Papuan Precious Metals Corp.

Condensed Consolidated Interim Financial Statements

For the Six Months Ended

December 31, 2011

(unaudited)

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Table of contents

Notice

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed consolidated interim financial statements for the period ended December 31, 2011.

Papuan Precious Metals Corp.

Condensed consolidated interim statement of financial position

	Note		December 31, 2011		June 30, 2011
ASSETS					
Current assets					
Cash and cash equivalents		**$**	**4,478,272**	$	8,904,745
Amounts receivable	5		**36,984**		20,245
Prepaid expenses			**51,701**		48,304
			4,566,957		8,973,294
Property and equipment	6		**126,433**		128,323
Exploration and evaluation assets	7		**9,734,724**		5,897,577
Total Assets			**14,428,114**		14,999,194
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	8		**567,304**		613,827
Total liabilities			**567,304**		613,827
SHAREHOLDERS' EQUITY					
Share capital	10		**14,068,696**		14,004,136
Other capital reserves	10		**5,422,497**		5,071,144
Foreign currency translation reserves			**(131,013)**		-
Deficit			**(5,499,370)**		(4,689,913)
			13,860,810		14,385,367
Total Liabilities and Shareholders' Equity		**$**	**14,428,114**		14,999,194

Nature and continuance of operations (Note 1)

Approved on February 29, 2011 by the Directors:

" Devinder Randhawa"

Devinder Randhawa, Director

"I. David Lindley"

I. David Lindley, Director

Papuan Precious Metals Corp.

Condensed consolidated interim statements of comprehensive loss

	Note	Three months ended December 31, 2011	2010	Six months ended December 31, 2011	2010
Expenses		**$**	$	**$**	$
Business development		**2,500**	9,898	**13,699**	9,898
Consulting and management fees	12	**71,005**	8,464	**118,507**	58,639
Depreciation		**3,145**	178	**6,290**	2,448
Office and administration		**23,261**	12,734	**48,487**	17,687
Professional fees		**32,368**	12,019	**157,015**	78,673
Public relations and communications		**65,919**	5,159	**120,816**	5,159
Regulatory fees		**9,044**	33,890	**13,326**	33,890
Rent		**3,986**	2,028	**6,638**	5,154
Share-based compensation	10	**110,542**	-	**252,252**	-
Transfer agent		**5,901**	18,560	**8,990**	18,560
Wages and benefits	12	**56,331**	71,686	**101,852**	101,012
		384,002	174,616	**847,872**	331,120
Loss before other items		**(384,002)**	(174,616)	**(847,872)**	(331,120)
Other items - income / (expense)					
Interest		**27,813**	-	**38,415**	-
Foreign exchange gain (loss)		**-**	(214,216)	**-**	(229,811)
Finders fees		**-**	-	**-**	(231,527)
Expense recovery		-	43,750	**-**	43,750
Listing expenses		**-**	-	**-**	(2,477,462)
		27,813	(170,466)	**38,415**	(2,895,050)
Net loss and comprehensive loss for the period		**(356,189)**	(345,082)	**(809,457)**	(3,226,170)
Basic and diluted loss per common share		**(0.01)**	(0.13)	**(0.01)**	(0.08)
Weighted average number of of common shares outstanding		**69,432,645**	53,584,924	**69,432,645**	38,145,625
Net income (loss) for the period		**(356,189)**	(345,082)	**(809,457)**	(3,226,170)
Other comprehensive income (loss)					
Foreign currency translation adjustment		**(80,976)**	-	**(131,013)**	-
Comprehensive income (loss) for the period		**(437,165)**	(345,082)	**(940,470)**	(3,226,170)

See accompanying notes to the unaudited consolidated financial statements.

Papuan Precious Metals Corp.

Condensed consolidated interim statement of shareholders' equity

	Note	Common shares Shares	Common shares Amount	Other capital reserve	Foreign currency translation	Deficit	Total shareholders' equity
			$	$	$	$	$
Balance, June 30, 2009		12,182,291	2,379,667	-	-	(452,332)	**1,927,335**
Private Placement		12,000,000	-	-	-	-	**-**
Net loss and comprehensive loss		-	-	-	-	(456,621)	**(456,621)**
Balance, June 30, 2010		24,182,291	2,379,667	-	-	(908,953)	**1,470,714**
4:1 rollback of Jalna shares		(18,136,718)	-	-	-	-	**-**
Issuance of shares pursuant to reverse takeover	9	44,386,026	6,087,992	2,436,281	-	-	**8,524,273**
Share issuance costs		-	(458,025)	(114,377)	-	-	**(572,402)**
Broker warrants		-	(231,358)	231,358	-	-	**-**
Net loss and comprehensive loss		-	-	-	-	(2,649,730)	**(2,649,730)**
Balance, September 30, 2010		74,613,890	7,778,276	2,553,262	-	(3,558,683)	**6,772,855**
Private Placements	10(a)	18,933,334	6,423,915	1,596,085	-	-	**8,020,000**
Broker warrants		-	(200,449)	200,449	-	-	**-**
Share-based compensation	3	-	-	722,063	-	-	**722,063**
Exercise of option/warrants		4,200	2,394	(715)	-	-	**1,679**
Net loss and comprehensive loss		-	-	-	-	(1,131,230)	**(1,131,230)**
Balance, June 30, 2011		93,551,424	14,004,136	5,071,144	-	(4,689,913)	14,385,367
Exercise of option/warrants		111,123	64,560	(18,966)	-	-	**45,594**
Share-based compensation	10(c)	-	-	370,319	-	-	**370,319**
Foreign currency translation adjustment		-	-	-	(131,013)	-	**(131,013)**
Net loss and comprehensive loss		-	-	-	-	(809,457)	**(809,457)**
Balance, December 31, 2011		93,662,547	14,068,696	5,422,497	(131,013)	(5,499,370)	**13,860,810**

See accompanying notes to the condensed consolidated interim financial statements.

Papuan Precious Metals Corp.

Condensed consolidated interim statements of cash flows

	Note	Three months ended December 31, 2011	Three months ended December 31, 2010	Six months ended December 31, 2011	Six months ended December 31, 2010
Cash flows used in operating activities					
Net loss and comprehensive loss for the period		**$ (356,189)**	$ (345,082)	**$ (809,457)**	$ (3,226,170)
Items not affecting cash:					
Depreciation		**3,145**	178	**6,290**	2,448
Listing Fees on Amalgamation		**-**	-	**-**	2,708,989
Interest Income		**(1,352)**	-	**(1,352)**	-
Share-based compensation		**161,413**	-	**370,319**	-
		(192,983)	(344,904)	**(434,200)**	(514,733)
Changes in non-cash working capital items:					
(Increase) decrease in amounts receivable		**6,584**	41,044	**(16,739)**	(37,469)
(Increase) in prepaid expenses		**(1,455)**	(52,875)	**(3,397)**	(53,598)
Increase (decrease) in accounts payable and accrued liabilities		**(34,080)**	641,509	**(18,987)**	526,639
Cash used in continuing operations		**(221,934)**	284,774	**(473,323)**	(79,161)
Investing activities					
Property and equipment purchased		**(4,167)**	(154)	**(25,801)**	(154)
Exploration and evaluation additions		**(2,492,438)**	(998,148)	**(3,972,943)**	(1,100,370)
Proceeds of issuance of shares against cash		**-**	-	**-**	6,046,811
Cash used in investing activities		**(2,496,605)**	(998,302)	**(3,998,744)**	4,946,287
Financing activity					
Proceeds from exercise of options/warrants		**-**	980,536	**45,594**	980,536
Subscriptions received in advance		**-**	(1,258,870)	**-**	(629,435)
Cash provided by financing activities		**-**	(278,334)	**45,594**	351,101
Effect of exchange rate changes on cash and cash equivalents					
Net increase (decrease) in cash and cash equivalents		**(2,718,539)**	(991,862)	**(4,426,473)**	5,218,227
Cash and cash equivalents, beginning of period		**7,196,811**	6,247,913	**8,904,745**	37,824
Cash and cash equivalents, end of period		**4,478,272**	5,256,051	**4,478,272**	5,256,051

Supplemental disclosure with respect to cash flows (Note 11).

1. Nature and continuance of operations

Papuan Precious Metals Corp. (the "Company") is a company incorporated under the Business Corporation Act of British Columbia, Canada. The registered office of the Company is 700-595 Howe Street, Vancouver, British Columbia, V6C 2T5. The principle address and records office of the Company is 700-1620 Dickson Ave., Kelowna, British Columbia, V1Y 9Y2. The Company's shares are publically listed on the TSX-Venture and OTCQX exchanges under the symbols *PAU* and *PAUFF* respectively.

The Company is engaged in the acquisition, exploration and development of exploration and evaluation assets in Papua New Guinea ("PNG"). The Company is considered to be in the exploration stage and to date has not generated significant revenues from operations. The Company has not yet determined whether its exploration and evaluation assets contain economically viable ore reserves and there is no guarantee that mineral deposits will be discovered in the future. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production and/or proceeds from the disposition thereof.

These condensed consolidated interim financial statements have been prepared by management in Canadian dollars on a going concern basis with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has no significant source of revenue and has significant cash requirements to meet its administrative overhead and to maintain its mineral property interests. The Company's ability to continue as a going concern is dependent on its ability to secure equity, debt or joint venture financing and generate profitable future operations. The financial statements do not include any adjustments to assets and liabilities should the Company be unable to continue as a going concern. Management has carried out an assessment of the going concern assumption and has concluded that the company has sufficient cash and cash equivalents as well as no debt obligations outside the normal course accounts payable and accrued liabilities to continue operating at current levels.

2. Significant accounting policies

The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are described below:

(a) Basis of presentation and first time adoption of international financial reporting standards

These unaudited condensed consolidated interim financial statements have been prepared by management in accordance with International Accounting Standard IAS 34-*Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The condensed consolidated interim financial statements were authorized for issuance in accordance with a resolution of the directors on February 28, 2012.

As these condensed consolidated interim financial statements represent the Company's initial presentation of its interim results and financial position under IFRS, they have been prepared in accordance with the accounting policies the Company expects to adopt in its first IFRS consolidated annual financial statements for the year ending June 30, 2012. These accounting policies are based on the IFRS standards and IFRIC interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted. All of the disclosures required by IFRS for annual financial statements are not contained within these condensed consolidated interim financial statements.

The Company's consolidated financial statements previously prepared in accordance with Canadian GAAP differ in some areas from IFRS. Management, in preparing these condensed consolidated interim financial statements, has amended certain accounting and consolidation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for fiscal 2011 are restated to reflect these adjustments as required by IFRS 1-*First-Time Adoption of IFRS*. Certain information and footnote disclosures that are considered material to the understanding of the Company's condensed interim financial statements and normally included in annual financial statements prepared in accordance with IFRS are provided in note 3 along with reconciliations and descriptions of the effect of the transition from Canadian

GAAP to IFRS on the consolidated statements of financial position, changes in equity, income (loss), comprehensive income (loss) and cash flows. The comparative figures presented in these condensed consolidated interim financial statements are in accordance with IFRS and have been prepared on a historical cost basis.

(b) *Principles of consolidation*

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from the Company's activities. Subsidiaries are fully consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary Papuan Precious Metals Ltd. ("PPM Ltd.") which is incorporated in PNG. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the condensed consolidated interim financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of Papuan Precious Metals Corp. and Papuan Precious Metals Ltd. is the Canadian dollar. The Company's presentation currency is Canadian dollars.

(ii) Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange rates prevailing at the reporting date are recognized in the profit or loss.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(iii) Foreign Operations

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statement of comprehensive income (loss) is translated at exchange rates prevailing at the transaction dates. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognized in the statement of income or loss.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with major financial institutions and other short term highly liquid investments with original maturities of 90 days or less that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

(e) Financial assets and liabilities

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. All financial assets and financial liabilities are measured at fair value on initial recognition. Measurement in subsequent periods is dependent upon the classification of the financial assets and liabilities at fair value through profit and loss ("FVTPL"), available-for-sale, loans and receivables, held-to-maturity, or other financial liabilities.

Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in those fair values recognized on the consolidated statement of comprehensive income (loss). Financial assets classified as available-for-sale are measured at fair value with changes in those fair values recognized in other comprehensive income. Financial instruments classified as loans and receivables, held to maturity or other financial liabilities are measured at amortized cost using the effective interest rate method of depreciation. Where a financial instrument classified as held-to-maturity or available-for-sale has a loss in value which is considered to be other than temporary, the loss is recognized through profit or loss.

- The Company has classified its financial assets and liabilities as FVTPL and any period change in fair value is recorded through profit or loss.
- Amounts receivable are classified as receivables and are measured at amortized cost.
- The Company has no assets or liabilities that are classified as available-for-sale.

(f) Property and equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is calculated on a straight line basis at the following annual rates:

• Geological equipment	20%
• Office equipment	20%
• Vehicles	30%
• Computer equipment	30%
• Computer software	50%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

When an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

(g) Exploration and Evaluation Assets

Costs attributable to the acquisition, exploration and evaluation of exploration and evaluation assets are capitalized until the mineral property interests to which they relate are placed into production, disposed of through sale or where management has determined there is impairment. Depreciation of assets directly related to exploration and evaluation assets is capitalized. These costs will be amortized over the estimated productive lives of the properties upon commencement of commercial production using the units-of-production method.

Exploration and evaluation assets are reviewed on an ongoing basis to consider any impairment. The Company's determination for impairment is based in part on whether:

(i) exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future; authorizations;

(ii) landowner agreements, operating permits and feasible environmental programs exist or are attainable;

(iii) the exploration programs on the exploration and evaluation assets have significantly changed such that previously identified resource targets are no longer being pursued.

(h) Share-based payments

The Company has a stock option plan whereby it is authorized to grant stock options to employees, officers, directors and consultants. Employees, officers, directors and consultants are classified as employees when they render personal services to the entity and are either regarded as employees for legal or tax purposes, or employed with an entity under its direction in the same way as employees, officers, directors and consultants who are regarded as employees for legal or tax purposes are, or the services rendered are similar to those rendered by employees.

The fair value of stock options issued to employees is measured on the grant date, using the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and an expected life of the options. The fair value less estimated forfeitures is charged to profit or loss, or capitalized to the exploration and evaluation assets over the vesting period of the related options with a corresponding credit to other capital reserves in equity. The estimated forfeitures are based on historical experience and reviewed on quarterly basis to determine the appropriate forfeiture rate based on past, present and expected forfeitures. Management uses the dynamic model to calculate the estimated forfeitures. Stock options granted with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. No share-based awards have been issued to non-employees. When the stock options are exercised, the proceeds are credited to share capital and the fair value of the options exercised is reclassified from other capital reserves to share capital.

(i) Related party transactions

Parties are considered to be related if one party has the direct or indirect ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of services, obligations or resources between related parties.

(j) Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantially enacted at the reporting date, and includes any adjustments to tax payable or receivable in respect of prior years.

Deferred income taxes are recorded using the balance sheet method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are realized or settled, based on the laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future tax profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding and common share equivalents issued and outstanding during the period. Diluted loss per share does not adjust the gain or loss attributable to common shareholders when the effect is anti-dilutive.

(l) New standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after January 1, 2010, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

Accounting standards anticipated to be effective January 1, 2013

- *Joint ventures*

The IASB issued IFRS 11 – *Joint Arrangements* on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company is currently evaluating the impact IFRS 11 is expected to have on its consolidated financial statements.

- Consolidation

On September 29, 2010, the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standards on consolidation, IAS 27 - *Consolidated and Separate Financial Statements* and SIC-12, with a single standard on consolidation. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

- Financial instruments

IFRS 9 - *Financial Instruments*: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

- *Fair-value measurement*

IFRS 13 - *Fair Value Measurement*: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

3. First Time Adoption of IFRS

The Company has adopted IFRS with a transition date of July 1, 2010. Under IFRS 1-*First time adoption of International Financial Reporting Standards*, the IFRS are applied at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied.

The guidance for first time adoption of IFRS is set out in IFRS 1 which provides for certain mandatory exemptions and optional exemptions for first time adopters of IFRS. The Company is applying the following exemptions on first-time adoption of IFRS:

- Cumulative currency translation differences for all foreign operations are deemed to be zero as at transition date; and

- IFRS 2-*Share-based Compensation* has been applied to equity instruments granted after November 7, 2002 that had not vested as at the Transition Date

The elections taken under IFRS 1 and the significant accounting polices set out in note 2 have been applied in preparing these unaudited condensed consolidated interim financial statements and selected unaudited comparative information presented below. The following tables reconcile the Company's unaudited condensed consolidated interim statements of financial position and statements of loss and comprehensive loss with those prepared and previously reported in accordance to Canadian GAAP to those prepared and reported in these unaudited condensed consolidate interim financial statements in accordance with IFRS.

Consolidated Statement of Financial Position
As at July 1, 2010

	Notes	Canadian GAAP	IFRS Adoption Adjustments	IFRS
ASSETS		$	$	$
Current assets				
Cash and cash equivalents		36,899	-	36,899
Short-term investments (Note 3)		-	-	-
Amounts receivable		-	-	-
Prepaid expenses		27,265	-	27,264
Total current assets		64,164	-	64,163
Property, plant and equipment		18,873	-	18,873
Mineral property interests		2,090,921	-	2,090,922
Total Assets		2,173,958	-	2,173,958
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		471,645	-	471,645
Due to Jalna Minerals		25,000		25,000
Due to Shareholders		206,600		206,600
Total liabilities		703,245	-	703,245
SHAREHOLDERS' EQUITY				
Share capital		2,379,667	-	2,379,667
Other capital reserves		-	-	-
Deficit		(908,954)	-	(908,954)
Total Shareholders' Equity		1,470,713	-	1,470,713
Total Liabilities and Shareholders' Equity		2,173,958	-	2,173,958

Consolidated Statement of Financial Position
As at December 31, 2010

	Notes	Canadian GAAP	IFRS Adoption Adjustments	IFRS
ASSETS		$	$	$
Current assets				
Cash and cash equivalents		5,256,051	-	5,256,051
Amounts receivable		37,469	-	37,469
Prepaid expenses		80,862	-	80,862
Total current assets		5,374,382	-	5,374,382
Property, plant and equipment		21,475	-	21,475
Mineral property interests	3(a)	2,828,851	77,253	2,906,104
Total Assets		8,224,708	77,253	8,301,961
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		176,605	-	176,605
Total liabilities		176,605	-	176,605
SHAREHOLDERS' EQUITY				
Share capital		9,101,502	-	9,101,502
Subscriptions received in advance		-	-	-
Other capital reserves	3(a)	3,031,644	(129,223)	3,160,867
Deficit		(4,085,043)	51,970	(4,137,013)
Total Shareholders' Equity		8,048,103	(77,253)	8,125,356
Total Liabilities and Shareholders' Equity		8,224,708	-	8,301,961
Total Liabilities and Shareholders' Equity		8,224,708	-	8,301,961

Consolidated Statement of Financial Position

As at June 30, 2011

	Notes	Canadian GAAP	IFRS Adoption Adjustments	IFRS
ASSETS		$	$	$
Current assets				
Cash and cash equivalents		8,904,745	-	8,904,745
Amounts receivable		20,245	-	20,245
Prepaid expenses		48,304	-	48,304
Total current assets		8,973,294	-	8,973,294
Property, plant and equipment		128,323	-	128,323
Mineral property interests	3(a)	5,711,308	186,269	5,897,577
Total Assets		14,812,925	186,269	14,999,194
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		613,827	-	613,827
Total liabilities		613,827	-	613,827
SHAREHOLDERS' EQUITY				
Share capital		14,004,136	-	14,004,136
Other capital reserves	3(a)	4,761,741	(309,403)	5,071,144
Deficit	3(a)	(4,566,779)	123,134	(4,689,913)
Total Shareholders' Equity		14,199,098	(186,269)	14,385,367
Total Liabilities and Shareholders' Equity		14,812,925	-	14,999,194
Total Liabilities and Shareholders' Equity		14,812,925	-	14,999,194

Consolidated Statement of Comprehensive Loss
For the Three Months Ended December 31, 2010

	Notes	Canadian GAAP	IFRS Adoption Adjustments	IFRS
General and administrative expenses		$	$	$
Business development		9,898	-	9,898
Consulting and management fees		8,464	-	8,464
Depreciation		178	-	178
Office and administration		12,734	-	12,734
Professional fees		12,019	-	12,019
Public relations & communications		5,159	-	5,159
Regulatory fees		33,890	-	33,890
Rent		2,028	-	2,028
Share-based compensation	3(a)	123,134	51,790	174,924
Transfer agent		18,560	-	18,560
Wages and benefits		71,686	-	71,686
		297,750	51,790	349,540
Loss before other items		(297,750)	(51,790)	(349,540)
Other items:				
Expense Recovery		43,750	-	43,750
Foreign currency loss		(91,082)	-	(91,082)
		(47,332)	-	(47,332)
Net loss and comprehensive loss		(345,082)	(51,790)	(396,872)

Consolidated Statement of Comprehensive Loss
For the Six Months Ended December 31, 2010

	Notes	Canadian GAAP	IFRS Adoption Adjustments	IFRS
General and administrative expenses		$	$	$
Business development		9,898	-	9,898
Consulting and management fees		58,639	-	58,639
Depreciation		2,448	-	2,448
Office and administration		17,687	-	17,687
Professional fees		78,673	-	78,673
Public relations & communications		5,159	-	5,159
Regulatory fees		33,890	-	33,890
Rent		5,154	-	5,154
Share-based compensation	3(a)	123,134	51,790	174,924
Transfer agent		18,560	-	18,560
Wages and benefits		101,012	-	101,012
		454,254	51,790	506,044
Loss before other items		(454,254)	(51,790)	(506,044)
Other items:				
Expense Recovery		43,750	-	43,750
Finders Fees		(231,527)	-	(231,527)
Foreign currency loss		(106,677)	-	(106,677)
Listing expenses		(2,477,462)	-	(2,477,462)
		(2,771,916)	-	(2,771,916)
Net loss and comprehensive loss		(3,226,170)	(51,790)	(3,277,960)

Consolidated Statement of Comprehensive Loss
Year Ended June 30, 2011

	Notes	Canadian GAAP	IFRS Adoption Adjustments	IFRS
General and administrative expenses		$	$	$
Business development		18,885	-	18,885
Consulting and management fees		217,555	-	217,555
Depreciation		7,038	-	7,038
Office and administration		89,368	-	89,368
Professional fees		184,979	-	184,979
Public relations & communications		48,390	-	48,390
Regulatory fees		41,963	-	41,963
Rent		11,693	-	11,693
Share-based compensation	3(a)	412,660	123,134	535,794
Transfer agent		48,570	-	48,570
Wages and benefits		215,113	-	215,113
		1,296,214	123,134	1,419,348
Loss before other items		(1,296,214)	(123,134)	(1,419,348)
Other items				
Foreign currency loss		63,598	-	63,598
Finders fees		92,687	-	92,687
Listing expenses		(2,517,897)	-	(2,517,897)
		(2,361,612)	-	(2,361,612)
Net loss and comprehensive loss		(3,657,826)	(123,134)	(3,780,960)

Consolidated statement of cash flows
For the six months ended December 31, 2010

	Notes	Canadian GAAP	IFRS Adoption Adjustments	IFRS
Cash flows used in operating activities		$	$	$
Net loss and comprehensive loss for the period	3(a)	(3,226,170)	(51,790)	(3,277,960)
Items not affecting cash:				
Amortization		2,448	-	2,448
Listing Fees on Amalgamation		2,585,855	-	2,585,855
Stock-based compensation	3(a)	123,134	51,790	174,924
Changes in non-cash working capital items:				
(Increase) decrease in amounts receivable		(37,469)	-	(37,469)
(Increase) in prepaid expense		(53,598)	-	(53,598)
Increase (decrease) in accounts payable and accrued liabilities		526,639	-	526,639
Cash used in continuing operations		(79,161)	-	(79,161)
Investing activities				
Property and equipment additions		(154)	-	(154)
Mineral property interests		(1,100,370)	-	(1,100,370)
Cash used in investing activities		(1,100,524)	-	(1,100,524)
Financing activity				
Net Proceeds from issuance of common shares and share units		980,536	-	980,536
Subscriptions received in advance		(629,435)	-	(629,435)
Deemed issuance of shares against cash		6,046,811	-	6,046,811
Cash provided by financing activities		6,397,912	-	5,417,376
Net increase (decrease) in cash and cash equivalents		5,218,227	-	5,218,227
Cash and cash equivalents, beginning of period		37,824	-	37,824
Cash and cash equivalents, end of year		5,256,051	-	5,256,051

Consolidated statement of cash flows

For the year ended June 30, 2011

	Notes	Canadian GAAP	IFRS Adoption Adjustments	IFRS
Cash flows used in operating activities		$	$	$
Net loss and comprehensive				
loss for the period	3(a)	(3,657,826)	(123,134)	(3,780,960)
Items not affecting cash:				
Amortization		7,038	-	7,038
Listing Fees on Amalgamation		2,517,897	-	2,517,897
Stock-based compensation	3(a)	412,660	123,134	535,794
		(720,231)	-	(720,231)
Changes in non-cash working capital items:				
(Increase) decrease in amounts receivable		(20,245)	-	(20,245)
(Increase) in prepaid expense		(21,039)	-	(21,039)
Increase (decrease) in accounts payable and accrued liabilities		(151,361)	-	(151,361)
Cash used in continuing operations		(912,876)	-	(912,876)
Investing activities				
Property and equipment additions		(116,488)	-	(116,488)
Mineral property interests		(3,558,877)	-	(3,558,877)
Cash used in investing activities		(3,675,365)	-	(3,675,365)
Financing activity				
Deemed issuance of shares against cash		6,006,810	-	6,006,810
Proceeds from issuance of common share				
units net of share issuance costs		7,447,598	-	7,447,598
Proceeds from exercise of stock				
options and warrants		1,680	-	1,680
Cash provided by financing activities		13,456,088	-	13,456,088
Net increase (decrease) in				
cash and cash equivalents		8,867,847	-	8,867,847
Cash and cash equivalents, beginning				
of period		26,899	-	26,899
Cash and cash equivalents, end of year		8,894,746	-	8,894,746

3. First Time Adoption of IFRS (continued)

Notes to the IFRS reconciliation are as follows:

(a) Share-based compensation

Under Canadian GAAP, the Company measured share-based compensation related to share purchase options as the fair value of the options granted using Black-Scholes option pricing model and recognized this expense over the vesting period of the options. IFRS 2: *Share-based Compensation*, which is similar to Canadian GAAP, requires the Company to measure share-based compensation related to share purchase options granted at the fair value of the options on the date of the grant and recognized such expense over the vesting period of the options. IFRS 2 also requires each tranche in an award with graded vesting be considered as a separate grant with different vesting date and fair value whereas the total fair value of the award was recognized on a straight-line basis over the vesting period under Canadian GAAP.

IFRS 2 also has a broader definition of an employee allowing the Company to group employees and other providing similar services together. This has resulted in certain contractors and consultants to be classified as employees.

Adjustments were calculated only for options issued and outstanding after the Transition Date. As a result of these differences, the Company has adjusted its share-based payments. The amounts recorded in other capital reserves for share-based compensation increased by $123,134 as at June 30, 2011 and exploration and evaluation assets have increased by $186,269 as at June 30, 2011.

4. Key Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company bases its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(a) Exploration and evaluation expenditure

The Company's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalized for an area of interest where it is considered likely to be recovered by future exploitation or sale where the activities have not reached a stage which permits a reasonable assessment of existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalized the expenditure under the policy, a judgment is made that the recovery of the expenditure is unlikely, the relevant capitalized amount will be written off in the statement of comprehensive loss in the period when the new information becomes available.

(b) Share-based compensation

The Company measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating share-based compensation transactions are disclosed in note 10(c).

5. Amounts Receivable

The Company does not have any significant balances that are past due. All accounts receivable are current, and the Company does not have any allowance for doubtful accounts. Due to their short-term maturities, the fair value of accounts receivable approximates their carrying value.

	December 31, 2011	June 30, 2011	July 1, 2010
	$	$	$
HST receivable	**36,984**	20,245	11,947

6. Property and equipment

Property and equipment consist of:

Cost	Geological Equipment	Office Equipment	Computer Equipment	Computer Software	Motor Vehicles	Total
	$	$	$	$	$	$
As at July 1, 2010	3,660	992	3,890	13,806	23,477	45,825
Additions	27,182	-	21,312	34,389	49,283	132,166
Disposals	-	-	-	-	-	-
As at June 30, 2011	30,842	992	25,202	48,195	72,760	177,991
Additions	2,725	-	5,158	9,704	3,777	21,364
Disposals	-	-	-	-	-	-
As at September 30, 2011	33,567	992	30,360	57,899	76,537	199,355
Additions	4,167	-	-	-	-	4,167
Disposals	-	-	-	-	-	-
As at December 31, 2011	**37,734**	**992**	**30,360**	**57,899**	**76,537**	**203,522**
Accumulated Depreciation						
As at July 1, 2010	1,641	234	1,772	9,234	14,070	26,951
Depreciation	5,049	565	29	10,148	6,984	22,775
As at June 30, 2011	6,690	799	1,743	19,382	21,054	49,668
Depreciation	1,555	50	2,186	6,833	5,551	16,175
As at September 30, 2011	8,245	849	3,929	26,215	26,605	65,843
Depreciation	1,544	29	1,549	4,687	3,438	11,247
As at December 31, 2011	**9,789**	**878**	**5,478**	**30,902**	**30,043**	**77,090**
Net Book Value						
As at July 1, 2010	2,019	758	2,118	4,572	9,407	18,874
As at June 30, 2011	24,152	193	23,459	28,813	51,706	128,323
As at September 30, 2011	25,322	143	26,432	31,684	49,932	133,513
As at December 31, 2011	**27,945**	**114**	**24,883**	**26,997**	**46,494**	**126,433**

7. Exploration and Evaluation Assets

Six months ended December 31, 2011

Exploration Costs	New Hanover		Mt Suckling		Waria Petromin Farm-in			Waria	Bewani	Total
	New Hanover	Lavongai	Mt Suckling	Upper Ada'u River	Waria River	Ondowa Creek	Bowutu Mtns	Goroa East	Bewani Mountains	
	EL 1566	*ELA 1856*	*EL 1424*	*EL 1618*	*EL 1271*	*EL 1732*	*EL 1943*	*EL 1683*	*EL 1574*	$
Balance June 30, 2011	2,261,222	6,152	1,572,463	429,338	970,693	188,887	8,545	246,473	213,803	5,897,576
Camp and field costs	476,030	1,822	134,787	10,556	60,369	5,281	1,266	5,208	4,686	700,006
Charter hire	446,719	-	589,755	-	77,421	-	-	-	-	1,113,895
Drilling	802,150	-	462,994	-	-	-	-	-	-	1,265,144
Geological and other consulting	98,130	-	12,845	-	4,868	-	-	1,564	780	118,187
Geochemistry	146,663	-	36,741	-	3,975	-	-	-	-	187,379
Geophysics	8,918	-	10,987	-	8,993	-	-	-	-	28,898
Tenement expense	9,577	-	-	4,224	-	-	-	-	-	13,801
Project costs	96,858	4,887	39,856	6,038	13,908	5,204	5,397	5,084	5,560	182,792
Travel	30,922	-	3,943	38	4,288	218	-	-	-	39,408
Freight	15,951	82	53,046	82	82	82	82	82	82	69,570
Stock-based compensation	56,538	1,768	36,310	4,301	10,389	2,030	73	1,398	5,261	118,067
Additions	2,188,456	8,559	1,381,264	25,239	184,293	12,814	6,818	13,336	16,367	3,837,147
Balance December 31, 2011	**4,449,678**	**14,711**	**2,953,727**	**454,577**	**1,154,986**	**201,701**	**15,363**	**259,809**	**230,170**	**9,734,723**

7. Exploration and Evaluation Assets (continued)

Year ended June 30, 2011

Exploration Costs	New Hanover		Mt Suckling		Waria Petromin Farm-in			Waria	Bewani	Total
	New Hanover	Lavongai	Mt Suckling	Upper Ada'u River	Waria River	Ondowa Creek	Bowutu Mtns	Goroa East	Bewani Mountains	
	EL 1566	*ELA 1856*	*EL 1424*	*EL 1618*	*EL 1271*	*EL 1732*	*EL 1943*	*EL 1683*	*EL 1574*	$
Balance, June 30, 2010	327,237	-	959,447	159,352	418,938	-	-	62,208	163,740	2,090,922
Camp supplies and field costs	330,147	10	31,979	13,264	2,113	11,135	13	12,202	7,273	408,136
Charter hire	280,234	-	159,184	14,402	-	-	-	42,494	-	496,314
Drilling	233,721	-	-	-	-	-	-	-	-	233,721
Geological and other consulting	119,020	1,479	50,633	43,602	31,430	16,870	1,781	18,927	11,560	295,302
Geochemistry	62,869	-	6,113	7,909	-	4,022	-	3,854	3,729	88,496
Geophysics	492,635	-	217,952	129,181	389,244	133,581	-	65,984	-	1,428,577
Tenement expense	-	-	2,042	4,286	5,585	-	2,044	2,178	7,464	23,599
Project costs	108,157	4,298	68,688	32,551	35,254	10,331	4,340	15,580	13,598	292,777
Travel Costs	70,973	217	1,915	1,869	330	238	217	244	240	76,243
Freight	147,855	148	47,644	4,973	73,177	298	150	2,271	685	277,201
Stock-based compensation	75,892	-	26,886	30,434	14,622	12,412	-	20,531	5,514	186,291
Additions	1,921,503	6,152	613,036	282,471	551,755	188,887	8,545	184,265	50,063	3,806,657
Balance June 30, 2011	2,248,740	6,152	1,572,483	441,823	970,693	188,887	8,545	246,473	213,803	5,897,579

7. Exploration and Evaluation Assets (continued)

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims. The Company has investigated title to its exploration and evaluation assets and, to the best of its knowledge, title to its property are in good standing under the Mining Act 1992 of the Independent State of Papua New Guinea. The State of Papua New Guinea may elect at the time a “Special Mining Licence” is granted to acquire up to a 30% participating interest in mining projects on a fully contributing basis. Certain exploration and development activities of the Company are conducted jointly with others. These financial statements reflect only the Company’s interest in these tenements.

New Hanover

The Company owns a 100% interest in the New Hanover license located 100 km west of the New Ireland provincial capital in the south-western portion of the island. The project is comprised of two exploration licenses (EL 1566 – New Hanover & ELA 1856 - Lavongai) covering 594km^2 situated in the Lihir-Tabar mineralization belt. Through its ground exploration, aerial and ground IP surveys the company has identified a highly prospective anomaly at the Kuliuta prospect. The company completed a 2,5830m drilling program there in November, 2011.

Mt. Suckling

The Company owns a 100% interest in the Mt. Suckling license, situated at the eastern end of New Guinea’s Central Range east of Port Moresby on the southwest flanks of Mt. Suckling in Northern Province. The project is comprised of two exploration licenses (EL 1424 – Mount Suckling & EL 1618 Upper Ada’u River) covering 360 km^2. PPM has identified three gold-copper porphyries within an 18km trek along the Keveri Fault Zone. Drill targets have been selected with the assistance of 3D IP and aero-mag surveys completed in the past year and the drilling program began in November, 2011 on the Urua Creek prospect.

Waria River

The Waria River project comprises four exploration licenses PPM earning 50% interest (EL 1271 – Waria River & EL 1732 – Ondowa Creek): PPM 100%) (EL 1683 – Goroa East and ELA 1943 – Bowutu Mountains): covering 731km^2 in the Central New Guinea Range. The Company entered into a farm-in agreement on the Waria River tenements (EL 1271, EL 1732 EL 1943) with Petromin PNG Holdings in July 2008. The Company has earned a 50% interest in the licences with expenditures commitments of $1.2m having been met in September, 2011. For, The Company can earn further 10% interest with an additional $500,000 expenditure.

Bewani Mountains

The Bewani Mountains project is located near Kilifas Village in Western Province. The project comprises one exploration license (EL 1574 – Bewani Mountains) covering 168 km^2.

8. Accounts Payable and accrued liabilities

Due within the year	**December 31, 2011**	June 30, 2011	July 1, 2010
	$	$	$
Trades Payable	**455,263**	80,494	342,796
Accrued Liabilities	**112,041**	533,334	36,128
	567,304	613,828	378,924

9. Reverse take-over

On September 28, 2010 Jalna Minerals Ltd ("Jalna") and Papuan Precious Metals Corp. ("Papuan") amalgamated under the name Papuan Precious Metals Corp ('the Company"). From an accounting perspective, Papuan is considered to have acquired Jalna, and hence the transaction has been recorded as a reverse takeover. The transaction has been accounted for as a business combination using the purchase method of accounting. The purchase price has been determined based on the number of shares that PPM would have had to issue on the date of closing to give the owners of Jalna the same percentage equity of the combined entity as they hold subsequent to the amalgamation.

For financial reporting purposes:

(a) the Company is considered to be a continuation of Papuan, the legal subsidiary except with regard to the authorized and issued share capital, which is that of Jalna, the legal parent.

(b) the retained earnings (deficit) and other equity balances are the retained earnings (deficit) and other equity balances of Papuan immediately prior to the transaction.

(c) the assets and liabilities of the legal subsidiary are recognized and measured at their pre-transaction carrying amounts and the net assets of the Company have been measured at their estimated fair value.

(d) comparative information presented in these consolidated financial statements is that of Papuan.

Pursuant to a share exchange agreement with an effective date of September 29, 2010, Jalna and Papuan formed a newly amalgamated company under the name "Papuan Precious Metals Corp." For each Papuan share issued and outstanding on September 29, 2010, (21,934,023) one common share in the new company was issued. For every four Jalna common shares issued and outstanding (24,182,291) on that date, one new PPM common share was issued (6,045,573). On July 6, 2010, Jalna completed the first tranche of a private placement whereby Jalna issued 22,452,003 subscription receipts for units in the amalgamated company. For each subscription receipt issued and outstanding on September 29, 2010, one common share of PPM and one warrant was issued having an exercise price of $0.40 over 3 years.

The transaction has been measured based on the fair value of shares that PPM would have had to issue on the date of closing to give the owners of Jalna the same percentage equity of the combined entity as they hold subsequent to the amalgamation. Pursuant to the reverse takeover transaction, the legal subsidiary was deemed to have issued shares with an estimated fair value of $8,524,273 and acquired net assets of the company with a fair value at $6,006,811 comprising of cash of $6,237,562 and (then) current liabilities of $230,752.

10. Share capital and reserves

The Company is authorized to issue an unlimited number of common shares without par value.

(a) Private Placement Financings

July 6, 2010: Jalna Minerals Ltd completed the first tranche of a non-brokered Private Placement financing pursuant to the reverse take-over agreement. There were 22,452,003 subscription receipts issued for units of the proposed amalgamated company (PPM) at a price of $0.30 per unit and gross proceeds were $6,735,601. Each unit consisted of the right to one PPM common share and one full purchase warrant with an exercise price of $0.40 for a period of 3 years. The subscription receipts were exchanged for common shares in the Company on September 29, 2010. A value of $2,438,281 was attributed to the warrants using relative fair value approach and is determined based on the Black-Scholes pricing model and included in contributed surplus using the assumptions of: volatility 99.17%; risk free interest 1.59%; expected life 3 years and dividend rate of 0%. The Company paid agents' commissions of $408,278, $49637 in fees and issued 1,360,928 broker warrants exercisable at $0.40 per share for a period of 3 years. A value of $231,358, included in contributed surplus, was attributed to the broker warrants based on the Black-Scholes pricing model using the assumptions of: volatility 99.17%; risk free interest 1.59%; expected life 3 years and dividend rate of 0%.

October 15, 2010: the Company completed the second and final tranche of a non-brokered Private Placement and raised $1,000,000 with 3,333,334 units issued at a price of $0.30 per unit. Each unit consisted of one PPM common share and a full warrant exercisable for one common share at $0.40 for a period of 3 years. A value of $337,370 was attributed to the warrants and is included in contributed surplus calculated using the Black-Scholes model based on the following assumptions: a volatility of 99.33%; risk free interest at 1.59%; expected life of 3 years and a dividend rate of 0%. The Company paid agents' commissions of $19,464, $42,862 in additional fees and issued 64,878 broker warrants exercisable at $0.40 per share for a period of 3 years. A value of $12,975, included in contributed surplus, was attributed to the broker warrants based on the Black-Scholes pricing model The calculation used the following assumptions: volatility 99.33%: risk free interest 1.59%, expected life 3 years and dividend rate 0%.

March 8, 2011: A private placement financing of 15,600,002 units at a price of $0.45 per unit raised $7,020,000. Each unit consists of one common share plus one-half of a common share purchase warrant, with each whole warrant exercisable to purchase a common share at a price of $0.55 for a period of 1 ½ years. The warrants are subject to an acceleration clause whereby if the common share price is equal to or greater than $1.00 for a period of 10 consecutive trading days, the Company may by notice to the warrant holder; reduce the remaining exercise period applicable to the warrants to not less than 30 days from the date of such notice. A value of $1,716,000 was attributed to the warrants using relative fair value approach, included in contributed surplus and is determined based on the Black-Scholes pricing model based on the following assumptions: volatility 93.07%; risk free interest 1.63%; expected life 1 ½ years and a dividend rate 0%. Finder's Fees of $468,681 and fees of $29,990 were paid. Additionally, 1,041,514 broker warrants were granted where each warrant is exercisable to purchase one common share at $0.55 per share for a period of one year. A value of $847,572, included in contributed surplus, was attributed to the broker warrants based on the Black-Scholes pricing model. The calculation used the assumptions of: volatility of 93.97%, risk free interest 1.39%, expected life 1 year and a dividend rate 0%. The warrants are subject to an acceleration clause whereby if the common share price is equal to or greater than $1.00 for a period of 10 consecutive trading days, the Company may, by notice to the warrant holder reduce the remaining exercise period applicable to the warrants to not less than 30 days from the date of such notice.

(b) Stock options and warrants

The Company has a stock option plan which allows the Board of Directors to grant stock options to directors, officers, employees, and consultants. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less any applicable discount. The options can be granted for a maximum term of five years and vesting terms are determined by the Board of Directors at the date of grant.

At December 31, 2011, incentive stock options and share purchase warrants outstanding are:

Stock Options

Issue Date	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
		$		
October 15, 2010	4,482,500	0.30	2,260,000	October 15, 2013
July 8, 2011	1,100,000	0.40	-	July 8, 2014
	5,582,500		2,260,000	

Warrants

Date issued	Exercise Price	Shares Issuable	Expiry Date
	$		
July 6, 2010	0.40	23,796,978	July 6, 2013
October 15, 2010	0.40	3,398,212	October 15, 2013
March 8, 2011	0.55	7,800,000	September 9, 2012
March 8, 2011	0.55	941,514	March 9, 2012
		35,936,704	

	Stock options		Warrants	
	Number of Shares Issuable Upon Exercise	Weighted average exercise price	Number of Shares Issuable Upon Exercise	Weighted average exercise price
		$		$
Outstanding, July 1, 2010	-	-	-	-
Granted	4,570,000	0.30	36,052,027	0.44
Exercised	-	-	(4,200)	0.40
Forfeited	(50,000)	0.30	-	-
Outstanding, June 30, 2011	4,520,000	0.30	36,047,827	0.44
Granted	1,100,000	0.40	-	-
Exercised	-	-	(111,123)	0.41
Forfeited	(37,500)	0.30	-	-
Outstanding, December 31, 2011	5,582,500	0.30	35,936,704	0.44

(c) Share-based compensation

During the six months ended December 31, 2011, the Company granted 1,100,000 options (2010 – 4,570,000). Pursuant to the granting and vesting of options issued, total stock based compensation recognized in the statement of operations during the six months ended December 31, 2011 was $141,790 and $67,195 was capitalized to Exploration and Evaluation asset (2010 – $252,177 and $44,145). This amount was also recorded as share-compensation reserves on the balance sheet. All options are recorded at fair value determined using the Black-Scholes option pricing model.

The following assumptions were used for the valuation of stock options:

	December 31, 2011	June 30, 2011	December 31, 2010
Risk Free interest rate	**1.77%**	1.59%	1.78%
Expected Life - Years	**3**	3	3
Annualised Volatility	**96.75% - 99.5%**	99.17%	96.75%
Dividend Rate	**0%**	0%	0%

11. Supplemental disclosure with respect to cash flows

	December 31, 2011	June 30, 2011	December 31, 2010	July 1, 2010
	$	$	$	$
Cash and cash equivalents				
Cash	**129,272**	1,074,564	1,054,854	36,899
Redeemable term deposits	**4,349,000**	7,830,181	4,201,197	-
	4,478,272	8,904,745	5,256,051	36,899

There were no cash payments for interest or income taxes during the six months ended December 31, 2011 and December 31, 2010.

Significant non-cash transactions for the six months ended December 31, 2011 included:

(a) Incurring exploration and evaluation assets related expenditures of $456,094 through accounts payable and accrued liabilities;

(b) Reclassifying $18,967 from other capital reserves to share capital on exercise of warrants;

Significant non-cash transactions for the six months ended December 31, 2010 included:

(a) Reclassifying $2,436,281 from share capital to other capital reserve for warrants included in share units issued; and

(b) Reclassifying $231,358 from share issue costs to reserve for the proportionate share of broker warrants included in the share units issued.

12. Related party transactions

The company has identified its directors and certain senior officers as its key management personnel. The comprehensive costs for key management personnel for the six months ended December 31, 2011 and 2010 are as follows:

	December 31,	
	2011	2010
	$	$
Wages and consulting fees paid to key management personnel	**116,000**	331,718
Share-based payments for options granted to key management personnel	**120,997**	252,177

Share-based payments represent the fair value calculations of options in accordance with IFRS-2 *Share-based Payments* granted to key management personnel.

Included in accounts payable at December 31, 2011 is $4,500(December 31, 2010 - $NIL) owing to officers and companies controlled by a director for consulting fees, deferred exploration, general and administrative costs. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. Segmented information

The Company operates under one business segment being the exploration of mineral property interests operating in two different geographical locations; Canada and Papua New Guinea. The loss from operations for the periods ended June 30, 2011 and 2010 are considered to be solely related to this segment.

Total assets by geographic area are as follows:

	December 31, 2011		June 30, 2011		July 1, 2010	
	Canada	**Papua New Guinea**	Canada	Papua New Guinea	Canada	Papua New Guinea
	$	**$**	$	$	$	$
Property and equipment	**22,514**	**110,999**	13,947	114,376	-	18,873
Exploration and evaluation assets	**-**	**9,734,724**	-	5,711,308	-	2,090,922
	22,514	**9,845,723**	13,947	5,825,684	-	2,109,795

14. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and exploration of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. Changes in the equity accounts of the Company are disclosed in the statement of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash, cash equivalents, and short-term investments. The issuance of common shares requires approval of the Board of Directors.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets, which are approved by the Board of Directors and updated as necessary depending on various factors, including capital deployment and general industry conditions.

The Company anticipates continuing to access equity markets to fund sustained exploration of its exploration and evaluation assets and the future growth of the business.

15. Financial instruments and risk management

IFRS-7 *Financial Instruments: Disclosures* establishes a fair value hierarchy that reflects the significance of the inputs used in making measurements. The fair value hierarchy has the following levels:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities

Level 2: inputs other than quoted direct prices included in Level 1 that are observable for the asset or liability, either directly(i.e. as prices) or indirectly (i.e. derived from prices): and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable and accounts payable and accrued liabilities. For cash and cash equivalents, amounts receivable and payable and accrued liabilities, carrying value is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments.

Cash and cash equivalents and short-term investments are designated as held for trading and therefore carried at fair value, with the unrealized gain or loss recorded on the statement of comprehensive loss.

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity and foreign exchange risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

(a) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will not discharge its obligations, resulting in a financial loss to the Company. The Company has procedures in place to minimize its exposure to credit risk. Company management evaluates credit risk on an ongoing basis including counterparty credit rating and activities related to trade and other receivables and other counterparty concentrations as measured by amount and percentage.

The primary sources of credit risk for the Company arise from:

1. cash and cash equivalents;
2. short-term investments; and
3. amounts receivable.

The Company has not had any credit losses in the past, nor does it expect to have any credit losses in the future. At December 31, 2011 and 2010, the Company has no financial assets that are past due or impaired due to credit risk defaults.

The Company's maximum exposure to credit risk is minimal as cash and cash equivalents are deposited with reputable financial institutions, the balances of which are as follows:

	Class Level	**December 31, 2011**	June 30, 2011	July 1, 2011
		$	$	$
Cash and cash equivalents	1	**4,478,272**	8,904,745	5,256,051
Amounts receivable	N/A	**36,984**	20,245	37,469
		4,515,256	8,924,990	5,293,520

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities are comprised of accounts payable and accrued liabilities. The Company frequently assesses its liquidity position by reviewing the timing of amounts due and the Company's current cash flow position to meet its obligations. The Company manages its liquidity risk by maintaining sufficient cash and cash equivalents and short-term investment balances to meet its anticipated operational needs.

The Company's financial liabilities, consisting of accounts payable and accrued liabilities, arose as a result of exploration of its exploration and evaluation assets and other corporate expenses. Payment terms on these liabilities are typically 30 to 60 days from receipt of invoice and generally do not bear interest.

The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

Maturity dates <6 months	**December 31, 2011**	June 30, 2011	July 1, 2010
	$	$	$
Accounts payable and accrued liabilities	**567,304**	613,827	471,645

(c) Market risk

Market risk is the risk that the fair value for assets classified as held-for-trading and available-for-sale or future cash flows for assets or liabilities considered to be held-to maturity, other financial liabilities and loans or receivables of a financial instrument will fluctuate because of changes in market conditions. The Company evaluates market risk on an ongoing basis and has established policies and procedures for mitigating its exposure to foreign exchange fluctuations. The Company is not exposed to interest rate risk, as it does not hold debt balances and is not generally charged interest on its accounts payable balances.

(d) Foreign exchange risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in foreign currencies. Although the functional currency of the Company is Canadian dollars, the Company also conducts business in Papua New Guinea Kina ("PGK"), US Dollars ("US") and Australian Dollars ("AU"). The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. However, although the Company's costs are primarily incurred in Canadian dollars any change in the value of PGK, US and AU against the Canadian dollar can affect the costs of operations and capital expenditures. The Company maintains its cash balances primarily in Canadian dollars and exchanges currency to meet its foreign currency obligations on an as needed basis, thereby reducing the exchange risk on cash balances.

The Company is exposed to currency risk through the following Canadian dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars:

	December 31, 2011		June 30, 2011		July 1, 2010	
	AU	**PGK**	AU	PGK	AU	PGK
	$	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	**6,576**	**56,482**	427	84,034	427	84,034
Accounts payable and accrued liabilities	**-**	**(456,094)**	-	(346,019)	-	(346,019)
	6,576	**(399,612)**	**427**	(261,985)	427	(261,985)

Based on the above net exposures at December 31, 2011, a 10% change in Australian dollar against the Canadian dollar would result in a $658 (June 31, 2011 $4) change in the Company's net loss; similarly a 10% change in the PGK against the Canadian dollar would result in a $39,961 (June 30, 2011 - $26,199) change in the Company's net loss.

16. Subsequent events

N/A