Papuan Precious Metals Corp.

Condensed Interim Consolidated Financial Statements

For the Six Months Ended

December 31, 2014

Papuan Precious Metals Corp.

Condensed Interim Consolidated Financial Statements
For the Six Months Ended December 31, 2014

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Notice

The following unaudited condensed interim consolidated financial statements of the Company for the period ended December 31, 2014 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or a review of these condensed consolidated interim financial statements.

Papuan Precious Metals Corp.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited - Expressed in Canadian Dollars) TSX.V: **PAU**

	Note		December 31, 2014		June 30, 2014
Assets					
Current assets					
Cash and cash equivalents	*9*	$	**467,773**	$	902,507
Amounts receivable	*4*		**68,986**		53,139
Prepaid expenses			**117,503**		126,933
			654,262		1,082,579
Property and equipment	*5*		**9,357**		12,733
Exploration and evaluation assets	*6*		**4,928,775**		4,918,665
Total assets			**5,592,394**		6,013,977
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	*7, 10*		**357,484**		335,497
Total liabilities			**357,484**		335,497
Shareholders' Equity					
Share capital	*8*		**14,696,491**		14,720,632
Shares held in escrow	*6*		**(35,024)**		(59,165)
Other capital reserves	*8*		**5,797,331**		5,789,546
Accumulated deficit			**(15,223,888)**		(14,772,533)
Total shareholders' equity			**5,234,910**		5,678,480
Total liabilities and shareholders' equity		$	**5,592,394**	$	6,013,977

Nature and continuance of operations (Note 1)

Approved on January 28, 2015 by the Board of Directors:

" Devinder Randhawa"
Devinder Randhawa, Director

"Ross McElroy"
Ross McElroy, Director

Papuan Precious Metals Corp.
Condensed Interim Consolidated Statements of Comprehensive Loss
(Unaudited - Expressed in Canadian Dollars)

TSX.V: **PAU**

	Note	Three months ended December 31, 2014	Three months ended December 31, 2013	Six months ended December 31, 2014	Six months ended December 31, 2013
General and administrative expenses					
Business development		**$ 1,269**	$ -	**$ 15,443**	$ 646
Consulting and management fees	*10*	**48,500**	48,000	**134,151**	96,000
Depreciation		**243**	581	**486**	1,313
Office and administration		**3,298**	7,247	**15,335**	14,535
Professional fees		**16,940**	37,332	**154,164**	40,132
Public relations and communications		**-**	1,745	**11,326**	1,745
Regulatory fees		**1,580**	9,449	**5,609**	17,339
Rent		**1,260**	3,315	**4,695**	6,630
Share-based compensation	*8*	**(15,834)**	-	**7,785**	557
Transfer agent		**2,615**	3,973	**5,658**	8,733
Wages and benefits	*10*	**51,139**	34,732	**97,940**	74,690
		111,010	146,374	**452,592**	262,320
Loss before other items		**(111,010)**	(146,374)	**(452,592)**	(262,320)
Other income (expense)					
Interest		**1,222**	1,657	**2,202**	3,520
Foreign exchange loss		**7**	945	**(965)**	(1,122)
Loss on disposal of property and equipment		**-**	-	**-**	(1,814)
		1,229	2,602	**1,237**	584
Net loss and comprehensive loss for the period		**$ (109,781)**	$ (143,772)	**$ (451,355)**	$ (261,736)
Basic and diluted loss per common share		**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding		**75,645,411**	69,223,836	**75,419,670**	68,558,546

Papuan Precious Metals Corp.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited - Expressed in Canadian Dollars)

TSX.V: PAU

		Common Shares		Common Shares	Other Capital		
	Note	Shares	Amount	Held in Escrow	Reserves	Deficit	Total
Balance as at June 30, 2013		69,480,256	$ 14,058,149	$ (106,896)	$ 5,542,037	$ (13,908,310)	$ 5,584,980
Common shares in escrow cancelled		(1,179,531)	(23,591)	23,591	-	-	-
Share-based compensation		-	-	-	557	-	557
Net loss and comprehensive loss		-	-	-	-	(261,736)	(261,736)
Balance as at December 31, 2013		68,300,725	14,034,558	(83,305)	5,542,594	(14,170,046)	5,323,801
Exercise of option/warrants		50,000	4,895	-	(2,395)	-	2,500
Private placements	8(a)	9,700,000	776,000	-	-	-	776,000
Share issuance costs		8,750	(56,148)	-	-	-	(56,148)
Warrants		-	(14,533)	-	14,533	-	-
Common shares in escrow cancelled	6	(1,207,033)	(24,140)	24,140	-	-	-
Share-based compensation	8(c)	-	-	-	234,814	-	234,814
Net loss and comprehensive loss		-	-	-	-	(602,487)	(602,487)
Balance as at June 30, 2014		76,852,442	14,720,632	(59,165)	5,789,546	(14,772,533)	5,678,480
Common shares in escrow cancelled	6	(1,207,031)	(24,141)	24,141	-	-	-
Share-based compensation	8(c)	-	-	-	7,785	-	**7,785**
Net loss and comprehensive loss		-	-	-	-	(451,355)	**(451,355)**
Balance as at December 31, 2014		**75,645,411**	**$ 14,696,491**	**$ (35,024)**	**$ 5,797,331**	**$ (15,223,888)**	**$ 5,234,910**

Papuan Precious Metals Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited - Expressed in Canadian Dollars)

TSX.V: **PAU**

	Three months ended December 31,		Six months ended December 31,	
	2014	2013	**2014**	2013
Cash used in operating activities				
Net loss and comprehensive loss for the period	$ **(109,781)**	$ (143,772)	$ **(451,355)**	$ (261,736)
Items not affecting cash:				
Depreciation	**243**	581	**486**	1,313
Share-based compensation	**(15,834)**	-	**7,785**	557
Loss on disposal of property and equipment	**-**	-	**-**	1,814
	(125,372)	(143,191)	**(443,084)**	(258,052)
Changes in non-cash working capital items				
(Increase) decrease in amounts receivable	**(21,083)**	4,402	**(15,847)**	(910)
Decrease in prepaid expenses	**4,470**	13,023	**9,430**	29,848
Increase in accounts payable and accrued liabilities	**(7,786)**	22,786	**21,987**	41,312
Cash used in operating activities	**(149,771)**	(102,980)	**(427,514)**	(187,802)
Investing activities				
Property and equipment purchased	**-**	-	**(663)**	-
Exploration and evaluation additions	**(492)**	(1,383)	**(6,557)**	(2,976)
Cash used in investing activities	**(492)**	(1,383)	**(7,220)**	(2,976)
Net decrease in cash and cash equivalents	**(150,263)**	(104,363)	**(434,734)**	(190,778)
Cash and cash equivalents, beginning of period	**618,036**	667,645	**902,507**	754,060
Cash and cash equivalents, end of the period	$ **467,773**	$ 563,282	$ **467,773**	$ 563,282

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 Principal 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 under the symbol "PAU". 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 proving 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.

The Company has inconsiderable sources of revenue and has significant cash requirements to maintain its mineral property interests and to meet its administrative overhead. Management has determined that the Company will be able to continue as a going concern for the foreseeable future and realize its assets and discharge its liabilities and commitments in the normal course of business. Therefore these condensed interim consolidated financial statements have been prepared on a going concern basis and do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. 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.

These condensed interim consolidated financial statements for the six months ended December 31, 2014 were approved and authorized for issuance by the Board of Directors on January 28, 2015.

2. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS-34") as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2014. The annual statements include information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies and the use of judgements and estimates are presented in Note 3 and note 5 of the annual statements. These policies, judgements and estimates have been consistently applied in the preparation of these condensed interim consolidated financial statements. See also note 3.

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis and unless otherwise noted all figures are in Canadian dollars. These consolidated financial statements include the 100% wholly owned subsidiary Papuan Precious Metals Ltd., located in Papua New Guinea.

3. New Standards, Amendments and Interpretations

The IASB has issued a number of new and revised International Accounting Standards, IFRS amendments and related interpretations which are effective for the Company's financial year beginning on or after July 1, 2015. None of the new or revised standards or amendments is expected to have any significant impact to the Company's financial statements.

(Unaudited - Expressed in Canadian Dollars)

4. Amounts Receivable

All amounts receivable are current and due to their short-term maturities, the fair value of amounts receivable approximates their carrying value. The Company does not have any significant balances that are past due and made no allowance for doubtful accounts. See Note 10.

	December 31, 2014	June 30, 2014
Amounts receivable	**$ 68,986**	$ 53,139
Total	**$ 68,986**	$ 53,139

5. Property and Equipment

Cost	Geological Equipment	Computer Equipment	Computer Software	Motor Vehicles	Total
As at June 30, 2013	$ 34,192	$ 19,811	$ 45,648	$ 51,017	$ 150,668
Additions	-	2,580	-	-	2,580
Disposals	(8,441)	(19,811)	(45,648)	(11,921)	(85,821)
As at June 30, 2014	25,751	2,580	-	39,096	67,427
Additions	**-**	**663**	**-**	**-**	**663**
Disposals	**-**	**-**	**-**	**(39,096)**	**(39,096)**
As at December 31, 2014	**$ 25,751**	**$ 3,243**	**$ -**	**$ -**	**$ 28,994**
Accumulated Depreciation					
As at June 30, 2013	$ 19,216	$ 10,377	$ 45,337	$ 34,195	$ 109,127
Depreciation	5,736	4,349	-	15,844	25,929
Disposals	(8,441)	(14,661)	(45,337)	(11,921)	(80,360)
As at June 30, 2014	16,511	65	-	38,118	54,694
Depreciation	**2,574**	**487**	**-**	**978**	**4,039**
Disposals	**-**	**-**	**-**	**(39,096)**	**(39,096)**
As at December 31, 2014	**$ 19,085**	**$ 552**	**$ -**	**$ -**	**$ 19,637**
Net Book Value					
As at June 30, 2013	$ 14,976	$ 9,434	$ 311	$ 16,822	$ 41,541
As at June 30, 2014	9,240	2,515	-	978	12,733
As at December 31, 2014	**$ 6,666**	**$ 2,691**	**$ -**	**$ -**	**$ 9,357**

(Unaudited - Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets

Tenement	Minerals	Ownership	Carrying Value
EL 1566 - New Hanover	Au-Cu	PPM 100%	$ 4,928,775
EL 1424 - Mt Suckling	Au-Cu, PGE-Ni	PPM 10%	-
Exploration and evaluation assets			**$ 4,928,775**

Exploration costs	**EL 1566 New Hanover**
Balance June 30, 2013	$ 4,837,320
Camp and field costs	4,646
Geological and other consulting	17,500
Geochemistry	3,046
Tenement expense	23,066
Project costs	29,710
Travel	1,847
Freight	1,530
Additions	81,345
Balance June 30, 2014	4,918,665
Camp and field costs	**1,223**
Geological and other consulting	**2,100**
Geochemistry	**-**
Tenement expense	**321**
Project costs	**4,988**
Travel	**1,398**
Freight	**80**
Additions	**10,110**
Balance December 31, 2014	**$ 4,928,775**

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 titles to its property is in good standing under the Mining Act 1992 of the Independent State of Papua New Guinea. The New Hanover license renewal has been applied for but the Company has yet to receive official signed notification of the renewal. Proposed work program commitments of approximately $40,000 per year on EL-1566 have been preliminarily approved by the Mining Resource Authority. The Company has not received any indication that the licenses will not be renewed. The State of Papua New Guinea may elect at the time that a “Special Mining Licence” be granted to acquire up to a 30% participating interest in mining projects on a fully contributing basis. The Special Mining Licence entitles the holder to commence mine construction.

During the year ended June 30, 2013, the Company sold to Suckling Minerals Ltd. an undivided 90% interest in the Mt. Suckling tenement and retains a 10% carried interest and a 2% Net Smelter Royalty. Under the terms of the sale agreement, Suckling Minerals and its directors surrendered 5,344,791 common shares of the Company valued at $106,896 in exchange for the 90% interest. The shares surrendered are held in escrow and are subject to a cancellation agreement whereby 25% of the shares are cancelled every 6 months from January 29, 2013, the date of TSX-V approval or until final tenement transfer is approved by the Mining Resources Authority of PNG. As at December 31, 2014, 3,593,593 shares held in escrow have been returned to treasury and cancelled with 1,751,198 remaining.

(Unaudited - Expressed in Canadian Dollars)

7. Accounts Payable and Accrued Liabilities

Accounts payable are indebtedness incurred in the normal course of operations and are typically paid within 30 days. The accrued liabilities are non-interest bearing and relate to accrued management and directors fees.

Due within the year		**December 31, 2014**		June 30, 2014
Accounts payable	**$**	**24,616**	$	38,362
Accrued liabilities		**332,868**		297,135
Total	**$**	**357,484**	$	335,497

8. Share Capital and Reserves

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

(a) Private Placement Financings & Warrants

On June 24, 2014 the Company completed a private placement financing of 9,700,000 units at a price of $0.08 per unit for gross proceeds of $776,000. Finder's Fees of $43,330 were paid in cash and 8,750 shares were issued in lieu of cash. Additionally, other fees of $8,450 were paid. 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 $0.12 for a period of 1 year. A value of $14,533 was attributed to the warrants using the relative fair value approach, included in other capital reserves and is determined based on the Black-Scholes pricing model based on the following assumptions: volatility 106.94%; risk free interest 1.56%; expected life 1 year; dividend rate 0%.

As at December 31, 2014, there were no common share offerings nor any exercises of warrants or options during the six months ended December 31, 2014. There are 4,850,000 warrants outstanding at a price of $0.12 per unit with expiry date of June 24, 2015.

(b) Stock Options

The Company has a share-holder approved stock option plan which allows the Board of Directors to grant stock options to directors, officers, employees, contractors 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 time of any grant.

As at December 31, 2014, stock options outstanding were:

Stock options	Number Outstanding	Exercise Price	Number Exercisable
As at June 30, 2014	6,350,000	$0.08	4,750,000
Expired	(600,000)	(0.40)	(600,000)
Vested	-	0.05	800,000
Forfeited	(900,000)	(0.05)	(450,000)
As at December 31, 2014	**4,850,000**	**$0.05**	**4,500,000**

(Unaudited - Expressed in Canadian Dollars)

(c) Share-based Compensation

During the six months ended December 31, 2014 no stock options were granted and no existing options were exercised. Pursuant to the granting and vesting of options issued, total share based compensation recognized in the statement of operations during the six months ended December 31, 2014 was $7,785 (December 31, 2013 – $557). 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:

Assumptions	December 31, 2014	December 31, 2013
Risk free interest rate	**1.47%**	1.77%
Expected life - years	**3**	3
Annualized volatility	**118.86%**	97.28%
Dividend rate	**0%**	0%

(d) Plan of Arrangement

The shareholders approved by special resolution an arrangement (the "Plan of Arrangement") under Division 5 of Part 9 of the Business Corporations Act (British Columbia) between the Company, the shareholders of the Company and the Company's wholly-owned subsidiary Pioneer Pacific Finance Corp ("Pioneer"). The Plan of Arrangement received the approval of the Supreme Court of British Columbia and the final approval by TSX Venture Exchange. The Company set September 30, 2014 as the share distribution record with respect to the Plan of Arrangement whereby shareholders acquired one share of Pioneer for every four Company shares held.

9. Supplemental Disclosure with respect to Cash Flows

Cash and cash equivalents consist of:

Cash and cash equivalents	December 31, 2014	June 30, 2014
Cash	**$ 3,696**	$ 570,840
Redeemable term deposits	**464,077**	331,667
Total	**$ 467,773**	$ 902,507

There were no cash payments for interest or income taxes during the six months ended December 31, 2014 and December 31, 2013. During the six months ended December 31, 2014 the Company earned $2,202 (December 31, 2013 - $3,520) in interest income on its redeemable term deposits.

Non-cash transactions for the six months ended December 31, 2014 included:

- Recognizing share-based compensation expense of $7,785;

Non-cash transactions for the six months ended December 31, 2013 included:

- Recognizing stock-based compensation expense of $557.

(Unaudited - Expressed in Canadian Dollars)

10. Related Party Transactions

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the six months ended December 31 are:

Key management personnel	December 31, 2014	December 31, 2013
Wages and consulting fees paid or payable	**$ 155,000**	$ 150,000
Total	**$ 155,000**	$ 150,000

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

The following 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:

- Included in accounts payable at December 31, 2014 is $7,109 owing to related companies for rent and general administrative costs (June 30, 2014 – $16,861);
- Included in accrued liabilities at December 31, 2014 is $198,000 owing to officers and directors for salaries and consulting fees (June 30, 2014 - $ 135,000);
- Included in amounts receivable at December 31, 2014 is $63,607 (June 30, 2014 - $13,260) due from related parties.

11. 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 period ended December 31, 2014 is considered to be solely related to this segment.

Total assets by geographic area are:

	December 31, 2014		June 30, 2014	
Non-current assets by geographic region	**Canada**	**PNG**	Canada	PNG
Property and equipment	**$ 2,692**	**$ 6,665**	$ 2,515	$ 10,217
Exploration and evaluation assets	**-**	**4,928,775**	-	4,918,665
Total	**$ 2,692**	**$ 4,935,440**	$ 2,515	$ 4,928,882

12. 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 is dependent on external financing to fund its activities. The capital structure of the Company currently consists of common shares and stock options. 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 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. Any 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 market and industry conditions.

The Company anticipates pursuing potential farm-out and joint venture option agreements and continuing to access equity markets to fund the sustained exploration of its mineral properties in order to ensure the future growth of the business.

13. 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)

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, amounts receivable and accounts payable and accrued liabilities, the carrying value of which is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments.

Cash and cash equivalents 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.

(Unaudited - Expressed in Canadian Dollars)

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, 2014, 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:

Cash and cash equivalents		**December 31, 2014**		June 30, 2014
Cash	**$**	**3,696**	$	570,840
Redeemable term deposits		**464,077**		331,667
Total	**$**	**467,773**	$	902,507

(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 expenditures directly related to 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, 2014**		June 30, 2014
Accounts payable and accrued liabilities	**$**	**357,484**	$	335,497
Total	**$**	**357,484**	$	335,497

(c) Market Risk

Market Risk is potential that the fair value for assets will fluctuations due to changes in market conditions on items classified as held-for-trading, available-for-sale or future cash flows from assets or liabilities considered to be held-to-maturity, other financial liabilities and loans or receivables of a financial instrument. 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 accounts payable balances.

(d) Foreign Exchange Risk

The Company operates on an international basis therefore foreign exchange risk exposures arise from transactions denominated in foreign currencies. Although the functional currency of the Company is Canadian dollars ("CAD"), the Company simultaneously conducts business in US Dollars ("USD") and Papua New Guinea Kina ("PGK"). Derivative instruments are not used to reduce exposure to fluctuations in foreign currency exchange rates.

Changes in the value of USD and PGK against the CAD can affect the costs of operations and resultant capital expenditures. The Company primarily maintains its cash balances in CAD and exchanges currency 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 CAD:

Foreign exchange risk	December 31, 2014		June 30, 2014	
	PGK	USD	PGK	USD
Cash and cash equivalents	**1,667**	**-**	3,374	-
Accounts payable and accrued liabilities	**(4,348)**	**(8)**	(7,301)	(5,679)
Total	**(2,681)**	**(8)**	(3,927)	(5,679)

Based on the above net exposures at December 31, 2014, a 10% change in the Canadian dollar would result in the following changes to the Company's net losses:

- PGK would result in a change of $268, (June 30, 2014 - $393);
- USD would result in a change of $1, (June 30, 2014 - $568).