

**PACIFIC RIM MINING CORP.**

*(An Exploration Stage Company)*

**CONSOLIDATED FINANCIAL STATEMENTS**

**30 APRIL 2001 and 2000**

**STALEY, OKADA, CHANDLER & SCOTT**

*Chartered Accountants*

## AUDITORS' REPORT

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### To the Shareholders of Pacific Rim Mining Corp.:

We have audited the consolidated balance sheet of Pacific Rim Mining Corp. (*An Exploration Stage Company*) as at 30 April 2001 and 2000 and the consolidated statements of loss and deficit and cash flows for the years ended 30 April 2001, 2000 and 1999 and cumulative from inception (1 August 1987) through 30 April 2001 and the consolidated statement of changes in shareholders' equity from 30 April 1988 through 30 April 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at 30 April 2001 and 2000 and the results of its operations and its cash flows for the years ended 30 April 2001, 2000 and 1999 and cumulative from inception (1 August 1987) through 30 April 2001 and the changes in shareholders' equity from 30 April 1988 through 30 April 2001 in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Langley, B.C.  
23 July 2001

STALEY, OKADA, CHANDLER & SCOTT  
CHARTERED ACCOUNTANTS

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## Consolidated Balance Sheet

As at 30 April

Canadian Funds

| ASSETS                                      | 2001                | 2000                |
|---|---------------------|---------------------|
| <b>Current</b>                              |                     |                     |
| Cash and short-term investments             | \$ 1,341,047        | \$ 1,347,676        |
| Accounts receivable                         | 25,449              | 7,008               |
| Prepaid expenses and deposits               | 32,821              | 25,636              |
|   | <u>1,399,317</u>    | <u>1,380,320</u>    |
| Investment in Salta Gold Ltd. (Note 2)      | 3,633,933           | 3,620,124           |
| Mineral Property Costs - Schedule (Note 3)  | 1,401,891           | 4,698,216           |
| Capital Assets (Note 4)                     | 176,733             | 188,691             |
|   | <u>\$ 6,611,874</u> | <u>\$ 9,887,351</u> |
| <b>LIABILITIES</b>                          |                     |                     |
| <b>Current</b>                              |                     |                     |
| Accounts payable                            | \$ 57,473           | \$ 423,820          |
| <b>Commitment (Note 10)</b>                 |                     |                     |
| <b>SHAREHOLDERS' EQUITY</b>                 |                     |                     |
| <b>Share Capital - Statement 2 (Note 5)</b> |                     |                     |
| Authorized:                                 |                     |                     |
| 100,000,000 common shares without par value |                     |                     |
| Issued and fully paid:                      |                     |                     |
| 23,498,600 (21,650,570) shares              | 33,589,783          | 26,864,033          |
| Deficit - Statement 3                       | <u>(27,035,382)</u> | <u>(17,400,502)</u> |
|   | <u>6,554,401</u>    | <u>9,463,531</u>    |
|   | <u>\$ 6,611,874</u> | <u>\$ 9,887,351</u> |

ON BEHALF OF THE BOARD:

"Catherine McLeod-Seltzer"  
\_\_\_\_\_, Director

"Thomas Shrake"  
\_\_\_\_\_, Director

**Consolidated Statement of Changes in Shareholders' Equity**

*Canadian Funds*

|                         | Common Shares |               | Accumulated     |    | Total              |
|-------------------------|---------------|---------------|-----------------|----|--------------------|
|                         | Number        | Amount        | Deficit         |    |                    |
| Balance - 30 April 1998 | 20,117,370    | \$ 24,557,621 | \$ (7,149,598)  | \$ | <b>17,408,023</b>  |
| Issuance of shares for  |               |               |                 |    |                    |
| - Exercise of warrants  | 1,378,000     | 2,094,560     | -               |    | <b>2,094,560</b>   |
| - Property              | 100,000       | 150,000       | -               |    | <b>150,000</b>     |
| Loss for the period     | -             | -             | (5,030,575)     |    | <b>(5,030,575)</b> |
| Balance - 30 April 1999 | 21,595,370    | 26,802,181    | (12,180,173)    |    | <b>14,622,008</b>  |
| Issuance of shares for  |               |               |                 |    |                    |
| - Exercise of options   | 40,200        | 43,102        | -               |    | <b>43,102</b>      |
| - Property              | 15,000        | 18,750        | -               |    | <b>18,750</b>      |
| Loss for the period     | -             | -             | (5,220,329)     |    | <b>(5,220,329)</b> |
| Balance - 30 April 2000 | 21,650,570    | 26,864,033    | (17,400,502)    |    | <b>9,463,531</b>   |
| Issuance of shares for  |               |               |                 |    |                    |
| - Exercise of options   | 40,500        | 61,560        | -               |    | <b>61,560</b>      |
| - Settlement of lawsuit | 100,000       | 30,000        | -               |    | <b>30,000</b>      |
| - Special warrants      | 1,707,530     | 7,329,493     | -               |    | <b>7,329,493</b>   |
| - Financing costs       | -             | (695,303)     | -               |    | <b>(695,303)</b>   |
| Loss for the period     | -             | -             | (9,634,880)     |    | <b>(9,634,880)</b> |
| Balance - 30 April 2001 | 23,498,600    | \$ 33,589,783 | \$ (27,035,382) | \$ | <b>6,554,401</b>   |

## Consolidated Statement of Loss and Deficit

Canadian Funds

|  | Cumulative<br>Amounts from<br>1 August 1987<br>to<br>30 April 2001 | For the Years Ended |               |               |
|--|--|---------------------|---------------|---------------|
|  |  | 30 April 2001       | 30 April 2000 | 30 April 1999 |
| <b>Operating Expenses</b>                                |  |                     |               |               |
| Wages and benefits                                       | \$ 2,149,809   | \$ 414,543          | \$ 379,224    | \$ 431,214    |
| Office, secretarial and bookkeeping                      | 910,958  | 152,185             | 157,487       | 143,855       |
| Legal fees   | 798,163  | 84,587              | 74,787        | 125,119       |
| Rent   | 369,233  | 79,378              | 80,696        | 73,479        |
| Shareholder information and promotion                    | 791,880  | 78,882              | 101,791       | 125,805       |
| Audit and accounting                                     | 321,549  | 67,734              | 56,386        | 66,752        |
| Travel   | 619,489  | 37,405              | 34,091        | 45,637        |
| Amortization   | 152,365  | 23,622              | 27,004        | 23,850        |
| Transfer agent fees                                      | 119,347  | 21,687              | 14,309        | 9,415         |
| Listing and filing fees                                  | 123,130  | 21,302              | 14,575        | 9,397         |
| Consulting   | 640,901  | -                   | -             | 26,503        |
| B.C. Corporate Capital Tax                               | 33,839   | -                   | -             | -             |
| Bad debts  | 14,675   | -                   | -             | -             |
| Investment counselling                                   | 20,070   | -                   | -             | -             |
| Management fees  | 216,800  | -                   | -             | -             |
| Foreign exchange loss (gain)                             | (136,000)  | (169,686)           | (23,272)      | 26,009        |
|  |  |                     |               |               |
| <b>Loss Before the Undernoted</b>                        | 7,146,208  | 811,639             | 917,078       | 1,107,035     |
| Write-off of mineral property costs                      | 20,464,885   | 8,949,165           | 4,387,231     | 4,275,716     |
| Settlement of legal claims                               | 105,000  | 30,000              | -             | -             |
| Loss on equity investment                                | 169,984  | 14,208              | 33,181        | 47,147        |
| Write-off of incorporation costs                         | 65,154   | -                   | 65,154        | -             |
| Write-down of marketable securities                      | 3,967  | -                   | -             | -             |
| Interest and bank charges, net                           | (919,816)  | (170,132)           | (182,315)     | (399,323)     |
|  | 27,035,382   | 9,634,880           | 5,220,329     | 5,030,575     |
|  |  |                     |               |               |
| <b>Loss for the Period</b>                               | 27,035,382   | 9,634,880           | 5,220,329     | 5,030,575     |
| Deficit - Beginning of period                            | -  | 17,400,502          | 12,180,173    | 7,149,598     |
| <b>Deficit - End of Period</b>                           | \$ 27,035,382  | \$ 27,035,382       | \$ 17,400,502 | \$ 12,180,173 |
|  |  |                     |               |               |
| <b>Loss per Share - Basic</b>                            |  | \$ (0.42)           | \$ (0.24)     | \$ (0.25)     |
|  |  |                     |               |               |
| <b>Weighted Average Number of Shares<br/>Outstanding</b> |  | 22,834,215          | 21,621,753    | 20,531,787    |

- See Accompanying Notes -

## Consolidated Statement of Cash Flows

Canadian Funds

|  | Cumulative<br>Amounts from<br>1 August 1987<br>to<br>30 April 2001 | For the Years Ended |                |                |
|--|--|---------------------|----------------|----------------|
|  |  | 30 April 2001       | 30 April 2000  | 30 April 1999  |
| <b>Operating Activities</b>            |  |                     |                |                |
| Loss for the period                    | \$ (27,035,382)  | \$ (9,634,880)      | \$ (5,220,329) | \$ (5,030,575) |
| Items not affecting cash               |  |                     |                |                |
| Write-down of marketable securities    | 3,967  | -                   | -              | -              |
| Loss on equity investment              | 169,984  | 14,208              | 33,181         | 47,147         |
| Write-off of mineral property costs    | 20,464,885   | 8,949,165           | 4,387,231      | 4,275,716      |
| Amortization                           | 152,365  | 23,622              | 27,004         | 23,850         |
| Write-off of incorporation costs       | 65,154   | -                   | 65,154         | -              |
| Settlement of legal claim              | 30,000   | 30,000              | -              | -              |
|  | (6,149,027)  | (617,885)           | (707,759)      | (683,862)      |
| Changes in:                            |  |                     |                |                |
| - Accounts receivable                  | (25,449)   | (18,441)            | 9,644          | (7,088)        |
| - Prepaid expenses                     | (32,821)   | (7,185)             | 8,810          | (4,828)        |
| - Accounts payable                     | 57,473   | (366,347)           | 267,580        | 66,289         |
| Cash used in operating activities      | (6,149,824)  | (1,009,858)         | (421,725)      | (629,489)      |
| <b>Investing Activities</b>            |  |                     |                |                |
| Marketable securities, net             | (3,967)  | -                   | -              | -              |
| Investment in Salta Gold Ltd.          | (292,978)  | (28,017)            | (5,513)        | (78,291)       |
| Mineral property costs                 | (24,289,248)   | (5,608,294)         | (5,832,718)    | (3,586,546)    |
| Purchase of capital assets             | (371,644)  | (56,210)            | (16,994)       | (40,933)       |
| Incorporation costs                    | (67,154)   | -                   | (11,053)       | -              |
| Cash used in investing activities      | (25,024,991)   | (5,692,521)         | (5,866,278)    | (3,705,770)    |
| <b>Financing Activities</b>            |  |                     |                |                |
| Share capital issued                   | 32,515,862   | 6,695,750           | 43,102         | 2,094,560      |
| Cash provided by financing activities  | 32,515,862   | 6,695,750           | 43,102         | 2,094,560      |
| <b>Net Increase (Decrease) in Cash</b> | 1,341,047  | (6,629)             | (6,244,901)    | (2,240,699)    |
| Cash position - Beginning of period    | -  | 1,347,676           | 7,592,577      | 9,833,276      |
| <b>Cash Position - End of Period</b>   | \$ 1,341,047   | \$ 1,341,047        | \$ 1,347,676   | \$ 7,592,577   |

**Supplemental Schedule of Non-Cash Transactions:**

|   |            |           |           |            |
|---|------------|-----------|-----------|------------|
| Shares issued for settlement of lawsuit         | \$ 30,000  | \$ 30,000 | \$ -      | \$ -       |
| Shares issued for mineral property              | \$ 813,921 | \$ -      | \$ 18,750 | \$ 150,000 |
| Shares issued for investment in Salta Gold Ltd. | \$ 230,000 | \$ -      | \$ -      | \$ -       |

**Consolidated Schedule of Mineral Property Costs**  
For the Years Ended 30 April

Canadian Funds

|   | 2001                | 2000                | 1999                |
|---|---------------------|---------------------|---------------------|
| <b>Direct</b>   |                     |                     |                     |
| <b>South American Properties</b>                            |                     |                     |                     |
| <i>San Francisco claim</i>                                  |                     |                     |                     |
| Salaries  | \$ 145,014          | \$ 133,437          | \$ 38,624           |
| Camp and general  | 101,364             | 163,045             | 12,675              |
| Geological  | 17,092              | 252,897             | 55,976              |
| Drilling  | -                   | 239,987             | -                   |
| Acquisition   | -                   | -                   | 4891                |
|   | <b>263,470</b>      | <b>789,366</b>      | <b>112,166</b>      |
| <i>Prometedora claim</i>                                    | <b>118,372</b>      | <b>86,508</b>       | <b>32,009</b>       |
| <i>Sol Brillante/La Colorada claims</i>                     |                     |                     |                     |
| Acquisition   | 41,565              | 27,246              | 276,693             |
| Salaries  | 29,854              | 6,423               | 42,830              |
| Camp and general  | 20,912              | -                   | 86,751              |
| Geological  | -                   | -                   | 214,098             |
| Drilling  | -                   | -                   | 168,969             |
|   | <b>92,331</b>       | <b>33,669</b>       | <b>789,341</b>      |
| <i>Luicho claims</i>  |                     |                     |                     |
| Drilling  | 1,035,975           | -                   | -                   |
| Camp and general  | 789,023             | 262,516             | -                   |
| Geological  | 693,357             | 610,103             | -                   |
| Road  | 444,640             | 171,514             | -                   |
| Salaries  | 272,264             | 280,002             | -                   |
| Logistics   | 263,509             | -                   | -                   |
| Acquisition   | 245,565             | 410,347             | -                   |
| Assay   | 239,896             | -                   | -                   |
| Supplies  | 203,550             | 184,948             | -                   |
| Legal   | 156,068             | 181,685             | -                   |
| Travel  | 122,656             | 163,455             | -                   |
|   | <b>4,466,503</b>    | <b>2,264,570</b>    | <b>-</b>            |
| <i>Cofradia/La Espina claims</i>                            | -                   | 1,689,827           | 1,537,136           |
| <i>Fantasma/Nunez Cateo claims</i>                          | -                   | 305,198             | 350,632             |
| <i>Cerro Blanco claims</i>                                  | -                   | -                   | 47,939              |
| <i>Various claims - Investigation costs</i>                 | <b>712,164</b>      | <b>682,330</b>      | <b>867,323</b>      |
| <b>Costs for the Year</b>                                   | <b>5,652,840</b>    | <b>5,851,468</b>    | <b>3,736,546</b>    |
| Balance - Beginning of year                                 | 4,698,216           | 3,233,979           | 3,773,149           |
| Write-off of costs relating to mineral properties abandoned | <b>(8,949,165)</b>  | <b>(4,387,231)</b>  | <b>(4,275,716)</b>  |
| <b>Balance - End of Year</b>                                | <b>\$ 1,401,891</b> | <b>\$ 4,698,216</b> | <b>\$ 3,233,979</b> |

Under U.S. generally accepted accounting principles, all of the company's mineral property costs and investment in Salta Gold Ltd. have been written off (Note 12b).

**Pacific Rim Mining Corp.**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements**

**30 April 2001 and 2000**

*Canadian Funds*

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**1. Significant Accounting Policies**

**a) Nature of Operations**

The company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration costs, including such travel and administration costs relating directly to exploration, are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written off.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

**b) Loss per Share**

Basic loss per share computations are based on the weighted average number of shares outstanding during the year. Fully diluted earnings per share has not been disclosed as it is anti-dilutive.

**c) Cash and Short-Term Investments**

For purposes of reporting cash flows, the company considers cash and short-term investments to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of six months or less. The company places its cash and cash investments with institutions of high-credit worthiness. At times, such investments may be in excess of federal insurance limits.

**d) Amortization**

The company provides for amortization on its capital assets at 20% - 30% on a declining balance method. One-half of the above rate is taken in the year of acquisition.

**e) Foreign Currency Translation**

The accounts of the company's foreign operations have been translated into Canadian dollars as follows:

- Monetary assets and liabilities at year-end rates,
- All other assets and liabilities at historical rates, and
- Revenue and expense and exploration and development items at the average rate of exchange prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year that they occur.

**Pacific Rim Mining Corp.**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements**

**30 April 2001 and 2000**

*Canadian Funds*

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**1. Significant Accounting Policies - Continued**

**f) Consolidation**

These consolidated financial statements include the accounts of the company and International Pacific Rim S.A., Pacific Rim Exploration Inc., Pacific Rim Mining Corp. Argentina S.A., Salta Gold Ltd., Minera Pacific Rim S.A. de C.V., Minera Pacific Rim Peru S.A.C. and other holding companies.

- i) International Pacific Rim S.A. was incorporated in Argentina on 10 July 1996. The company owns 100% of the issued share capital of the subsidiary. The subsidiary is involved in mineral property exploration.
- ii) Pacific Rim Exploration Inc., formerly Andes Exploration Inc., was incorporated in the state of Nevada, U.S.A. on 20 March 1997. The company owns 100% of the issued share capital of the subsidiary. The subsidiary is involved in mineral property exploration.
- iii) Pac Rim Caribe, Pac Rim Caribe II, Pac Rim Caribe III, Pac Rim Caribe IV and Pac Rim Cayman were incorporated to hold the shares of the company's subsidiaries. The company owns 100% of the issued share capital of these holding companies.
- iv) Minera Pacific Rim S.A. de C.V. was incorporated in Mexico on 11 September 1997 and Exploradora Pacrim Peru S.A.C. was incorporated in Peru on 3 June 1999. The company owns 100% of the issued share capital of these subsidiaries. The subsidiaries are currently inactive.
- v) Minera Pacific Rim Peru S.A.C. was incorporated in Peru on 10 June 1998. The company owns 100% of the issued share capital of the subsidiary. The subsidiary is involved in mineral property exploration.

These consolidated financial statements include the results of all of the above subsidiaries' operations from the date of incorporation to the year-end date.

- vi) Pacific Rim Mining Corp. Argentina S.A. ("PFG Argentina") was incorporated in Argentina on 1 September 1993. PFG Argentina is involved in mineral property exploration.

Salta Gold Ltd. ("Salta") is a holding company that owns the shares of PFG Argentina. The company was incorporated in the Cayman Islands on 25 June 1996 to hold the shares of PFG Argentina.

These consolidated financial statements include the results of operations for Salta and PFG Argentina for the periods from incorporation until 26 June 1996, when the company entered into an agreement pursuant to which it sold 70% of Salta. Thereafter, the investment in Salta and PFG Argentina has been accounted for under the equity method of accounting. Under the equity method of accounting, the company records its share of the income or loss for the fiscal period. As at 30 April 2001, the company owned 30% of Salta. Subsequent to year-end the company owned 100% of Salta (*Note 2c*).

**g) Environmental Expenditures**

The operations of the company have been, and may in the future be, affected from time to time in varying degree 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 vary greatly 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.

**Pacific Rim Mining Corp.**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements**

**30 April 2001 and 2000**

*Canadian Funds*

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**1. Significant Accounting Policies - Continued**

**g) Environmental Expenditures - Continued**

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. To date, the company has incurred no environmental expenditures relating to the exploration of mineral properties.

**h) Management's Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimated.

**i) Share Capital**

- i)* The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the company. No compensation expense is recognized for stock options.
- ii)* Share capital issued for non-monetary consideration is recorded at an amount based on fair market value reduced by an estimate of transaction costs normally incurred when issuing shares for cash, as determined by the board of directors of the company.

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**2. Salta Gold Ltd.**

**a) Sale of Salta Gold Ltd. ("Salta")**

By an agreement dated 26 June 1996, the company sold 70% of the issued and outstanding share capital of Salta and its one remaining share of Salta's subsidiary, PFG Argentina.

In consideration, the purchaser must:

- i)* incur U.S. \$81,667 in exploration expenditures on the Diablillos property for the 70% interest in Salta (completed); and
- ii)* pay U.S. \$1 for the one share of PFG Argentina (paid).

The agreement also provided the company the right to repurchase the 70% interest in Salta and the one share of PFG Argentina should the purchaser fail to incur, at its option, exploration expenditures on the Diablillos property as follows:

|                                      |         |            |             |
|--------------------------------------|---------|------------|-------------|
| On or before June 2000               | U.S. \$ | 10,500,000 | (completed) |
| Each subsequent year after June 2000 | U.S. \$ | 4,000,000  | (Note 2c)   |

**Pacific Rim Mining Corp.**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements**

**30 April 2001 and 2000**

*Canadian Funds*

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**2. Salta Gold Ltd. - Continued**

**b) Investment in Salta**

i) Details of the investment are as follows:

|                     | CDN \$              |
|---------------------|---------------------|
| Investment in Salta | \$ 3,803,917        |
| Equity in loss      | (169,984)           |
|                     | <u>\$ 3,633,933</u> |

The investment represents the company's mineral property costs incurred to date on the Diablillos claims in Argentina. Equity in loss is the company's 30% share of cumulative losses in Salta between 26 June 1996 (date of sale) and 30 April 2001. The current year loss on equity on the investment in Salta is \$14,208.

ii) Condensed consolidated financial information of Salta at 31 December 2000 (fiscal year-end) is as follows:

|                                   | U.S. \$              |
|-----------------------------------|----------------------|
| <b>ASSETS</b>                     |                      |
| Current                           | \$ 28,508            |
| Other Assets                      | 2,028,917            |
| Mineral Property                  | 16,077,530           |
|                                   | <u>\$ 18,134,955</u> |
| <b>LIABILITIES</b>                |                      |
| Current                           | \$ 32,899            |
| Shareholders' Advances and Equity | 18,102,056           |
|                                   | <u>\$ 18,134,955</u> |
| Loss For the Period               | <u>\$ (31,284)</u>   |

**c) Repurchase of Salta**

The original sale agreement noted above contained a clause whereby the 70% interest in Salta could be repurchased if certain conditions, such as failing to incur exploration expenditures, occurred. On 28 June 2001, the 70% interest and one share of PFG Argentina was repurchased for a nominal amount, thereby restoring the company's ownership in Salta to 100%. The major asset of Salta at the date of repurchase is the Diablillos mineral property in Argentina, which has had approximately \$16,000,000 in exploration expenditures incurred to date.

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**Pacific Rim Mining Corp.***(An Exploration Stage Company)***Notes to Consolidated Financial Statements****30 April 2001 and 2000***Canadian Funds***3. Mineral Property Costs**

a) Details are as follows:

|                           | 2001             |                     |                     | 2000                |
|---------------------------|------------------|---------------------|---------------------|---------------------|
|                           | Acquisition      | Exploration         | Total               |                     |
| Argentina Claims          |                  |                     |                     |                     |
| San Francisco             | \$ 21,667        | \$ 1,143,335        | \$ 1,165,002        | \$ 901,532          |
| Prometedora               | 7,375            | 229,512             | 236,887             | 118,515             |
| Sol Brillante/La Colorada | -                | -                   | -                   | 1,413,597           |
| Luicho Claims, Peru       | -                | -                   | -                   | 2,264,570           |
| Canadian Claims           | 2                | -                   | 2                   | 2                   |
|                           | <u>\$ 29,044</u> | <u>\$ 1,372,847</u> | <u>\$ 1,401,891</u> | <u>\$ 4,698,216</u> |

For expenditures incurred during the current year, on a property by property basis, refer to the Consolidated Schedule of Mineral Property Costs.

**b) San Francisco Claim, Argentina**

The San Francisco claim is located in Jujuy Province, Argentina and consists of 1 claim totaling 3,600 hectares. The project was acquired by staking and is 100% owned by the company. There are no underlying payments or royalties associated with the San Francisco claim.

**c) Prometedora Claim, Argentina**

The Prometedora claim is located in Salta Province, Argentina and consists of 1 claim totaling 3,500 hectares. The project was acquired by staking and is 100% owned by the company. There are no underlying payments or royalties associated with the Prometedora claim.

**d) Sol Brillante/La Colorada Claims, Argentina**

By agreement dated 1 October 1998, the company had an option to acquire a 100% interest in the Sol Brillante property located adjacent to the La Colorada claims in the Salta Province of Argentina. During the current year, the company abandoned its option in the Sol Brillante claims, which resulted in a write-off of \$1,505,928.

**e) Luicho Claims, Peru**

By agreement dated 14 September 1999, the company had an option to acquire a 100% interest in the Luicho property, located in Peru. During the current year, the company abandoned its option in the Luicho claims, which resulted in a write-off of \$6,731,072.

**Pacific Rim Mining Corp.***(An Exploration Stage Company)***Notes to Consolidated Financial Statements****30 April 2001 and 2000***Canadian Funds***4. Capital Assets**

Details are as follows:

|                                   | Cost       | Accumulated<br>Amortization | <b>2001<br/>Net Book<br/>Value</b> | 2000<br>Net Book<br>Value |
|-----------------------------------|------------|-----------------------------|------------------------------------|---------------------------|
| Equipment and office<br>furniture | \$ 330,711 | \$ 153,978                  | \$ <b>176,733</b>                  | \$ 188,691                |

**5. Share Capital**

- a) The company has granted stock options to its officers, directors and employees pursuant to the policies of the governing regulatory bodies. Details are as follows:

|                         | Number      | Exercise<br>Price | Expiration Date               |
|-------------------------|-------------|-------------------|-------------------------------|
| Balance - 30 April 1998 | 1,820,000   | \$1.52/5.17       | February 1999 - April 2002    |
| Options granted         | 735,500     | \$0.88            | November 2003                 |
| Options granted         | 737,000     | \$1.49            | February 2004                 |
| Options expired         | (1,460,000) | \$3.85            |                               |
| Options expired         | (45,000)    | \$1.52            |                               |
| Options cancelled       | (60,000)    | \$5.17            |                               |
| Options cancelled       | (10,000)    | \$1.52            |                               |
| Options cancelled       | (1,500)     | \$0.88            |                               |
| Options cancelled       | (1,000)     | \$1.49            |                               |
| Balance - 30 April 1999 | 1,715,000   | \$0.88/1.52       | December 2001 - February 2004 |
| Options granted         | 679,000     | \$1.30            | September 2004                |
| Options granted         | 5,000       | \$1.70            | October 2004                  |
| Options granted         | 10,000      | \$4.65            | April 2005                    |
| Options exercised       | (5,000)     | \$1.49            |                               |
| Options exercised       | (27,000)    | \$0.88            |                               |
| Options exercised       | (5,600)     | \$1.52            |                               |
| Options exercised       | (2,600)     | \$1.30            |                               |
| Balance - 30 April 2000 | 2,368,800   | \$0.88/4.65       | December 2001 - April 2005    |
| Options granted         | 91,000      | \$4.70            | 20 June 2005                  |
| Options exercised       | (40,500)    | \$1.52            |                               |
| Options cancelled       | (92,000)    | \$1.52            |                               |
| Options cancelled       | (73,000)    | \$0.88            |                               |
| Options cancelled       | (161,000)   | \$1.49            |                               |
| Options cancelled       | (136,000)   | \$1.30            |                               |
| Options cancelled       | (5,000)     | \$1.70            |                               |
| Options cancelled       | (10,000)    | \$4.65            |                               |
| Balance - 30 April 2001 | 1,942,300   | \$0.88/4.70       | December 2001 - June 2005     |

**Pacific Rim Mining Corp.***(An Exploration Stage Company)***Notes to Consolidated Financial Statements****30 April 2001 and 2000***Canadian Funds***5. Share Capital - Continued**a) *Continued*

The stock options outstanding at 30 April 2001 expire as follows:

| Number           | Price per Share | Expiry Date       |
|------------------|-----------------|-------------------|
| 106,900          | \$1.52          | 18 December 2001  |
| 634,000          | \$0.88          | 4 November 2003   |
| 570,000          | \$1.49          | 4 February 2004   |
| 540,400          | \$1.30          | 24 September 2004 |
| 91,000           | \$4.70          | 20 June 2005      |
| <u>1,942,300</u> |                 |                   |

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 123 (SFAS No.123), "Accounting for Stock-Based Compensation". SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans. The statement encourages all entities to adopt a fair value based method of accounting, but allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees". The company has adopted the disclosure provisions of SFAS No. 123 as follows:

|                    | <u>2001</u>    | <u>2000</u>    |
|--------------------|----------------|----------------|
| Net Loss           |                |                |
| As Reported        | \$ (9,634,880) | \$ (5,220,329) |
| Pro forma          | \$ (9,635,893) | \$ (5,470,599) |
| Net Loss Per Share |                |                |
| As Reported        | \$ (0.42)      | \$ (0.24)      |
| Pro forma          | \$ (0.42)      | \$ (0.25)      |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                                 | <u>2001</u>    | <u>2000</u> |
|---------------------------------|----------------|-------------|
| Expected dividend yield         | <b>0.00%</b>   | 0.00%       |
| Expected stock price volatility | <b>184%</b>    | 97%         |
| Risk-free interest rate         | <b>5.00%</b>   | 6.35%       |
| Expected life of options        | <b>5 years</b> | 5 years     |

The weighted average grant-date fair value of options granted 2001 and 2000 was \$0.01 and \$0.36 respectively.

**Pacific Rim Mining Corp.***(An Exploration Stage Company)***Notes to Consolidated Financial Statements****30 April 2001 and 2000***Canadian Funds***5. Share Capital - Continued**

b) The warrant activity is as follows:

|                                     | Number      | Exercise Price | Expiration Date           |
|-------------------------------------|-------------|----------------|---------------------------|
| Balance - 30 April 1998             | 2,550,000   | \$1.52/6.38    | January 1999 - April 1999 |
| Warrants exercised                  | (1,378,000) | \$1.52         |                           |
| Warrants expired                    | (1,097,000) | \$1.52         |                           |
| Warrants expired                    | (75,000)    | \$6.38         |                           |
| Balance - 30 April 1999<br>and 2000 | -           |                |                           |
| Warrants issued                     | 853,765     | \$5.00         | 15 June 2001              |
| Warrants issued                     | 119,527     | \$4.45         | 15 June 2001              |
| Balance - 30 April 2001             | 973,292     | \$4.45/5.00    | 15 June 2001              |

- c) During 1999, the company entered into an agreement whereby the company would issue non-transferable share purchase warrants exercisable to acquire up to a maximum of 722,825 common shares at \$1.38 per share with staggered exercise dates to 25 February 2004. These warrants were a finder's fee for introductions being made to the company that would lead to the acquisition of new exploration opportunities in Peru. Exercise of the warrants is conditional on the company acquiring a project as a result of the introduction, receiving regulatory approval of that project and the company making certain minimum acquisition payments. To date, these conditions have not been and met and accordingly, no warrants have been issued under this agreement. During the current year, this agreement has been terminated.
- d) On 18 August 1999, the company adopted a shareholder rights plan. Under the Plan, the company issued one Right for no consideration in respect of each outstanding common share of the company. All common shares issued by the company during the term of the Plan will have one Right attached to them. The Rights will trade together with the common shares and the term of the Plan is for three years. The Rights are attached to the common shares and cannot be exercised until eight trading days after a triggering event has taken place. A triggering event is one of the following: (i) an Acquiring Person acquires 20% or more of the common shares of the company; or (ii) an Acquiring Person announces his intention to make a take-over bid that would result in the person owning 20% or more of the outstanding common shares of the company. Upon such a triggering event, each Right would separate from the common share and thereafter entitle the holder to purchase common shares at a 50% discount to the market price, up to the amount of the \$50 exercise price of the Right. The Rights will not be separated if the Acquiring Person makes a Permitted Bid. A Permitted Bid is a bid made pursuant to a take-over bid circular to all shareholders of the company, which has a minimum deposit period of at least 60 days and pursuant to which not less than 50% of the common shares, other than those held by the Acquiring Person, are deposited and not withdrawn.
- e) On 13 June 2000, the company issued 1,307,530 special warrants and 400,000 special notes for total cash of \$7,329,493. 945,080 of the special warrants were purchased by arms length parties at \$4.25 each and 362,450 were purchased by directors and a relative of a director at \$4.45 each. The special notes were purchased by an arms length party at \$4.25 each. Each special warrant and each special note were exercised upon receipt of the prospectus dated 24 August 2000, for no additional consideration, into one common share and one half non-transferable share purchase warrant.

**Notes to Consolidated Financial Statements**  
**30 April 2001 and 2000**

Canadian Funds

**5. Share Capital - Continued**

e) - Continued

One full share purchase warrant was exercisable to purchase an additional common share at \$5.00 to 15 June 2001. The underwriters of the special warrants received a cash commission of 7% of the total proceeds which totals \$513,065. The underwriters were also granted 119,527 non-transferable share purchase warrants. The compensation warrants are exercisable at \$4.45 from closing to 15 June 2001. All warrants expired subsequent to year-end.

**6. Related Party Transactions**

a) In addition to items noted elsewhere, the company entered into the following transactions with related parties:

|                                 | 2001       | 2000       | 1999    |
|---------------------------------|------------|------------|---------|
| Wages - President and director  | \$ 141,000 | \$ 141,000 | 141,000 |
| Wages - Chief Executive Officer | 189,238    | 183,775    | 188,987 |

b) During the year ended 30 April 2001, the company issued NIL (2000 - NIL; 1999 - 250,000) shares for \$NIL (2000 - \$NIL; 1999 - \$380,000) to a director. These share issuances were at fair market value.

c) During the year, 362,450 (2000 - NIL; 1999 - NIL) shares related to special warrants were issued to directors and relatives of directors of the company for cash of \$1,612,903 (2000 - \$NIL; 1999 - \$NIL).

**7. Income Taxes**

The company has incurred certain mineral property related expenditures of approximately \$4,000,000 in Canada and \$6,000,000 in South America which may be carried forward indefinitely in Canada and until the properties are dropped or the mineral deposits are depleted in South America. These expenditures can be used to reduce prescribed taxable income in future years.

The company has non-capital losses for tax purposes of approximately \$3,810,000 which may be carried forward and expire as follows:

|      | U.S.A.     | Canada       | South<br>America |
|------|------------|--------------|------------------|
| 2002 | \$ -       | \$ 306,000   | \$ -             |
| 2003 | -          | 431,000      | -                |
| 2004 | -          | -            | 97,000           |
| 2005 | -          | 170,000      | -                |
| 2006 | -          | 118,000      | 2,043,000        |
| 2010 | 205,000    | -            | 440,000          |
|      | \$ 205,000 | \$ 1,025,000 | \$ 2,580,000     |

The potential future tax benefit of these expenditures and tax losses have not been recognized in the accounts of the company.

**Pacific Rim Mining Corp.**  
(An Exploration Stage Company)

**Notes to Consolidated Financial Statements**  
**30 April 2001 and 2000**

Canadian Funds

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**8. Segmented Information**

Details on a geographic basis at 30 April 2001 are as follows:

|                      | North<br>America | South<br>America | Total          |
|----------------------|------------------|------------------|----------------|
| Assets               | \$ 1,378,319     | \$ 5,233,555     | \$ 6,611,874   |
| Capital expenditures | \$ 5,192         | \$ 5,687,329     | \$ 5,692,521   |
| Loss for the year    | \$ (1,330,876)   | \$ (8,304,004)   | \$ (9,634,880) |

Details on a geographic basis at 30 April 2000 are as follows:

|                      | North<br>America | South<br>America | Total          |
|----------------------|------------------|------------------|----------------|
| Assets               | \$ 1,307,035     | \$ 8,580,316     | \$ 9,887,351   |
| Capital expenditures | \$ 22,138        | \$ 5,844,140     | \$ 5,866,278   |
| Loss for the year    | \$ (797,884)     | \$ (4,422,445)   | \$ (5,220,329) |

Details on a geographic basis at 30 April 1999 are as follows:

|                      | North<br>America | South<br>America | Total          |
|----------------------|------------------|------------------|----------------|
| Assets               | \$ 7,651,238     | \$ 7,127,010     | \$ 14,778,248  |
| Capital expenditures | \$ 30,726        | \$ 3,675,044     | \$ 3,705,770   |
| Loss for the year    | \$ (681,703)     | \$ (4,348,872)   | \$ (5,030,575) |

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**9. Settlement of Lawsuit**

During the 1999 fiscal year, the company became aware of a contingent liability to pay damages arising from an undertaking given, without authorization, on the company's behalf by its former president in a Supreme Court Action (the "Action"). The undertaking was given in order to obtain an injunction over certain shares in the possession of the defendants, which the former president claims are his. A defendant in the Action has since filed a separate action against the company, the former president and others, claiming damages resulting from the injunction. During the current year, the company settled the lawsuit by issuing 100,000 common shares at a price of \$0.30 per share.

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**10. Commitment**

The company has several operating leases for office, field and warehouse space. Under the terms of the agreements, the minimum lease payments are as follows:

|      |    |        |
|------|----|--------|
| 2002 | \$ | 19,932 |
| 2003 |    | 19,932 |
| 2004 |    | 18,271 |
|      | \$ | 58,135 |

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**Pacific Rim Mining Corp.**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements**

**30 April 2001 and 2000**

*Canadian Funds*

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**11. Fair Value of Financial Instruments**

The company's financial instruments consist of cash and short-term investments, accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

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**12. United States Generally Accepted Accounting Principles**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Except as set out below, these financial statements also comply, in all material aspects, with accounting principles generally accepted in the United States and the rules and regulations of the Securities Exchange Commission.

- a) Under the Canadian GAAP, the weighted average number of common shares outstanding includes any shares that remain in escrow, but may be earned out based on the company incurring a certain amount of exploration expenditures. Under United States GAAP basic loss per share is calculated using the weighted average number of shares outstanding during the year. This weighted average number of common shares outstanding excludes any shares that remain in escrow, but may be earned out based on the company incurring a certain amount of exploration expenditures. Fully diluted loss per share has not been disclosed because the company's share purchase warrants and share purchase options are anti-dilutive.
- b) Under Canadian GAAP, the mineral properties are carried at cost and written off or written down if the properties are abandoned, sold or if management decides not to pursue the properties. Under United States GAAP, the company would periodically review and obtain independent reports in determining adjustments to the mineral properties and records properties at net realizable value. The company has not yet obtained an independent report for United States GAAP purposes, therefore, the company's mineral property costs and investment in Salta Gold Ltd. have been written off.
- c) Under United States GAAP, stock compensation expense is recorded as shares held in escrow become digible for release based upon the number of shares eligible for release and the market value of the shares at that time. Under Canadian GAAP, no value is attributed to such shares released and no compensation expense is recorded. The shares held in escrow were performance shares which were issued to certain directors who reorganized the company's business affairs and raised financing sufficient to fund the company's business plan.

**Pacific Rim Mining Corp.**  
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**Notes to Consolidated Financial Statements**  
**30 April 2001 and 2000**

Canadian Funds

**12. United States Generally Accepted Accounting Principles - Continued**

- d) The impact of the above differences between Canadian and United States GAAP on loss for the period is as follows:

|  | Cumulative<br>Amounts from<br>1 August 1987<br>to 30 April 2001 | <b>Year Ended<br/>30 April 2001</b> | Year Ended<br>30 April 2000 | Year Ended<br>30 April 1999 |
|--|---|-------------------------------------|-----------------------------|-----------------------------|
| Loss for the period as reported  | \$ (27,035,382)   | \$ <b>(9,634,880)</b>               | \$ (5,220,329)              | \$ (5,030,575)              |
| Stock compensation expense   | (714,375)   | -                                   | -                           | -                           |
| Write-off of mineral property costs  | (5,035,824)   | <b>3,282,516</b>                    | (1,436,569)                 | 508,026                     |
| Loss for the period in accordance with<br>United States GAAP                   | \$ (32,785,581)   | \$ <b>(6,352,364)</b>               | \$ (6,656,898)              | \$ (4,522,549)              |
|  |   | <b>Year Ended<br/>30 April 2001</b> | Year Ended<br>30 April 2000 | Year Ended<br>30 April 1999 |
| Primary loss per share for the period in<br>accordance with United States GAAP |   | \$ <b>(0.28)</b>                    | \$ (0.31)                   | \$ (0.22)                   |

| <b>Weighted Average Number of Shares</b> | <b>2001</b>       | 2000       | 1999       |
|--|-------------------|------------|------------|
| Canadian Basis                           | <b>22,834,215</b> | 21,621,753 | 20,531,787 |
| Escrow Shares                            |                   |            |            |
| - Share purchase warrants *              | -                 | -          | -          |
| - Share purchase options *               | -                 | -          | -          |
| U.S. Basis                               | <b>22,834,215</b> | 21,621,753 | 20,531,787 |

\* Not applicable to calculations because the effect is anti-dilutive.

- e) The impact of the above differences between Canadian and United States GAAP on the deficit, as reported, is as follows:

|  | Cumulative<br>Amounts from<br>1 August 1987<br>to 30 April 2001 | <b>Year Ended<br/>30 April 2001</b> | Year Ended<br>30 April 2000 | Year Ended<br>30 April 1999 |
|--|---|-------------------------------------|-----------------------------|-----------------------------|
| Deficit - As reported                            | \$ (27,035,382)   | \$ <b>(27,035,382)</b>              | \$ (17,400,502)             | \$ (12,180,173)             |
| Stock compensation expense                       | (714,375)   | <b>(714,375)</b>                    | (714,375)                   | (714,375)                   |
| Write-off of mineral property costs              | (5,035,824)   | <b>(5,035,824)</b>                  | (8,318,340)                 | (6,881,771)                 |
| Deficit in accordance with United States<br>GAAP | \$ (32,785,581)   | \$ <b>(32,785,581)</b>              | \$ (26,433,217)             | \$ (19,776,319)             |

**Pacific Rim Mining Corp.**  
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**Notes to Consolidated Financial Statements**  
**30 April 2001 and 2000**

Canadian Funds

**12. United States Generally Accepted Accounting Principles - Continued**

- f) The impact of the above differences between Canadian and United States GAAP on the statement of changes in shareholders' equity, as reported, is as follows:

|   | Common Shares |               | Deficit         | Total         |
|---|---------------|---------------|-----------------|---------------|
|   | Number        | Amount        |                 |               |
| Shareholders' equity balance as reported at 30 April 1999                   | 21,595,370    | \$ 26,802,181 | \$ (12,180,173) | \$ 14,622,008 |
| Stock compensation expense  | -             | 714,375       | (714,375)       | -             |
| Write-off of mineral property costs   | -             | -             | (6,881,771)     | (6,881,771)   |
| Shareholders' equity in accordance with United States GAAP at 30 April 1999 | 21,595,370    | \$ 27,516,556 | \$ (19,776,319) | \$ 7,740,237  |
| Shareholders' equity balance as reported at 30 April 2000                   | 21,650,570    | \$ 26,864,033 | \$ (17,400,502) | \$ 9,463,531  |
| Stock compensation expense  | -             | 714,375       | (714,375)       | -             |
| Write-off of mineral property costs   | -             | -             | (8,318,340)     | (8,318,340)   |
| Shareholders' equity in accordance with United States GAAP at 30 April 2000 | 21,650,570    | \$ 27,578,408 | \$ (26,433,217) | \$ 1,145,191  |
| Shareholders' equity balance as reported at 30 April 2001                   | 23,498,600    | \$ 33,589,783 | \$ (27,035,382) | \$ 6,554,401  |
| Stock compensation expense  | -             | 714,375       | (714,375)       | -             |
| Write-off of mineral property costs   | -             | -             | (5,035,824)     | (5,035,824)   |
| Shareholders' equity in accordance with United States GAAP at 30 April 2001 | 23,498,600    | \$ 34,304,158 | \$ (32,785,581) | \$ 1,518,577  |