



Papuan Precious Metals Corp.

Management's Discussion and Analysis

For the Three Months Ended

September 30, 2012

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Overview

The following discussion and analysis of the financial position and results of operations of Papuan Precious Metals Corp. ("the Company" or "PPM") and its subsidiary, as prepared at November 26, 2012, should be read in conjunction with the condensed interim consolidated financial statements and related notes for the three months ended September 30, 2012. This management's discussion and analysis includes selected annual and first quarter information for the years ended June 30, 2012 and 2011. The reader should refer to the audited Consolidated Financial Statements and the Management's Discussion and Analysis ("MD & A") for the year ended June 30, 2012.

The Company's condensed interim consolidated financial statements have been prepared in accordance with and 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). All dollar amounts included in the following MD&A are expressed in Canadian dollars except where noted.

Additional information regarding the Company and its activities is available on SEDAR at www.sedar.com, and also on the Company's web site at www.pmpng.com, or by requesting further information from the Company's head office located in Kelowna, British Columbia, Canada.

Forward-Looking Statements

Statements in this report that are not historically based fact are forward looking statements involving known and unknown risks and uncertainties which could cause actual results to vary considerably from these statements. Readers are cautioned not to place undue reliance on forward-looking statements.

Description of Business

PPM is a Canadian company incorporated under the Business Corporation Act of British Columbia. The Company was formed with the amalgamation of Papuan Precious Metals Corp. ("Papuan") and Jalna Minerals Ltd. ("Jalna") on September 28, 2010. Trading on the TSX Venture Exchange commenced on October 1, 2010 under the symbol "PAU.V". Effective November 8, 2010 22,452,003 warrants issued by the Company commenced trading on the TSX Venture Exchange under the symbol "PAU-WT". On January 18, 2011 PPM began trading under the symbol "PAUFF" on the OTCQX.

The Company is a mineral exploration company engaged in the acquisition, exploration and development of Exploration and Evaluation assets (mineral properties) in Papua New Guinea (PNG). The Company has a wholly owned subsidiary, Papuan Precious Metals Ltd., located in Port Moresby, PNG. The Company's primary objective is to locate, acquire and evaluate mineral properties and to finance their exploration and potential development by way of joint venture, equity financing, option agreements or by other means.

Papua New Guinea is host to some of the world's largest deposits and most prolific copper and gold producers. The properties acquired by the Company in PNG were selected based on three fundamental criteria:

- the properties had to have significant geological merit and potential;
- the properties had to have logistical merit as any potential mine would have to be relatively accessible while considering the lack of infrastructure common throughout the country;
- the properties had to be held by landowners who are receptive and supportive of exploration and the potential mining on their traditional lands.

The Company's goal is to make world-class discoveries of copper, gold, nickel and platinum through its exploration programs. There are a number of inherent risks and uncertainties related to exploration and development, including, but not limited to: the ability to raise sufficient capital to fund further exploration and development; changes in economic conditions and/or financial markets; increases in input costs; litigation, legislation, environmental and/or other judicial, regulatory, political and

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competitive factors; technological or operational difficulties, inability to obtain access and/or permits ; labour relations matters and economic issues that could materially affect precious metals exploration and mining.

To date, the Company is considered to be in the exploration stage and has not yet determined whether its exploration and evaluation assets contain ore reserves that are economically viable. 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 or proceeds from the disposition thereof. The Company has not generated significant revenues from operations.

Liquidity and Capital Resources

PPM is an exploration and evaluation company and has yet to determine whether its properties contain mineral resources that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets, including acquisition costs and related exploration and evaluation costs, are 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. The Company expects to rely upon equity financing and/or joint venturing project development as primary sources of funding.

The Company had cash and cash equivalents of \$1,362,461 as at September 30, 2012 with a positive working capital balance of \$1,258,188. In the prior year, the Company had cash and cash equivalents of \$7,196,811, and a positive working capital balance of \$6,427,919. The change in cash and working capital are due primarily to the exploration and evaluation programs carried out during the year. The Company does not have significant concerns about the liquidity of its assets as the cash equivalents are held in redeemable term deposits for which the redemption is readily available to the Company.

Accounts payable and accrued liabilities at September 30, 2012 were \$179,750 compared to \$862,706 as at September 30, 2011.

The condensed interim consolidated financial statements for the three months ended September 30, 2012 have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company is actively pursuing joint venture partners and has minimized its exploration activities and over-all operations in an effort to conserve cash. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

Selected Annual Information:

For The Three Months Ended September 30,	2012	2011	2010 ¹
Net loss and comprehensive loss	\$ (191,206)	\$ (453,268)	\$ (2,881,088)
Total assets	12,727,495	15,049,304	8,564,159
Total liabilities	179,750	862,706	542,077
Shareholders Equity	12,547,745	14,186,598	8,042,084
Basic and diluted loss per common share	(\$0.01)	(\$0.01)	(\$0.13)

¹ Prepared in accordance with Canadian GAAP

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Summary of Quarterly Results:

Quarter Ended	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Total Assets	\$ 12,727,495	\$ 12,926,512	\$ 13,971,269	\$ 14,428,114
Working capital	1,258,188	1,539,622	2,466,176	3,999,653
Net income (loss) for the period	(191,206)	(1,014,755)	(346,207)	(356,189)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.01)	(0.01)

Quarter Ended	September 30, 2011	June 30, 2011 ¹	March 31, 2011 ¹	December 31, 2010 ¹
Total Assets	\$ 15,049,304	\$ 14,812,925	\$ 14,407,439	\$ 8,224,708
Working capital	6,427,919	8,359,467	10,090,332	5,197,777
Net income (loss) for the period	(453,864)	(183,507)	(643,373)	(345,082)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.01)	(0.08)

¹ Prepared in accordance with Canadian GAAP

Overall Performance

The expenses incurred by the Company are typical of junior exploration and development companies that do not have an established cash flow from mining operations. Changes in these expenditures from quarter to quarter are impacted directly by non-recurring activities or events.

The Company's net and comprehensive loss for the three months ended September 30, 2012 was \$191,206 compared to the prior years' loss of \$453,268.

General and administrative expenditures in the three months ended September 30, 2012 have been reduced significantly in order to conserve cash. Business development and public relations and communications have been reduced due to decreased exploration activity. Stock-based compensation expense is considerably lower than in the previous year due to attrition.

Exploration and Evaluation Assets

New Hanover: Located 100 km west of the New Ireland provincial capital of Kavieng on the island of New Hanover, the project encompasses 591.6 km² under exploration license ("EL") 1566 – New Hanover. To date, the Company has identified 11 mineral prospects and early results indicate that New Hanover is geologically related to the highly productive Tabar-Lihir-Feni island chain of alkaline volcanism. Detailed geological mapping, sampling and surveying will continue on the 11 geochemical alteration/geophysical anomalies identified for follow-up.

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Kuliuta: This prospect is located 7 km inland from the islands' south coast. Detailed mapping of creek geology, existing bulldozer trenches and grid soil geochemistry were completed. An extensive 3.2 km x 1 km grid was established and 1,208 soil samples were taken, expanding the gold-in-soil anomalous zone to 1,400m x 600m. A further 207 channel samples gathered from 16 trenches resulted in grades up to 39m @ 3.89 g/t Au including 3m @ 31.64 g/t Au. The results compared favourably to the results obtained by earlier explorers while identifying broader mineralized zones.

The first drilling program to test the soil gold anomalies and gold-bearing trench intervals commenced in May, 2011 with a total of 2,580m completed by November, 2011. Interpretations of airborne and ground IP surveys were used to identify further targets to the north-east of the first six drill holes, KUD001-KUD006.

Drill holes KUD007-KUD011 tested a limited lateral and vertical portion of the "native-copper core" of what is indicated by airborne geophysics to be a large mineralized system. These intersected a high-level latite stock containing trace native and sulphide copper as stockworks, fracture fillings and disseminations, all typical of a porphyry copper system, under La'mau'sing mountain. Surface evidence and narrow gold intersections identified during this first phase of drilling continues to suggest that deeper copper-bearing rocks should be present beneath or adjacent to these breccias, and in close proximity to the copper-bearing latite stock intersected by drill holes KUD007-KUD011.

Metewoi: Located approximately 4km southeast of Kuliuta, and 2-4km inland from the south coast of the island, it covers 8km² of quartz-alunite lithocap rock, where significant gold and copper results from outcrop samples have identified the exploration potential for high-sulphidation epithermal gold and porphyry copper-gold mineralization. Significant assays resulted from outcrop sampling collected during a detailed mapping and grid soil program carried out during the 2012 fiscal year.

Mt. Suckling: The Mt. Suckling project (EL 1424 – Mount Suckling & EL 1618 - Upper Ada'u River) is situated at the eastern end of New Guinea's Central Range covering 316km². The Company has identified three prospective porphyry prospects in a linear belt some 19 km long and localized within the wide trace of the Keveri Fault Zone, part of the once active plate boundary between the Australian and Pacific plates. The three porphyry prospects include Urua Creek, Ioleu Creek and Araboro Creek. The Doriri Creek hydrothermal Ni-PGE prospect is also located in the trace of this structure, 8 km west of the Urua Creek prospect. Fieldwork programs at Ioleu Creek, Araboro Creek and Urua Creek and airborne geophysical survey were completed with three potential porphyry systems identified.

Doriri Creek: This is a unique prospect in that it is a low temperature hydrothermal accumulation of nickel, platinum and palladium with no other known and documented occurrence. A collaborative investigation report on this prospect contracted to Australia's Commonwealth Scientific & Industrial Research Organization (CSIRO) was received in November 2011. The study concluded that mineralization formed as a result of episodic hydrothermal fluids rising through a prominent near-vertical structure. Fluid circulation resulted in nickel concentration. Nickel grades as high as 1.55% in a spot sample from a zone up to ~15m wide and ~500m long were concentrated in chlorite mica and serpentine group minerals and iron oxide mineralogies. The nickel mineralogy is also accompanied by high concentrations of phosphorous minerals, palladium and platinum.

A four holes 150m drill program was completed in April, 2012. Encouraging results from assays on holes one and two positively identified near surface Ni-PGM mineralization grading 1.08% Ni, 0.52g/t PGM in the 10-15m wide and 520m⁺ long Doriri Creek Lode. Significant sulphide nickel and platinum metals mineralization was intersected in all four holes, representing PNG's first ever nickel sulphide discovery and the first hardrock platinum metals discovery. Microprobe work on the mineralization also indicated the potential for rare earth element potential.

Urua Creek: A significant chargeability anomaly has been identified by a 3D-Induced Polarization ground geophysical survey and is found within a 1700m x 900m breccia which hosts the gold and copper mineralization. Drill targets were defined utilising this airborne geophysical data in conjunction with data from the Company's previously completed soil and rock sampling and further supported by ground 3D induced polarization ("3D IP") surveys at the Urua Creek prospect. The

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company began a helicopter supported three-hole drill program in November, 2011 and was completed in February, 2012 with encouraging results from holes two and three. Holes two and three intersected the upper strongly epidote-altered levels of a multiphase monzonite stock. A long 70m interval of low-grade porphyry-copper mineralization were intersected from the surface in the second hole, passing downhole to other low grade copper mineralized intervals and narrow high-grade gold and copper mineralized zones. Results from these high-grade intercepts ranged as high as 3.49% Cu and 13.59g/t Au. By analogy with other New Guinea porphyry it is thought that this epidote-altered rock will pass with depth to potassic altered and mineralized rock.

Ioleu Creek: Results were received from 25 rock samples collected at the Au-Cu prospect with 80% of the samples yielding copper values greater than 1%. Six reconnaissance 3D IP survey lines were completed and the interpretation of survey results has been used to define a resistivity drill target in Ada Creek.

Araboro Creek: Geochemical results from 57 rock samples were collected at the prospect which is a series of circular structures some 4 km in diameter located midway between the Urua and Ioleu Creek Au-Cu prospects. A highlight of the sampling was the collection of a mineralised rock float sample from the centre of the circular feature assaying 1.16% Cu. The Company plans to further investigate the potential for porphyry-style mineralization with additional stream traversing, mapping and sampling.

Dimidi Creek: Further field work will be conducted on the prospect where, as a result of the airborne geomagnetic survey, a 2.5km x .75km radiogenic potassium anomaly has been identified. This follow-up work indicated that the potassium geophysical anomaly is related to an en echelon series of felsic dykes. These dykes appear to be unmineralized. As a consequence of this work, the search for the source of the pannable gold and platinum and chromitite stream boulders in Dimidi Creek is now focussed near the stream's headwaters, where it is thought a mineralized dunite pipe(s) may be present.

Waria River: The Waria River project comprises four exploration licenses (EL 1271 – Waria River & EL 1732 – Ondowa Creek, PPM earning 50% interest; EL 1683 – Goroa East and ELA 1943 – Bowutu Mountains, 100% PPM) covering 731 km² in the Central New Guinea Range. The project is underlain by a similar geology as that found at the Mt. Suckling project. The Waria River project is located in the Central New Guinea Range, one of the world's premier porphyry copper belts, and presents an outstanding opportunity to locate Au-Cu porphyry-style mineralisation similar to that of the nearby deposits.

The Company entered into a farm-in agreement with Petromin PNG Holdings Ltd ("Petromin") and its wholly owned subsidiary Tolukuma Gold Mines Limited ("TGM" - holding EL 1271, located in Morobe and Northern Provinces). The 2008 agreement enables the Company to earn a minimum 50% participating interest in EL 1271 for an expenditure of C\$1.2m over three years. This commitment has been met as of October 15, 2011. If Petromin elects not to contribute to ongoing funding to maintain its' 50% participating interest, PPM may earn up to 60% participating interest in the tenement by a further expenditure of \$500,000 by the end of the agreements' fourth year.

A 3,179 line-km airborne survey has been completed augmented by creek traversing and rock sampling. Further field work was conducted in the Ondowa Creek area where Cu-Au mineralization in outcrop was identified, with Cu samples as high as 1.74 %, indicating the potential of a highly prospective area for Au-Cu porphyry style mineralization. The geochemical results from 101 rock samples collected during follow-up prospecting of airborne geophysical anomalies were released on November 29, 2011. The best sample was collected from float and assayed 10.49% Cu, 0.33g/t Au and 10.0g/t Ag. Twenty percent of samples contained anomalous copper values >0.1% Cu. A complete summary of copper, gold, and silver sampling results are shown on the Company website.

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The following table illustrates the Company's current Exploration Leases (ELs) located in PNG as at September 30, 2012:

Tenement	Minerals	Ownership	Carrying Value
EL 1566 - New Hanover	Au (Cu)	PPM 100%	\$ 4,782,594
EL 1424 - Mt Suckling	Au-Cu, PGE-Ni	PPM 100%	4,508,914
EL 1618 - Upper Ada'u River	Au-Cu, PGE-Ni	PPM 100%	476,612
EL 1271 - Waria River	Au-Cu, PGE	Petromin 'Farm-in'	1,186,586
EL 1732 - Ondowa Creek	Au-Cu, PGE	Petromin 'Farm-in'	233,812
EL 1943 - Bowutu Mountains	Au-Cu, PGE	Petromin 'Farm-in'	28,005
Exploration and Evaluation Assets Total			\$ 11,216,523

Related Party Transactions

During the year ended September 30, 2012 the Company identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the three months ended September 30, 2012 and 2011 are as follows:

	September 30, 2012	September 30, 2011
Wages and consulting fees paid to key management personnel	\$ 85,000	\$ 116,000
Share-based payments for options granted to key management personnel	26,781	120,997
	\$ 111,781	\$ 236,997

Included in accounts payable at September 30, 2012 is \$45,369 (September 30, 2011 - \$5,018) for consulting and directors fees owing to officers, and companies controlled by officers. 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. Share-based payments represent the fair value calculations of options granted to key management personnel in accordance with IFRS 2: *Share-based Payments*.

Outstanding Share Data

As at November 26, 2012 the Company has 69,544,638 weighted average common shares outstanding, 4,170,000 incentive stock options outstanding with exercise prices ranging from \$0.30 to \$0.40 per share and 27,103,442 share purchase warrants outstanding with an exercise price from \$0.40 to \$0.55 per share.

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Reverse Take-over

On September 28, 2010 Jalna Minerals Ltd ("Jalna") and Papuan Precious Metals Corp. ("Papuan") amalgamated under the 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 (Papuan and Jalna) have been measured at their estimated fair value.
- (d) comparative information presented in the condensed consolidated interim financial statements is that of Papuan.

Private Placement Financings

There were no financings during the three months ended September 30, 2012.

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 \$2,436,281 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, \$49,636 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 \$370,370 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, \$54,268 in additional fees and issued 64,878 broker warrants exercisable at \$0.40 per share for a period of 3 years. A value of \$12,976, included in contributed surplus, was attributed to the broker warrants based on the Black-Scholes pricing model

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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 \$1,225,715 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. These warrants have since expired. A value of \$187,473, 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.

Financial Instruments

The Company has classified its cash and cash equivalents as held-for-trading. Amounts receivable are classified as loans and receivables, measured at amortized costs. Accounts payable and accrued liabilities are classified as other liabilities and are measured at amortize costs.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with IAS 3 requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Accounts that require significant estimates as the basis for determining the stated amounts include exploration and evaluation expenditures, and share-based compensation. The assessment of any impairment of exploration and evaluation assets is based on the estimated recovery of future exploitation or sale where the activities have not reached a stage which permits a reasonable assessment of existence of reserves. Share-based compensation expense is calculated using Black-Scholes valuation model which requires significant judgment as to considerations such as stock option lives and stock volatility.

Significant Accounting Policies

A summary of the Company's significant accounting policies is included in Note 3 of the audited financial statements for the year ended June 30, 2012.

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New Standards, Amendments and Interpretations not yet Adopted

The IASB issued the following pronouncements that are effective for years beginning January 1, 2013 or later and may affect the Company future financial statements;

IAS 1 – *Presentation of Financial Statements*

IAS 12 – *Deferred Tax*

IAS 24 – *Related Parties
in Associates*

IAS 28 – *Investments*

IFRS 7 - *Financial Instruments: Disclosures
Instruments*

IFRS 9 – *Financial*

IFRS 10 – *Consolidated Financial Statements
Arrangements*

IFRS 11 – *Joint*

IFRS 12 – *Disclosures of Interests in Other Entities
Measurement*

IFRS 13 – *Fair Value*

These new and revised accounting standards have not yet been adopted by the Company. The process of assessing the impact that these standards will have on the financial statements and the decision on whether to early adopt has not yet been completed.