PACIFIC IMPERIAL MINES INC.

Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

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ERNST & YOUNG

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AUDITORS' REPORT

To the Shareholders of
Pacific Imperial Mines Inc.

We have audited the consolidated balance sheets of **Pacific Imperial Mines Inc.** as at June 30, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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 audits.

We conducted our audits 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, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada,
September 28, 2007, except as to Note 11,
which is as of October 15, 2007)

Chartered Accountants

PACIFIC IMPERIAL MINES INC.

(An exploration stage enterprise)
Consolidated Balance Sheets
(See Note 2 - Basis of Presentation)
(Expressed in Canadian Dollars)

	June 30 2007	June 30 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 307,251	$ 608,871
Advances and sundry receivables	10,910	20,306
Due from related parties (Note 6(a))	1,489	-
Prepaid and deposit	-	2,511
Total current assets	319,650	631,688
Mineral interests (Note 4)	-	-
Equipment (Note 5)	35,458	57,771
Total assets	$ 355,108	$ 689,459
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 52,034	$ 33,143
Due to related parties (Note 6)	201,578	204,756
Total liabilities	253,612	237,899
Commitments (Note 4)		
SHAREHOLDERS' EQUITY		
Share capital		
Authorized: unlimited common shares with no par value (Note 7)	2,005,385	2,005,385
Contributed surplus (Note 7(c))	2,164,104	1,939,148
Deficit	(4,067,993)	(3,492,973)
Total shareholders' equity	101,496	451,560
Total liabilities and shareholders' equity	$ 355,108	$ 689,459

See accompanying notes to consolidated financial statements

On behalf of the Board: ***"Roman Shklanka"*** Roman Shklanka ***"Leo King"*** Leo King

PACIFIC IMPERIAL MINES INC.

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

	Year Ended June 30 2007	Year Ended June 30 2006
Expenses (Note 6)		
Accounting and audit	$ 50,754	$ 51,014
Amortization	22,518	22,772
Consulting fees	23,025	37,407
Exploration costs (Note 4(c))	4,346	11,764
Foreign exchange loss (gain)	(3,540)	6,086
General exploration	94,438	92,837
Interest expenses	10,411	132
Legal	18,540	7,908
Management fees	92,560	148,560
Office and miscellaneous	14,427	11,798
Promotion and government relations	7,006	14,897
Stock-based compensation	224,956	34,438
Transfer agent fees	9,917	9,246
Travel and transportation	14,507	10,862
Interest income	(8,845)	(11,648)
Loss for the year	(575,020)	(448,073)
Deficit, beginning of year	(3,492,973)	(3,044,900)
Deficit, end of year	$ (4,067,993)	$ (3,492,973)
Loss per share, basic and fully diluted	$ (0.02)	$ (0.01)
Weighted average number of shares outstanding - basic and fully diluted	31,646,728	31,623,714

See accompanying notes to consolidated financial statements

PACIFIC IMPERIAL MINES INC.

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

	Year Ended June 30 2007	Year Ended June 30 2006
Cash flows provided by (used in) operating activities		
Loss for the year	$ (575,020)	$ (448,073)
Adjustment for items not involving cash:		
- amortization of equipment	22,518	22,772
- stock-based compensation	224,956	34,438
Change in non-cash working capital items:		
- sundry receivable	9,396	10,309
- prepaid and deposit	2,511	(2,511)
- accounts payable and accrued liabilities	18,891	(54,606)
Net cash used in operating activities	(296,748)	(437,671)
Cash flows provided by (used in) financing activities		
Shares issued for cash	-	45,000
Advances to related parties	(1,489)	(66,389)
Repayment of due to related parties	(3,178)	-
Net cash used in financing activities	(4,667)	(21,389)
Cash flows used in investing activities		
Purchases of equipment	(205)	-
Net cash used in investing activities	(205)	-
Decrease in cash and cash equivalent	(301,620)	(459,060)
Cash and cash equivalents, beginning of year	608,871	1,067,931
Cash and cash equivalents, end of year	$ 307,251	$ 608,871

Supplemental disclosure of cash flow information:		
Interest paid in cash	$ 13	$ 132
Income tax paid in cash	$ -	$ -

See accompanying notes to consolidated financial statements

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

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going-concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has experienced losses since its inception amounting to $4,067,993 as of June 30, 2007. 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. There is no assurance that the Company will be successful in raising necessary financing. As of June 30, 2007, the Company had a total of $307,251 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 from 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.

3. Summary of Significant Accounting Policies (continued)

(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, 2007 and June 30, 2006, cash equivalents consist of cash and treasury bills.

(d) Equipment

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

Canada – Declining balance method
Computer equipment and software– 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

(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 recognizes 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. Giving the limited exploration work has been done to date, management believes that there is no significant asset retirement obligations as of June 30, 2007.

3. **Summary of Significant Accounting Policies** (continued)

(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 resulted 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 economic reserves are established. 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 until the payments are made or received. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

(h) Foreign Currency Translation

The Company's functional currency is the Canadian dollars. The Company follows the temporal method of accounting for the translation of its integrated foreign operation. Under this method, monetary assets and liabilities are translated into Canadian dollars at the period end exchange rates. Non-monetary assets and liabilities are translated into Canadian dollars using historical rates of exchange. Revenues and expenses are translated into Canadian dollars 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

The Company adopted Canadian Institute of Chartered Accountants Handbook Section 3870 Stock-based compensation and other stock-based payments to account for the issuance of stock options. Fair value based method is used for recognition of compensation expense for costs related to all share based payments to employees and consultants, including grants of 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.

3. **Summary of Significant Accounting Policies** (continued)

(j) Stock-based Compensation

For the year ended June 30, 2007, $224,956 (2006 - $34,438) was recorded as stock-based compensation and credited to contributed surplus.

(k) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. 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 7, were not included in the computation of loss per share as its inclusion would be anti-dilutive.

4. **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, 2007, Kobex has not yet executed its options and no shares were received by the Company.

4. Mineral Interests (continued)

(b) The Company was granted two 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 October 8, 2007, which are renewable on an annual basis. The Company was also granted three mining licenses expiring October 2007, October 2011 and October 2013 respectively.

As at June 30, 2007, the Company has expensed accumulated totals of $823,099 (2006 - $821,811) and $545,867 (2006 - $542,809) exploration expenditures on Tangshang and Salachong properties respectively.

The Company has agreed that if the minimum mineable gold reserve is six tons or higher, the Company would pay $2,053,589 (RMB 14,700,000) to its two former shareholders, as follow:

(i) $1,173,479 (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) $880,110 (RMB 6,300,000) is due and payable 360 business days following payment of the amount due on Reserve Confirmation.

As of June 30, 2007, the minimum mineable reserve has not been identified.

In November 2006, the Company discovered evidence of unauthorized mining activities on the property. The Company appointed a director of the Company to lead an investigation and found that a private corporation associated with the Yunnan Non-Ferrous Metals Geological Bureau ("YNGB"), a former shareholder of GoldChina, which former officer was also the former Chairman of the Company, engaged in a limited scale of mining on the Tangshang property.

On June 22, 2007, the Company entered into a letter agreement with YNGB whereby YNGB will be responsible for undertaking future mining on the Company's Tangshang and Salachong properties. Under the terms of this agreement, YNGB is required to provide all capital costs and working capital required and retain 10 percent of the total profit and the Company will receive 90 percent of the total profit. YNGB has guaranteed that the Company will receive a minimum of 90 percent of 1,000,000 RMB in 2007, 4,000,000 RMB in 2008 and 8,000,000 RMB in 2009. In case of shortfall, YNGB will pay the Company by returning common shares of the Company held by YNGB at the price of $0.27 per share.

June 30, 2007 and 2006 (Expressed in Canadian Dollars)

4. Mineral Interests (continued)

YNGB has also granted the Company the exclusive rights of first refusal over properties YNGB holds or acquires within a defined area of influence around the Properties for a two year period. Should the Company complete a feasibility study for capital requirements exceeding USD 100 million, the Company will have the right to assume conduct of all mining operations on the properties and the 10 percent profit entitlement to YNGB will terminate.

In addition, the Company has agreed to issue 7,807,333 shares of the Company to YNGB in settlement of a contingently liability of 14,700,000 RMB that the Company owes YNGB subject to certain escrow provisions. This letter agreement is subject to regulatory approval.

(c) Exploration costs incurred were as follows:

	Total	Tangshang	Salachong
Year ended June 30, 2007			
Contracted exploration	$ -	$ -	$ -
Exploration and mining licences fee	4,346	1,288	3,058
Total	$ 4,346	$ 1,288	$ 3,058
Year ended June 30, 2006			
Contracted exploration	$ 10,329	$ -	$ 10,329
Exploration and mining licences fee	1,435	-	1,435
Total	$ 11,764	$ -	$ 11,764
Cumulative costs as of June 30, 2007			
Contracted exploration	$ 770,452	$ 343,751	$ 426,701
Exploration and mining license fees	552,656	548,163	4,493
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
Surface facilities	67,850	67,850	-
Supplies	16,053	15,041	1,012
Valuation report	77,516	38,758	38,758
Recovery - sundry gold sales	(415,689)	(415,689)	-
Total	$ 1,368,966	$ 823,099	$ 545,867

June 30, 2007 and 2006 (Expressed in Canadian Dollars)

5. Equipment

	June 30, 2007		
	Cost	Accmulated Amortization	Net Book Value
Mining equipment	$ 92,193	$ 63,824	$ 28,369
Motor vehicles	20,951	18,292	2,659
Office equipment and furniture	958	847	111
Computer and software	11,070	6,751	4,319
Total	$ 125,172	$ 89,714	$ 35,458

	June 30, 2006		
	Cost	Accmulated Amortization	Net Book Value
Mining equipment	$ 92,193	$ 47,439	$ 44,754
Motor vehicles	20,951	14,227	6,724
Office equipment and furniture	958	803	155
Computer and software	10,865	4,727	6,138
Total	$ 124,967	$ 67,196	$ 57,771

6. Related Party Balances and Transactions

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

(a) Amount due from related parties of $1,489 (2006 – $Nil) represents expenses to be reimbursed by a director and a corporation which is a major shareholder of the Company.

(b) Amounts due to related parties are unsecured and have no specific terms of repayment.

	June 30 2007	June 30 2006
Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina and a corporation which officer is also a former director of the Company (bearing interest at 3.6% per annum)	$ 149,758	$ 139,499
Beijing United Capital Investment Co., Ltd. - a corporation with a common director of the Company (non-interest bearing)	51,804	51,730
International Barytex Resources Ltd. - a corporation with common directors of the Company (non-interest bearing)	16	807
V&D International Holdings Co. Ltd. - a corporation controlled by a director of the Company (non-interest bearing)	-	12,720
	$ 201,578	$ 204,756

June 30, 2007 and 2006 (Expressed in Canadian Dollars)

6. Related Party Transactions (continued)

(b) During the year ended June 30, 2007, the Company incurred consulting fees of $Nil (RMB Nil) (2006 - $8,610 (RMB 60,000)), to a private corporation with a common director of the Company.

(c) The Company signed management fees contracts to pay a private corporation controlled by a director of the Company at $6,000 per month, which amount was reduced to $2,000 per month effective August 1, 2006 and subsequently terminated on December 31, 2006.

(d) The Company also entered into a management contract with a company with common directors at $6,380 per month, which amount includes $2,500 payable to a director and $500 payable to an officer. Under this contract, the Company incurred management fees, office and administration of $108,825 (2006 - $152,293) during the year ended June 30, 2007.

(e) During the year ended June 30, 2007, the Company paid $7,560 to a private corporation controlled by an officer of the Company since this officer was appointed as Chief Financial Officer of the Company on December 15, 2006.

(f) In March 2005, the Company signed an exploration agreement with a Chinese corporation whose senior officer was also a director of the Company at that time. Pursuant to this agreement, the Company paid a total of $82,952 (RMB 555,100) for exploration work performed. The exploration agreement was completed during the year ended June 30, 2006.

(g) The amounts due from or to related parties have no 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.

7. Share Capital

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

(b) Issued:

	Shares	Amount
Shares issued and outstanding as at June 30, 2005	31,546,728	1,960,385
Warrants exercised	100,000	45,000
Shares issued and outstanding as at June 30, 2006 and June 30, 2007	31,646,728	$ 2,005,385

(c) Contributed Surplus

Contributed surplus is comprised of the following:

June 30, 2007 and 2006 (Expressed in Canadian Dollars)

7. Share Capital (continued)

		Amount
Balance, June 30, 2005	$	1,904,710
Stock based compensation (Note 7e)		34,438
Balance, June 30, 2006		1,939,148
Stock based compensation (Note 7e)		224,956
Balance, June 30, 2007	$	2,164,104

(d) Warrants

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2005	8,560,000	0.44
Exercised	(100,000)	0.45
Balance, June 30, 2006	8,460,000	0.44
Expired	(8,460,000)	0.44
Balance, June 30, 2007	-	-

(e) Stock Options

The Company has 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.

During the year ended June 30, 2006, the Company granted 25,000 stock options to an officer and 150,000 stock options to a director exercisable at a price of $0.22 per share and $0.20 respectively for a period of five years. The options are vested ranging from four to six months from the date of grant.

In July 2006, the Company granted a total of 75,000 stock options to an officer and a consultant at the exercise price of $0.175 for a period of five years. The options were vested immediately.

In June 2007, the Company granted a total of 900,000 stock options to directors, officer and consultants at the exercise price of $0.28 for a period of five years. The options were vested immediately.

A summary of the status of options granted under the Company's stock option plan is presented below.

June 30, 2007 and 2006 (Expressed in Canadian Dollars)

7. Share Capital (continued)

	Shares	Average Exercise Price
Options outstanding at June 30, 2005	1,860,000	$ 0.250
Granted	175,000	0.200
Expired	(250,000)	0.250
Options outstanding at June 30, 2006	1,785,000	0.250
Granted	975,000	0.272
Expired	(250,000)	0.250
Options outstanding at June 30, 2007	2,510,000	$ 0.255
Options exercisable at June 30, 2007	2,510,000	$ 0.255

The weighted average life of the options outstanding and exercisable at June 30, 2007 is 2.48 years (June 30, 2006 - 3.63 years). The weighted average fair value of stock options granted during the year ended June 30, 2007 was $0.27 (June 30, 2006 - $0.23)

The Company charged $224,956 and $34,438 stock-based compensation by applying fair value based method of accounting for the stock options granted during the year ended June 30, 2007 and June 30, 2006 respectively. The fair value of all options granted has been estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	Year Ended June 30 2007	Year Ended June 30 2006
Risk-free interest rate	4.53%	4.10%
Dividend yield	0%	0%
Volatility	123.10%	128.66%
Expected lives	5 years	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

As of June 30, 2007, 2,354,999 (June 30, 2006 - 7,064,999) 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.

June 30, 2007 and 2006 (Expressed in Canadian Dollars)

8. Income Taxes

(a) A reconciliation of the statutory tax rate to the effective rate at 34.12% (2006 - 34.12%) for Canadian taxable income and 33% for Chinese taxable income for the Company is as follows:

	2007	2006
Consolidated losses	575,000	448,000
Statutory rate	34.12%	34.12%
Tax benefit	196,000	153,000
Foreign rate differential	(1,000)	(1,000)
Income tax rate changes	(50,000)	-
Permanent differences		
Non-deductible expenses	(79,000)	(4,000)
Deductible items booked to share capital	-	(46,000)
Others	-	13,000
Changes in valuation allowance	(66,000)	(115,000)
Income tax provision	-	-

(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:

	2007	2006
Future income tax		
Operating loss carry-forwards		
Canada	391,000	366,000
China	95,000	84,000
Tax value of assets in excess of carrying value		
Canada	31,000	49,000
China	619,000	588,000
Total future income tax assets	1,136,000	1,087,000
Valuation allowance for future income tax assets	(1,136,000)	(1,087,000)
Net future income tax asset	-	-

(c) As of June 30, 2007, the Company has Canadian non-capital losses of approximately $1,282,000 for Canadian income tax purposes and Chinese loss carryforwards of $289,000 for Chinese income tax purposes. The Canadian non-capital losses expire commencing 2008 through 2027 if not utilized. The Chinese loss carryforwards expire commencing 2008 through 2012 if not utilized.

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, 2007 and 2006 (Expressed in Canadian Dollars)

9. Geographical 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 2007	June 30 2006
ASSETS		
Canada	$ 199,691	$ 425,287
China	155,417	264,172
	$ 355,108	$ 689,459

	Year Ended June 30 2007	2006
NET LOSS		
Canada	$ 442,316	$ 290,332
China	132,704	157,741
	$ 575,020	$ 448,073

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.

The carrying value of cash and cash equivalents, receivable and advances, accounts payable and accrued liabilities, and amount due to related parties 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. The Company operates in China and therefore subject to foreign currency risk arising from changes in exchange rates between Chinese currency RMB and Canadian dollar.

11. Subsequent event

Subsequent to the year end, the Company entered into a definitive agreement with YNGB relating to the Tangshang and Salachong Properties, which will replace the letter agreement dated June 22, 2007 with the essential terms of the agreement unchanged (Note 4(b)). The agreement is subject to regulatory approval.

PACIFIC IMPERIAL MINES INC.
Management Discussion and Analysis
Year Ended June 30, 2007

The following discussion and analysis, prepared as of October 23, 2007, should be read in conjunction with the audited consolidated financial statements of Pacific Imperial Mines Inc. (the "Company") for the year ended June 30, 2007 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 year ended June 30, 2007. 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. Additional information on the Company is also available at www.sedar.com.

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. The Company continues to be listed on the TSX Venture Exchange as a Tier 2 natural resource issuer under the symbol "PPM".

Overall Performance

As all of the Company's mineral properties are still in exploration stage and non-revenue producing, the Company has experienced losses since its inception. During the year ended June 30, 2007, the Company incurred a loss of $575,020. As of June 30, 2007, the total accumulated losses amounted to $4,067,993. The Company is likely to continue incurring losses in the foreseeable future.

Since the RTO in September 2004, the Company has raised $1,647,885, net of share issuing costs, raised by issuing common shares. The only other minor fund source was $45,000 as a 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 June 30, 2007, the Company had a working capital of $66,038. The Company does not have enough cash to maintain its operation for the next twelve months and needs to raise additional funds.

Through its wholly owned subsidiary, the Company was granted two mineral exploration licenses and three mining licenses in 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.

In November 2006, a director of the Company made a visit to its Tangshang property in Yunnan province, China and discovered evidence of unauthorized mining activities on the property. The company immediately requested a trading halt in its shares on November 8, 2006 and made an announcement on the matter next day. The

Company appointed John Quan, a director of the Company, to lead an investigation and found that a private corporation associated with the Yunnan Non-Ferrous Metals Geological Bureau ("YNGB"), a former shareholder of GoldChina, which former officer was also the former Chairman of the Company, engaged in a limited scale of mining on the Tangshang property. The Company has not suffered any out-of-pocket loss from the unauthorized mining activities. On June 22, 2007, the Company entered into a letter agreement with YNGB to settle the issue of unauthorized mining, the details of which are more fully described under Mineral Interest.

Mineral Interest

Tangshang and Salachong, China

The Company was granted two 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 October 8, 2007 and are renewable on an annual basis. The Company is currently renewing its exploration licenses.

The Company was also granted two mining licenses for the Tangshang Property expiring in October 2007 and October 2011 and one mining license for the Salachong Property expiring in October 2013. These mining licences were actually granted prior to the RTO without the knowledge of the Company at the time. The Company is currently renewing its mining license for the Tangshang Property.

The Company has agreed that if the minimum mineable gold reserve is six tons or higher, the Company would pay $2,053,589 (RMB 14,700,000) to its two former shareholders, as follow:

(i) $1,173,479 (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) $880,110 (RMB 6,300,000) is due and payable 360 business days following payment of the amount due on Reserve Confirmation.

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.

As of June 30, 2007, the minimum mineable gold reserve has not been identified.

On June 22, 2007, the Company entered into a letter agreement with YNGB whereby YNGB will be responsible for undertaking future mining on the Company's Tangshang and Salachong properties. Under the terms of this agreement, YNGB is required to provide all capital costs and working capital required and retain 10 percent of the total profit and the Company will receive 90 percent of the total profit. YNGB has guaranteed that the Company will receive a minimum of 90 percent of 1,000,000 RMB in 2007, 4,000,000 RMB in 2008 and 8,000,000 RMB in 2009. In case of shortfall, YNGB will pay the Company by returning common shares of the Company held by YNGB at the price of $0.27 per share.

YNGB has also granted the Company the exclusive rights of first refusal over properties YNGB holds or acquires within a defined area of influence around the properties for a two year period. Should the Company complete a feasibility study for capital requirements exceeding USD 100 million, the Company will have the right to assume conduct of all mining operations on the properties and the 10 percent profit entitlement to YNGB will terminate.

In addition, the Company has agreed to issue 7,807,333 shares of the Company to YNGB in settlement of a contingently liability of 14,700,000 RMB that the Company owes YNGB subject to certain escrow provisions.

Subsequent to the year end, the Company entered into a definitive agreement with YNGB relating to the Tangshang and Salachong Properties, which will replace the letter agreement dated June 22, 2007 with the essential terms of the agreement unchanged. This agreement is subject to regulatory approval.

Cooperative Agreement with Kobex Resources Ltd.

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.

To date, Kobex has not executed its option and no shares were received by the Company. The company now considers this agreement terminated.

As at June 30, 2007, the Company did not have proven or probable reserves.

Exploration costs incurred by the Company were as follows:

	Total	Tangshang	Salachong
Year Ended June 30, 2007			
Exploration and mining license fees	$ 4,346	$ 1,288	$ 3,058
Total	$ 4,346	$ 1,288	$ 3,058
Cumulative costs as of June 30, 2007			
Contracted exploration	$ 770,452	$ 343,751	$ 426,701
Exploration and mining license fees	552,656	548,163	4,493
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
Surface facilities	67,850	67,850	-
Supplies	16,053	15,041	1,012
Valuation report	77,516	38,758	38,758
Recovery - sundry gold sales	(415,689)	(415,689)	-
Total	$ 1,368,966	$ 823,099	$ 545,867

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 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 March 1, 2005, the Company entered into a service agreement with V&D International Holdings Co. Ltd., a company controlled by a director, whereby the Company agreed to pay $6,000 a month for management services. Effective August 1, 2006, the monthly fee was reduced from $6,000 to $2,000 per month. This contract was subsequently terminated on December 31, 2006.

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. This agreement was terminated in December 2005. Subsequently the Company entered into a consulting agreement with Nuo Dun Investment Consulting Company Ltd. with similar terms which was terminated on June 30, 2006.

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, 2007	Nil	(575,020)	(0.02)	355,108	Nil	Nil
Year ended June 30, 2006	Nil	(448,073)	(0.01)	689,459	Nil	Nil
Year ended June 30, 2005	Nil	(1,185,269)	(0.05)	1,179,089	Nil	Nil

Since inception, the Company has incurred losses each year as the Company does not have any revenue except interest income generated from short term investments. This trend is likely to continue in the near future.

Results of Operations

During the three months ended June 30, 2007, the Company incurred a loss of $285,815. Exploration costs for the quarter were $Nil and administrative expenses net of interest income were $285,815. Major expenses included $213,456 in stock-based compensation, $25,103 in general exploration, and $19,140 in management fees.

During the year ended June 30, 2007, the Company incurred a loss of $575,020. Exploration expenses were $4,346 and administrative expenses net of interest income were $570,674. Major expenses included $224,956 in stock-based compensation, $94,438 in general exploration, $92,560 in management fees, and $50,754 in accounting and audit expenses. In comparison with the loss of $448,073 during the year ended June 30, 2006, the loss for the current period was $126,947 higher mainly due to increase of stock-based compensation of

$190,518 counter-balanced by reduction in management fees of $56,000, exploration costs of $7,418, and consulting fees of $14,382.

Tangshang 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 was estimated at $227,000 and the work was expected to take 5 months to complete. The Company has had several expressions of interest from third parties regarding the purchase of the Tangshang Property. As a result, work on Tangshang has been deferred to allow time to negotiate a possible sale. To date, total accumulated costs on this property were $823,099 net of recovery.

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 were 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 $112,325 (RMB 805,200) and was expected to take 5 months to complete. During March 2005, a 25 km^2 area was covered by a geochemical soil sampling program and a total of 3,756 soil samples were collected and analysed and the soil sampling program was completed in April 2005

During the year ended June 30, 2006, trenching of selected geochemical anomalies outlined by previous geochemical surveys was completed. Total costs incurred on this exploration program were $82,952 (RMB 555,100). The Company has reviewed the results of the field work and currently is contemplating further work on this property. As of June 30, 2007, total accumulated costs incurred on this property were $545,867.

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

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

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, 2007	Nil	(285,815)	Nil	355,108	Nil	Nil
March 31, 2007	Nil	(97,249)	Nil	418,839	Nil	Nil
December 31, 2006	Nil	(101,316)	Nil	521,846	Nil	Nil
September 30, 2006	Nil	(90,640)	Nil	618,532	Nil	Nil
June 30, 2006	Nil	(77,197)	Nil	689,459	Nil	Nil
March 31, 2006	Nil	(147,218)	Nil	801,123	Nil	Nil
December 31, 2005	Nil	(124,233)	Nil	902,242	Nil	Nil
September 30, 2005	Nil	(99,425)	Nil	1,128,245	Nil	Nil

Since inception, the Company has incurred losses each quarter. The company expects this trend is likely to continue in the near future.

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, 2007, the Company incurred a loss of $575,020 and has accumulated a total deficit of $4,067,993. As of June 30, 2007, the Company had working capital of $66,038. The Company does not have enough resources to finance its operations in the next twelve months and needs to raise additional funds

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.

Stock Options

On July 25, 2006, the Company issued 50,000 stock options to Albert Wu exercisable at a price of $0.175 per share for a period of five years, who was subsequently appointed as Chief Financial Officer on December 15, 2006.
On July 31, 2006, the Company issued a total of 25,000 stock options to Bruno Barde, who was appointed as Vice-President Exploration. These stock options are exercisable at a price of at $0.175 per share for a period of five years.

On June 4, 2007, the Company issued a total of 900,000 stock options to directors and officers. These stock options are exercisable at a price of at $0.28 per share for a period of five years.

Balances and Transactions with Related Parties

(a) As of June 30, 2007, a balance of $1,489 (2006 - $Nil) was due from Michael Liu, a director of the Company ($435 (2006 - $Nil)), and Golden Carlin Minerals Co., Ltd., a major shareholder of the Company ($1,054 (2006 - $Nil)), for reimbursement of expenses.

(b) As of June 30, 2007, the following amounts due to related parties are unsecured and have no specific terms of repayment.

	June 30 2007	June 30 2006
Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina and a corporation which officer is also a former director of the Company (bearing interest at 3.6% per annum)	$ 149,758	$ 139,499
Beijing United Capital Investment Co., Ltd. - a corporation with a common director of the Company (non-interest bearing)	51,804	51,730
International Barytex Resources Ltd. - a corporation with common directors of the Company (non-interest bearing)	16	807
V&D International Holdings Co. Ltd. - a corporation controlled by a director of the Company (non-interest bearing)	-	12,720
	$ 201,578	$ 204,756

(c) During the year ended June 30, 2007, the Company incurred management fees of $92,560 of which amount $16,000 was paid to V&D International Holdings Co. Ltd., a corporation controlled by Michael

Liu and $76,560 was paid to Barytex. Of the total paid to Barytex, $30,000 was for the account of H. Leo King & Associates Inc. and $6,000 was for Chelsia Cheam. In addition, the Company also reimburse $16,265 to Barytex for common office expenses. Three directors of the Company (Leo King, Michael Liu and Roman Shklanka) are also directors of Barytex.

(d) The Company paid $7,560 to a company controlled by Albert Wu, who was appointed Chief Financial Officer of the Company on December 15, 2006.

Management Change

In December 2006, Fan Chang resigned as director of the Company. On December 15, 2006, Roman Shklanka was appointed as Chairman, John Guan as a director, and Albert Wu as Chief Financial Officer of the Company. In April 2007, John Guan resigned as director.

Risk and Uncertainties

The Company holds an interest in mineral properties in China and as such is exposed to the laws governing the mining industry in that country with respect to such matters as taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, and expropriation of property or limitations on foreign ownerships, as well as shifts in the political stability of the country and labour unrest, any of which could adversely affect the Company and its exploration and production activities in the country.

The Company's business, results of operations, financial condition, and the trading price of its common shares could be materially adversely affected by any of the foregoing risks and by other risks, including risks related to development of mineral deposits, metal prices, title matters, reclamation costs, gold and other base metal prices volatility, competition, additional funding requirements, insurance, currency fluctuations, conflicts of interest, and share trading volatility. Any of these risks could have a material adverse effect on the business, operations or financial condition of the Company.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ significantly from those estimates. Specific items requiring estimates are accounts receivable, equipment, and amortization, asset retirement obligations, future income taxes, stock-based compensation and other accrued liabilities and contingent liabilities.

At June 30, 2007, the net book value of equipment amounted to $35,458. Amortization of these costs is calculated on the declining balance method using estimated percentages and estimated life of certain assets.

The Company has estimated the present value of estimated future asset retirement costs for the properties in China to be **$**Nil at June 30, 2007. Estimates of these closure costs and the expected timing of their incurrence are reviewed periodically. It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, cost estimates or the estimated remaining ore reserves.

The Company recorded stock-based compensation expense of $224,956 during the year ended June 30, 2007 based on an estimate of the fair value of the options on the grant date. This accounting required estimates of interest rates, life of options, stock price volatility and the application of the Black-Scholes option pricing model.

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. The carrying value of cash and cash equivalents, receivable and advances, accounts payable and accrued liabilities, and amount due to related parties 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. The Company operates in China and therefore subject to foreign currency risk arising from changes in exchange rates between Chinese currency RMB and Canadian dollar.

Off-Balance-Sheet Arrangements

The Company has not entered into any off-balance-sheet arrangements.

Disclosure and Internal Financial Reporting

The Company has evaluated the effectiveness of its disclosure and internal financial reporting controls and procedures as of June 30, 2007 and concluded that the Company's disclosure and internal financial reporting controls and procedures, as at June 30, 2007, are effective in ensuring that material information is disclosed adequately and timely.

The Company's Chief Financial Officer and Chief Executive Officer ("Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures which provide reasonable assurance that information required to be disclosed by the Company under provincial securities legislation is reported within the time periods specified. The procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management as appropriate to allow for timely decisions regarding the required filings.

The Company's Certifying Officers are responsible for establishing and maintaining internal controls over financial reporting and have designed such internal controls, or caused them to be designed under their supervision, which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian GAAP. Due to the geographical locations of the Company, it is not feasible to achieve complete segregation of duties to provide absolute controls over financial reporting. In addition, the Company may not have the necessary in-house knowledge to address complex accounting, taxation and legal issues that may arise.

It should be noted that while the Certifying Officers of the Company, as required under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of these disclosure controls and procedures for the year ended June 30, 2007 and have concluded that they are being maintained as designed, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Latest Outstanding Share Data

As of October 23, 2007, the Company had the following outstanding securities:

(1)	Common shares issued	31,646,728
(2)	Stock options	2,510,000
(3)	Share purchase warrants	Nil