38,640
Office and miscellaneous	(1,828)	15,754	4,653	37,374
Promotion and government relations	8,287	7,478	9,541	12,555
Salaries and benefits	(11,724)	10,100	-	27,489
Stock based compensation	-	-	-	567,969
Transfer agent fees	5,999	6,931	7,073	7,007
Travel and transportation	(309)	6,011	9,112	53,021
Interest income	(5,249)	(20)	(6,128)	(31)
	80,624	148,999	169,552	866,129
Loss for the period	(124,233)	(149,301)	(223,658)	(897,753)
Net liability acquired (Note 4)	-		-	(180,356)
Deficit, beginning of period	(3,144,325)	(2,608,083)	(3,044,900)	(1,679,275)
Deficit, end of period	$ (3,268,558)	$ (2,757,384)	$ (3,268,558)	$ (2,757,384)
Loss per share	$ -	$ -	$ (0.01)	$ (0.04)
Weighted average number of shares outstanding - basic and fully diluted	31,646,728	31,546,728	31,601,076	20,984,772

PACIFIC IMPERIAL MINES INC.
(An exploration stage enterprise)
Consolidated Statements of Cash Flows
(Unaudited and Unreviewed)
(Expressed in Canadian Dollars)

	Three Months Ended December 31		Six Months Ended December 31	
	2005	2004	2005	2004
Cash flows from (used in) operating activities				
Loss for the period	$ (124,233)	$ (149,301)	$ (223,658)	$ (897,753)
Adjustment for items not involving cash:				
- amortization of equipment	5,692	5,617	11,387	11,155
- stock based compensation	-	-	-	567,969
Change in non-cash working capital items:				
- sundry receivable	(4,774)	16,549	(987)	40,097
- prepaid and deposit	1,294	-	-	-
- accounts payable and accrued liabilities	(66,196)	(27,350)	(50,428)	(148,659)
Net cash provided by (used in) operating activities	(188,217)	(154,485)	(263,686)	(427,191)
Cash flows from (used in) financing activities				
Repayment of bank loan	-	-	-	(90,000)
Shares issued for cash	-	-	45,000	1,788,545
Advances from (to) related parties	(34,116)	(107,151)	(51,215)	(68,042)
Net cash provided by financing activities	(34,116)	(107,151)	(6,215)	1,630,503
Cash flows used in investing activities				
Cash acquired from reverse takeover	-	-	-	14,726
Net cash used in investing activities	-	-	-	14,726
Increase (decrease) in cash and cash equivalents	(222,333)	(261,636)	(269,901)	1,218,038
Cash and cash equivalents, beginning of period	1,020,363	1,605,747	1,067,931	126,073
Cash and cash equivalents, end of period	$ 798,030	$ 1,344,111	$ 798,030	$ 1,344,111

Supplemental disclosure of cash flow information:

Interest paid in cash	$ -	$ -	$ 84	$ -
Income tax paid in cash	$ -	$ -	$ -	$ -

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 foreign owned 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.

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.

The Company has experienced losses since its inception amounting to $3,268,558 as of December 31, 2005. 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. As of December 31, 2005, the Company had a total of $798,030 in cash and cash equivalents.

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 form the disposition thereof.

These financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

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 December 31, 2005, the Company has invested $798,030 in cash equivalents (June 30, 2005 - $448,862).

(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 December 31, 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 six months ended December 31, 2005, no amount (2004 - $567,969) 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, 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

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

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.

December 31, 2005 and 2004 (Expressed in Canadian Dollars)

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

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.

5. Mineral Interests (continued)

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 December 31, 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 December 31, 2005, the Company has expended totals of $821,811 and $606,145 exploration expenditures on Tangshang and Salaching properties respectively.

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.

5. Mineral Interests (continued)

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 December 31, 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 December 31, 2005, the Company has not executed this option.

(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 December 31, 2005, the Company has not executed this option.

December 31, 2005 and 2004 (Expressed in Canadian Dollars)

5. Mineral Interests (continued)

(e) Exploration costs incurred were as follows:

	Three Months Ended December 31, 2005		
	Total	Tangshang	Salachong
Labour costs	$ 23,518	$ -	$ 23,518
Office and others	12,098	-	12,098
Travel	7,993	-	7,993
Total	$ 43,609	$ -	$ 43,609

	Six Months Ended December 31, 2005		
	Total	Tangshang	Salachong
Contracted exploration	$ 10,518	$ -	$ 10,518
Labour costs	23,518	-	23,518
Office and others	12,077	-	12,077
Travel	7,993	-	7,993
Total	$ 54,106	$ -	$ 54,106

	Cumulative Exploration Costs as of December 31, 2005		
	Total	Tangshang	Salachong
Contracted exploration	$ 791,827	$ 343,751	$ 448,076
Exploration and mining license fees	546,875	546,875	-
Labour	36,770	13,252	23,518
Land compensation fees	30,365	30,365	-
Land lease	161,059	161,059	-
Office and others	12,267	-	12,267
Professional fees	41,909	20,549	21,360
Road construction	53,543	-	53,543
Surface facilities	67,850	67,850	-
Supplies	15,671	15,041	630
Travel	7,993	-	7,993
Valuation report	77,516	38,758	38,758
Recovery - sundry gold sales	(415,689)	(415,689)	-
Total	$ 1,427,956	$ 821,811	$ 606,145

December 31, 2005 and 2004 (Expressed in Canadian Dollars)

6. Equipment

	December 31, 2005		
	Cost	Accmulated Amortization	Net Book Value
Mining equipment	$ 92,193	$ 39,248	$ 52,945
Motor vehicles	20,951	12,194	8,757
Office equipment and furniture	11,823	4,369	7,454
Total	$ 124,967	$ 55,811	$ 69,156

	June 30, 2005		
	Cost	Accmulated 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

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.

	December 31 2005	June 30 2005
Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina (see note 7d)	$ 169,800	$ 148,100
Beijing United Capital Investment Co., Ltd. - a corporation with a common director of the Company (see note 7d)	53,584	114,159
Shanghai East Financial Consulting Ltd. - a corporation with a common director of the Company	-	8,886
	$ 223,384	$ 271,145

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 six months ended December 31, 2005, the Company incurred consulting fees of $8,769 (RMB 60,000) (2004 - $18,149 (RMB 120,000)) to a corporation with a common director of the Company.

In September 2004, the Company signed management fees contracts to pay a director of the Company at $6,000 per month and a company controlled by a director of the Company at $6,380 per month. During six months ended December 31, 2005, the Company incurred management fees, office and administration of $38,280 (2004 - $19,140).

(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 up to a total of $121,039 (RMB 805,200). As at December 31, 2005, $54,910 (RMB 380,000) was paid and $25,299 (RMB 175,083) was recorded as accrued liabilities.

(f) The amounts due from or to related parties are non-interest bearing, unsecured, with on specific terms of repayment. These 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.

December 31, 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
- Warrants exercised	100,000	45,000
Shares issued and outstanding as at December 31, 2005	31,646,728	$2,005,385

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 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.

December 31, 2005 and 2004 (Expressed in Canadian Dollars)

8. Share Capital (continued)

In September 2004, 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 is comprised of the following:

	Amount
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 and December 31, 2005	$1,904,710

(d) Warrants

As at December 31, 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	0.7
$0.45	7,900,000	0.7
	8,460,000	0.7

Of the total warrants outstanding at December 31, 2005, 560,000 were broker warrants.

December 31, 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 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 June 30, 2005 and December 31, 2005	1,860,000	$ 0.25

The weighted average life of the options outstanding and exercisable is 3.72 years.

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

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

December 31, 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 December 31, 2005, 9,420,000 shares were held at 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.

9. 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:

		December 31 2005	June 30 2005
Assets			
	Canada	$ 533,286	$ 629,175
	China	368,956	549,914
		$ 902,242	$ 1,179,089

December 31, 2005 and 2004 (Expressed in Canadian Dollars)

9. Geological Information (continued)

	Six Months Ended December 31 2005	2004
Net loss for the period		
Canada	$ 141,167	$ 778,012
China	82,491	119,741
	$ 223,658	$ 897,753

10. 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.

11. 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 issued to the agent 560,000 Broker Warrants (Note 8b).

12. Subsequent Event

On February 1, 2006, the Company granted stock options to a an officer to purchase 25,000 common shares of the Company at a price of $0.22 per share for a period of five years subject to regulatory approval.

PACIFIC IMPERIAL MINES INC.
Management Discussion and Analysis
Six Months Ended December 31, 2005

The following discussion and analysis, prepared as of February 24, 2006, should be read in conjunction with the unaudited and unreviewed consolidated financial statements of Pacific Imperial Mines Inc. (the “Company”) for the six months ended December 31, 2005 together with the related notes thereto. These 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 six months ended December 31, 2005. The discussion may contain statements that are forward-looking in nature, involving known and unknown risks and uncertainties such as general economic and business conditions, operating costs, changes in foreign currency exchange rates, and other factors. Since forward-looking statements address future events and conditions, by their nature, they involve inherent risks and uncertainties. Therefore, actual results may be materially different from those expressed or implied in such statements.

Description of Business

Pacific Imperial Mines Inc. is a mineral exploration company engaged in the acquisition and exploration of mineral properties. Currently, all of the Company’s mineral properties are in People’s Republic of China. In September 2004, the Company was successful in acquiring a mineral exploration venture through a reverse take-over (“RTO”) 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 held 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.). This right of first refusal was for two-year term and has now expired.

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 and the Company is in the process of renewing the licenses for another year. 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.

Overall Performance

As all of the Company's mineral properties are still in exploration and early development stage, the Company has experienced losses since its inception. During the six months ended December 31, 2005, the Company incurred a loss of $223,658 or $0.01 per share. As of December 31, 2005, the total accumulated losses amounted to $3,268,558. This trend is likely to continue in the foreseeable future.

Since the RTO in September 2004, the Company has raised $1,788,545, net of share issuing costs, by issuing common shares. The only other minor fund source was $45,000 as result of warrants exercised. 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. As of December 31, 2005, the Company had working capital of $572,381. The Company believes that it has enough cash to maintain its operation for the next 12 months assuming the current status regarding the mineral properties remains unchanged.

Through its wholly owned subsidiary, the Company was granted two (2) mineral exploration licenses, called "Tangshang Gold" and "Salachong Gold", by the Government of China. As all of the Company's mineral interests are currently in China, the Company will continue to spend most of its financial resources in this country. China has large areas of mineral lands with potential and the Company believes that China will continue to enjoy strong economic growth and provide a favourable business environment.

Mineral Interests

The Company's mineral interests are as follows:

(a) 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, and are in the process of being renewed.

(b) 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. The Company has not exercised its right of first refusal and the agreement is no longer in effect.

(c) 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. The Company has not exercised it right of first refusal and the agreement is now no longer in effect.

(d) 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.

As at December 31, 2005, the Company did not have proven or probable reserves.

Exploration costs incurred by the Company were as follows:

	Three Months Ended December 31, 2005		
	Total	Tangshang	Salachong
Labour costs	$ 23,518	$ -	$ 23,518
Office and others	12,098	-	12,098
Travel	7,993	-	7,993
Total	$ 43,609	$ -	$ 43,609

	Six Months Ended December 31, 2005		
	Total	Tangshang	Salachong
Contracted exploration	$ 10,518	$ -	$ 10,518
Labour costs	23,518	-	23,518
Office and others	12,077	-	12,077
Travel	7,993	-	7,993
Total	$ 54,106	$ -	$ 54,106

	Cumulative Exploration Costs as of December 31, 2005		
	Total	Tangshang	Salachong
Contracted exploration	$ 791,827	$ 343,751	$ 448,076
Exploration and mining license fees	546,875	546,875	-
Labour	36,770	13,252	23,518
Land compensation fees	30,365	30,365	-
Land lease	161,059	161,059	-
Office and others	12,267	-	12,267
Professional fees	41,909	20,549	21,360
Road construction	53,543	-	53,543
Surface facilities	67,850	67,850	-
Supplies	15,671	15,041	630
Travel	7,993	-	7,993
Valuation report	77,516	38,758	38,758
Recovery - sundry gold sales	(415,689)	(415,689)	-
Total	$ 1,427,956	$ 821,811	$ 606,145

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 ($)	Operating Loss ($)	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 while 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.

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.

Result of Operations

During the six months ended December 31, 2005, the Company incurred a loss of $223,658. Exploration costs during the period were $54,106 and administrative expenses net of interest income were $169,552. Major expenses included $54,106 in exploration costs, $74,280 in management fees, $44,524 in accounting and audit expenses.

In comparison with the loss of $897,753 during the six months ended December 31, 2004, the loss for the current period was $674,095 lower mainly due to zero stock based compensation expenses during the current period versus $567,969 during the same period last year. In addition, the administrative expenses such as legal fees, consulting fees, and travel expenses last year were significantly higher primarily due to the RTO transactions completed in September 2004.

During the quarter ended December 31, 2005, the loss was also lower than the same quarter last year. The current period loss was reduced by $$25,068 mainly due to reduction in foreign exchange of $14,142 and consulting fees of $4,797 and an increase of interest income of $5,249, In December 2005, certain salary and office expenses directly related to the projects were reclassified as exploration costs.

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 in width 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 was estimated at $227,000 and the work was expected to take 5 months to complete. During the year 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. To date, total costs incurred on this program were $80,210. During March 2005, a 58.7 km^2 area was covered by a geochemical soil sampling program and a total of 3,925 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. Analyses from 9 samples trenches excavated to test selected geochemical anomalies revealed only low values in gold. Reports summarizing the complete results of the field work were completed December 2005. To date, no decision has been made to carry out further exploration work on the Salachong property.

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.

On February 1, 2006, Bruno Barde was appointed as Vice-President, Exploration.

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 ($)	Cash Dividend ($)
December 31, 2005	Nil	(124,233)	Nil	902,242	Nil	Nil
September 30, 2005	Nil	(99,425)	Nil	1,128,245	Nil	Nil
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.

Since December 2004, the quarterly loss was averaging $132,000 per quarter. The company expects this trend is likely to continue in the next quarter.

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 six months ended December 31, 2005, the Company has incurred a loss of $223,658 and has accumulated a total deficit of $3,268,558. As of December 31, 2005, the Company had working capital of $572,381.

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. During the six months ended December 31, 2005, warrants were exercised to purchase 100,000 common shares at the price of $0.45 per share. 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.

In September 2005, the Company received $45,000 from 100,000 warrants exercised at $0.45 per share.

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.

Transactions with Related Parties

(a) As of December 31, 2005, the following amounts due to related parties are unsecured and non-interest bearing.

	December 31 2005	June 30 2005
Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina	$ 143,800	$ 148,100
Beijing United Capital Investment Co., Ltd. – a corporation controlled by a common director of the Company	110,844	114,159
Shanghai East Financial Consulting Ltd. – a corporation with a common director of the Company	4,314	8,886
Total	$ 258,958	$ 271,145

(b) 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).

(c) During the six months ended December 31, 2005, the Company incurred consulting fees of $8,769 (RMB 60,000) payable to a Shanghai East Financial Ltd., a corporation controlled by Michael Liu, a director of the Company. In addition, the Company also incurred management fees of $74,280 of which amount $36,000 was paid to V&D International Holdings Co. Ltd., a corporation controlled by Michael Liu and $38,280 was paid to International Barytex Resources Ltd. Two directors of the Company (Leo King and Roman Shklanka) are also directors of International Barytex Resources Ltd.

(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, 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 8 of the consolidated financial statements). Beijing United Capital Investment Co. Ltd. is a private corporation controlled by Jeff Ma, Zhigiang Guan, and Yunhai Chen.

<u>Latest Outstanding Share Data</u>

As of February 24, 2006, 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

<u>Subsequent Event</u>

On February 1, 2006, the Company granted stock options to an officer to purchase 25,000 common shares of the Company at a price of $0.22 per share for a period of five years subject to regulatory approval.