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PACIFIC SPIRIT INC
Form 10QSB
November 04, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2004

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period _____ to _____

Commission File Number 001-31608

PACIFIC SPIRIT, INC.

(Exact name of small Business Issuer as specified in its charter)

Nevada

98-0349685

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

11640 96A Avenue
Surrey, British Columbia

V3V 2A1

(Address of principal executive offices)

(Postal or Zip Code)

Issuer's telephone number, including area code: 604-760-1400

None

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,820,000 shares of \$0.001 par value common stock outstanding as of November 4, 2004.

PACIFIC SPIRIT INC.

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(A Pre-exploration Stage Company)

INTERIM FINANCIAL STATEMENTS

September 30, 2004

(Stated in US Dollars)

(Unaudited)

PACIFIC SPIRIT INC.

(A Pre-exploration Stage Company)

INTERIM BALANCE SHEETS

September 30, 2004 and December 31, 2003

(Stated in US Dollars)

(Unaudited)

	ASSETS -----	September 30, 2004 ----
Current		
Cash		\$ 830
Prepaid expenses		253

		\$ 1,083
		=====
	LIABILITIES -----	
Current		
Accounts payable and accrued liabilities		\$ 4,160
Due to related party - Note 3		5,676

		9,836
		=====
	STOCKHOLDERS' EQUITY (DEFICIENCY) -----	
Preferred stock, \$0.001 par value		
10,000,000 shares authorized, none outstanding		
Common stock, \$0.001 par value		
100,000,000 shares authorized		
3,820,000 shares issued (December 31, 2003: 3,820,000)		3,820
Paid in capital		87,180
Deficit accumulated during the pre-exploration stage		(99,753)

		(8,753)

		\$ 1,083
		=====

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SEE ACCOMPANYING NOTES

PACIFIC SPIRIT INC.
 (A Pre-exploration Stage Company)
 INTERIM STATEMENTS OF OPERATIONS
 for the three and nine months ended September 30, 2004 and 2003
 and for the period May 4, 2001 (Date of Incorporation) to September 30, 2004
 (Stated in US Dollars)
 (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	----	----	----	----
Expenses				
Accounting and audit fees	\$ 670	\$ 1,121	\$ 2,592	\$
Administrative services	1,500	-	1,500	
Bank charges	81	49	179	
Exploration costs	150	-	805	
Incorporation costs	-	-	-	
Legal fees	-	-	-	
Mineral lease advance royalty				
- Note 4	5,000	2,155	7,000	
Office and miscellaneous	750	-	750	
Transfer agent and listing fees	509	297	2,461	
	-----	-----	-----	-----
Loss before other item	(8,660)	(3,622)	(15,287)	
Other item				
Interest income	-	-	-	
	-----	-----	-----	-----
Net loss for the period	\$ (8,660)	\$ (3,622)	\$ (15,287)	\$
	=====	=====	=====	=====
Basic loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$
	=====	=====	=====	=====
Weighted average number of shares outstanding	3,820,000	3,820,000	3,820,000	3,820,000
	=====	=====	=====	=====

SEE ACCOMPANYING NOTES

PACIFIC SPIRIT INC.
 (A Pre-exploration Stage Company)
 INTERIM STATEMENTS OF CASH FLOWS
 for the nine months ended September 30, 2004 and 2003,
 and for the period May 4, 2001 (Date of Incorporation) to September 30, 2004
 (Stated in US Dollars)

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(Unaudited)

	Nine months ended September 30,	
	2004	2003
	-----	-----
Cash Flows from Operating Activities		
Net loss for the period	\$ (15,287)	\$ (7,71)
Changes in non-cash working capital balances related to operations		
Prepaid expenses	480	
Accounts payable and accrued liabilities	(2,538)	(7,72)
	-----	-----
	(17,345)	(15,43)
	-----	-----
Cash Flows from Financing Activities		
Capital stock issued	-	
Advance from a director	5,676	
	-----	-----
	5,676	
	-----	-----
Increase (decrease) in cash during the period	(11,669)	(15,43)
Cash, beginning of the period	12,499	27,98
	-----	-----
Cash, end of the period	\$ 830	\$ 12,54
	=====	=====
Supplemental disclosure of cash flow information; Cash paid for:		
Interest	\$ -	\$
	=====	=====
Income taxes	\$ -	\$
	=====	=====

SEE ACCOMPANYING NOTES

PACIFIC SPIRIT INC.
(A Pre-exploration Stage Company)
INTERIM STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)
for the period May 4, 2001 (Date of Incorporation) to September 30, 2004
(Stated in US Dollars)
(Unaudited)

	Common Shares		Additional	D
	Number	Par Value	Paid-in Capital	Acc Duri exp
	-----	-----	-----	
Capital stock issued for cash				

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	- at \$0.01	2,500,000	\$	2,500	\$	22,500	\$
Net loss for the period		-		-		-	
		-----		-----		-----	
Balance, as at							
December 31, 2001		2,500,000		2,500		22,500	
Capital stock issued for cash							
- at \$0.05		1,320,000		1,320		64,680	
Net loss for the year		-		-		-	
		-----		-----		-----	
Balance, as at							
December 31, 2002		3,820,000		3,820		87,180	
Net loss for the year		-		-	-	-	
		-----		-----		-----	
Balance, as at							
December 31, 2003		3,820,000		3,820		87,180	
Net loss for the period		-		-		-	
		-----		-----		-----	
Balance, as at							
September 30, 2004		3,820,000	\$	3,820	\$	87,180	\$
		=====		=====		=====	

SEE ACCOMPANYING NOTES

PACIFIC SPIRIT INC.
(A Pre-exploration Stage Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS
September 30, 2004
(Stated in US Dollars)
(Unaudited)

Note 1 Interim Reporting

While information presented in the accompanying interim financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim period presented. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the company's December 31, 2003 financial statements.

The results of operations for the period ended September 30, 2004 are not necessarily indicative of the results that can be expected for the year ended December 31, 2004.

Note 2 Continuance of Operations

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The financial statements have been prepared using generally accepted accounting principles in the United States of America applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. The Company has a working capital deficiency of \$8,753 as at September 30, 2004, has not yet attained profitable operations and has accumulated losses of \$99,753 since its commencement. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due.

Note 3 Due to Related Party

The amount due to related party, a director of the Company, consists of unpaid advances of \$5,676. The amount due is unsecured, non-interest bearing and has no specific terms for repayment.

Note 4 Commitments

Mineral Property

By a lease agreement effective June 1, 2001 and amended June 25, 2002, November 25, 2002, and January 9, 2004 the Company was granted the exclusive right to explore and mine the Del Oro and NP Claims located in Pershing County of the State of Nevada. The term of this lease is for 30 years, renewable for an additional 30 years so long as the condition of the lease are met. Minimum payments and performance commitments are as follows:

Pacific Spirit Inc.
(A Pre-exploration Stage Company)
Notes to the Interim Financial Statements
September 30, 2004
(Stated in US Dollars)
(Unaudited) - Page 2

Note 3 Commitments - (cont'd)

Mineral Property - (cont'd)

Minimum Advance Royalty Payments:

The owner shall be paid a royalty of 4% of the net smelter returns from all production. In respect to this royalty, the Company is required to pay minimum advance royalty payments of the following:

- \$5,000 upon execution (paid) and \$4,500 (paid) for extension of the agreement;
- \$2,000 upon execution (paid) of the amended agreement dated January 9, 2004;
- \$5,000 on July 9, 2004 (paid);
- \$10,000 on January 9, 2005; and

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- each January 9 thereafter, a payment of \$50,000 plus an annual increase or decrease equivalent to the rate of inflation designated by the Consumer Price Index for that year with execution year as base year.

The Company can reduce the net smelter return royalty to 0.5% by payment of a buy-out price of \$5,000,000. Advance royalty payments made to the date of the buy-out will be applied to reduce the buy-out price.

Performance Commitment:

In the event that the Company terminates the lease after June 1 of any year, it is required to pay all federal and state mining claim maintenance fees for the next assessment year. The Company is required to perform reclamation work on the property as required by federal, state and local law for disturbances resulting from the Company's activities on the property.

Item 2. Management's Discussion and Analysis or Plan of Operation

Forward Looking Statements

This quarterly report contains forward-looking statements that involve risks and uncertainties. We use words such as anticipate, believe, plan, expect, future, intend and similar expressions to identify such forward-looking statements. You should not place too much reliance on these forward-looking statements. Our actual results are likely to differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described in this Risk Factors section and elsewhere in this quarterly report.

Plan of Operation

Our plan of operation for the twelve months following the date of this report is to complete the recommended phase one exploration program on the Del Oro Property in which we hold a leasehold interest. We still anticipate that this program will cost us \$53,000.

In January 2004, we amended our mineral claims agreement regarding the Del Oro Property located in Pershing County Nevada. We paid the lessor of the property \$2,000 upon execution of the agreement and \$5,000 on July 9, 2004. In order to keep the lease in good standing, we must pay the lessor \$10,000 by January 9, 2005, and \$50,000 per year thereafter.

In addition, we anticipate spending \$12,000 on professional fees and \$15,000 on administrative expenses.

Total expenditures over the next 12 months are therefore expected to be \$90,000. Our cash on hand at September 30, 2004 was \$830. Accordingly, we will need to raise additional funds in order to complete the recommended exploration program on the Del Oro Property and meet our other expected expenses. We do not currently have any arrangements for raising additional funding.

Results of Operations for the third quarter ended September 30, 2004

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We incurred a net loss of \$15,287 for the nine-month period ended September 30, 2004, as compared to a loss of \$7,718 in the same period in 2003. The difference in net loss was primarily due to an increase in management fees, office expenses, and resource costs as per lease agreement. As per management agreement dated July 1, 2004, the president started to charge the Company \$500 per month for administrative fees (\$1,500 per the period July - September 2004). The Company also started to incur \$250 per month for office rent, telephone expenses, and general miscellaneous office expenses (\$750 per the period July - September 2004) related to the use of the Vancouver office. In the previous periods, the president did not charge the Company for such expenses. During the nine-month period ended September 30, 2004, we incurred transfer agent and filing fees of \$2,461 (2003: \$335) and accounting and audit fees of \$2,592 (2003: \$1,731) in order to bring all outstanding SEC filings current. We also incurred resource property costs as per lease agreement of \$7,000 (2003: \$2,155). At the end of the third quarter, we had cash on hand of \$830. Our liabilities at the same date totalled \$9,836, and consisted of accounts payable of \$4,160 and \$5,676 due to a related party.

Item 3. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's President, the Chief Executive Officer, and the Chief Financial Officer.

Based upon that evaluation, the Company concluded that the disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any pending legal proceeding. Management is not aware of any threatened litigation, claims or assessments.

Item 2. Changes in Securities

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Report on Form 8-K

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- 10.1 Management Agreement
- 31.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

There were no reports filed on Form 8-K during the six-month period ended September 30, 2004.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pacific Spirit, Inc.

/s/ Peter Sotola

Peter Sotola
President, Secretary, Treasurer
Chief Executive Officer and Director
(Principal Executive Officer,
Principal Financial Officer and
Principal Accounting Officer)
Dated: November 4, 2004

Exhibit 10.1

MANAGEMENT AGREEMENT

This Management Agreement is dated July 1, 2004.

BETWEEN:

Peter Sotola, with address at 11640 - 96A Avenue, Surrey, B.C.

(the "Manager")

and

PACIFIC SPIRIT INC., a company having a registered office in the State of Nevada and records office at 802 - 700 West Pender Street, Vancouver, BC, V6C 1G8

(the "Company")

WHEREAS:

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A. The Company has agreed to retain the services of the Manager on the terms and conditions hereinafter set forth effective the date referenced above; and

B. The Manager has agreed to be retained by the Company upon the terms and conditions hereinafter set forth.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the premises and mutual covenants and agreements herein contained, the parties hereto covenant and agree each with the other as follows:

1. RETAINER

The Company hereby retains the Manager and the Manager hereby accepts such retainer, to perform the duties and render the services set forth herein during the term of this Agreement. The Manager agrees to provide the services of Peter Sotola ("Sotola") to the Company for the duration of this Agreement.

2. TERM

This Agreement will be effective July 1, 2004 (the "Commencement Date") and shall continue in full force and effect for 12 months after the Commencement Date.

3. COMPENSATION

As compensation for the services of the Manager during the term of this Agreement, the Company shall pay the Manager a monthly salary of US\$500 commencing on the Commencement Date.

4. REIMBURSEMENT FOR EXPENSES

The Manager will be reimbursed for all reasonable out-of-pocket expenses incurred by the Manager in or about the execution of his duties which are pre-approved by the Company.

5. DUTIES AND SERVICES

During the term of this Agreement, the Company agrees that Sotola will provide general management duties, as required.

6. TERMINATION OF AGREEMENT

Notwithstanding any other provision herein, it is understood and agreed by and between the parties hereto that the Manager may resign his retainer hereunder by giving one month's written notice of such intention to resign.

7. APPLICABLE LAW

This Agreement shall be governed by the laws of the State of Nevada, USA and the Province of British Columbia, Canada.

8. AMENDMENT

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This Agreement may not be amended or otherwise modified except in writing signed by both parties.

9. HEADINGS

All headings and titles in this Agreement are for reference only and are not to be used in the interpretation of the terms hereof.

10. ACCEPTANCE OF AGREEMENT

This Agreement is subject to the approval of the Board of Directors of the Company.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the day and year first above written.

PETER SOTOLA

Per:

sgd: Peter Sotola

Peter Sotola

PACIFIC SPIRIT INC.

Per:

sgd: Peter Sotola

Peter Sotola, President