Papuan Precious Metals Corp.

Consolidated Financial Statements

For the Year Ended

June 30, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Papuan Precious Metals Corp.

We have audited the accompanying consolidated financial statements of **Papuan Precious Metals Corp.**, which comprise the consolidated statements of financial position as at June 30, 2012 and 2011, and July 1, 2010 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended June 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Papuan Precious Metals Corp.** as at June 30, 2012 and 2011, and July 1, 2010, and its financial performance and its cash flows for the years ended June 30, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada,
October 26, 2012.

Chartered Accountants

Papuan Precious Metals Corp.

Consolidated Financial Statements
For the Year Ended
June 30, 2012

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Papuan Precious Metals Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

TSX.V: **PAU**

	Note	June 30, 2012	June 30, 2011	July 1, 2010
			(Note 18)	(Note 18)
ASSETS				
Current assets				
Cash and cash equivalents		**$ 1,652,920**	$ 8,904,745	$ 36,899
Amounts receivable	6	**19,526**	20,245	-
Prepaid expenses		**79,947**	48,304	27,264
		1,752,393	8,973,294	64,163
Property and equipment	7	**85,448**	128,323	18,873
Exploration and evaluation assets	8	**11,088,671**	5,897,577	2,090,922
Total Assets		**12,926,512**	14,999,194	2,173,958
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	9	**212,771**	613,827	471,644
Due to Jalna Minerals Ltd.		**-**	-	25,000
Due to Shareholders		**-**	-	206,600
Total liabilities		**212,771**	613,827	703,244
SHAREHOLDERS' EQUITY				
Share capital	11	**14,058,149**	14,004,136	2,379,667
Other capital reserves	11	**5,516,520**	5,071,144	-
Deficit		**(6,860,928)**	(4,689,913)	(908,953)
		12,713,741	14,385,367	1,470,714
Total Liabilities and Shareholders' Equity		**$ 12,926,512**	$ 14,999,194	$ 2,173,958

Approved by the Board of Directors and authorized to issued on October 26, 2012:

" Dev Randhawa"

Devinder Randhawa, Director

"Ross McElroy"

Ross McElroy, Director

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

TSX.V: **PAU**

	Note	for the year ended June 30, 2012	2011 (Note 18)
General and Administrative Expenses			
Business development		$ **17,033**	$ 18,885
Consulting and management fees	13	**246,250**	217,555
Depreciation		**14,397**	7,038
Office and administration		**102,537**	89,368
Professional fees		**191,335**	184,979
Public relations and communications		**208,316**	48,390
Regulatory fees		**33,485**	41,963
Rent		**14,650**	11,693
Share-based compensation	11	**325,668**	535,794
Transfer agent		**17,796**	48,570
Wages and benefits	13	**228,060**	215,113
		1,399,527	1,419,348
Loss before other items		**(1,399,527)**	(1,419,348)
Other items - income / (expense)			
Interest		**54,829**	92,687
Foreign exchange gain (loss)		**(282,187)**	63,598
Listing expenses	10	**-**	(2,517,897)
Gain on disposal of property and equipment		**5,172**	-
Exploration and evaluation write-down	8	**(549,302)**	-
		(771,488)	(2,361,612)
Net loss and comprehensive loss for the year		$ **(2,171,015)**	$ (3,780,960)
Basic and diluted loss per common share		$ **(0.03)**	$ (0.06)
Weighted average number of common shares outstanding		**69,432,645**	60,872,031

The accompanying notes are an integral part of these consolidated financial statements.

(Expressed in Canadian Dollars)

	Note	Common Shares Shares	Common Shares Amount	Other Capital Reserves	Deficit	**Total Shareholders' Equity**
Balance July 1, 2010	18	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	10	44,386,026	6,087,992	2,436,281	-	**8,524,273**
Private Placements	11(a)	18,933,334	6,423,915	1,596,085	-	**8,020,000**
Share issuance costs	11(a)	-	(458,025)	(114,377)	-	**(572,402)**
Broker warrants	11(a)	-	(431,807)	431,807	-	**-**
Exercise of option/warrants		4,200	2,394	(715)	-	**1,679**
Share-based compensation	19, 11(c)	-	-	722,063	-	**722,063**
Net loss and comprehensive loss		-	-	-	(3,780,960)	**(3,780,960)**
Balance June 30, 2011	18	69,369,133	14,004,136	5,071,144	(4,689,913)	**14,385,367**
Exercise of option/warrants		111,123	54,013	(8,420)	-	**45,593**
Share-based compensation	11(c)	-	-	453,796	-	**453,796**
Net loss and comprehensive loss		-	-	-	(2,171,015)	**(2,171,015)**
Balance June 30, 2012		**69,480,256**	**$ 14,058,149**	**$ 5,516,520**	**$ (6,860,928)**	**$ 12,713,741**

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

TSX.V: **PAU**

	For the year ended June 30, 2012	2011 (Note 18)
Cash flows used in operating activities		
Net loss and comprehensive loss for the period	$ **(2,171,015)**	$ (3,780,960)
Items not affecting cash:		
Listing Fees on Amalgamation	**-**	2,517,897
Depreciation	**14,397**	7,038
Share-based compensation	**325,668**	535,794
Gain on disposal of property and equipment	**(5,172)**	-
Exploration and evaluation write-down	**549,302**	-
	(1,286,820)	**(720,231)**
Changes in non-cash working capital items:		
(Increase) decrease in amounts receivable	**719**	(20,245)
Increase in prepaid expenses	**(31,643)**	(21,039)
Decrease in accounts payable and accrued liabilities	**(401,056)**	(151,361)
Cash flow used in operations activities	**(1,718,800)**	(912,876)
Investing activities		
Property and equipment purchased	**(23,622)**	(116,488)
Property and equipment disposals	**10,591**	-
Exploration and evaluation additions	**(5,565,587)**	(3,558,877)
Cash flow used in investing activities	**(5,578,618)**	(3,675,365)
Financing activity		
Deemed issuance of shares against cash	**-**	6,006,810
Net proceeds from the issuance of common shares and share units	**-**	7,447,598
Proceeds from exercise of warrants	**45,593**	1,680
Subscriptions received in advance	**-**	-
Cash flow from financing activities	**45,593**	13,456,088
Net increase (decrease) in cash and cash equivalents	**(7,251,825)**	8,867,847
Cash and cash equivalents, beginning of the year	**8,904,745**	36,899
Cash and cash equivalents, end of the year	$ **1,652,920**	$ 8,904,745

Supplemental disclosure with respect to cash flows (Note 12).

1. Nature 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 and OTCQX exchanges under the symbols *PAU.V* and *PAUFF* respectively.

These financial statements are presented in Canadian dollars and unless otherwise noted all figures are in Canadian dollars.

The Company is engaged in the acquisition, exploration and development of exploration and evaluation assets (mineral properties) 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.

These Financial Statements have been prepared on the basis on accounting principles applicable to a going concern 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 financial statements do not reflect any adjustments to assets and liabilities should the Company be unable to continue as a going concern. As at June 30, 2012, the Company had working Capital of $1,539,622 (June 30, 2011 $8,359,467) including cash of $1,652,920 (June 30, 2011 $8,904,745). 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.

2. Basis of Presentation and First Time Adoption of International Financial Reporting Standards

These financial statements are the Company's first consolidated financial statements prepared in accordance 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") and the former Standing Interpretations Committee ("SICS") under the historic cost basis except for certain financial instruments which are stated at fair value.

The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") with a transition date of July 1, 2010, and these consolidated financial statements have been prepared in accordance with IFRS standards and interpretations as of June 30, 2012, with significant accounting policies described in Note 3.

The Company's previous consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and differ in some areas from IFRS. In preparing these consolidated financial statements Management has amended certain accounting and consolidation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures presented in these financial statements are in accordance with IFRS.

These consolidated financial statements for the year ended June 30, 2012 were approved and authorized for issuance in accordance with a resolution of the Board of Directors on October 26, 2012.

3. Significant Accounting Policies

(a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned, PNG incorporated subsidiary Papuan Precious Metals Ltd. ("PPM Ltd."). A subsidiary is an entity 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 its 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. Intercompany transactions and resulting balances of the subsidiary have been eliminated in these consolidated financial statements.

(b) Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in accordance with IFRS requires estimates, judgments, and assumptions that are based on management's experience and knowledge of the relevant facts and circumstance and are continuously evaluated. These can affect the reported amounts, the valuation of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the year. Due to market changes and other factors beyond the control of the Company, results may differ from the estimates, judgments and assumptions used at the reporting date.

Significant assumptions about the future and other sources of estimation uncertainty that could result in material adjustments to the carrying value of assets and liabilities relate to, but are not limited to, the following:

- The determination of functional currencies for the Company and its subsidiary;
- The estimated fair value of mineral properties;
- Non-current asset impairment tests;
- The valuation of share-based payments and warrants in private placements.

(c) Financial Assets

Financial assets are initially recorded at the fair value and designated upon initial recognition into one of the following categories based on the purpose for which the asset was acquired: *Financial Assets at fair value through profit or loss ("FVTPL"), Held-to-Maturity ("HTM"), Loans & Receivables, Available-for-sale ("AFS")*

A financial asset is classified at FVTPL if it is held for trading or designated as such upon initial recognition. If the Company manages such investments and makes purchases and sales decisions based on their fair value in accordance to the Company's risk management policy, these assets are designated FVTPL and are measured at fair value with changes recognized in profit or loss. Attributable transaction costs are recognized in profit and loss when incurred while all other financial assets include these costs in the assets' initial carrying cost.

The Company has classified its cash and cash equivalents as FVTPL. Financial assets designated as loans and receivables and assets held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables. Financial assets designated as available for sale are measured at fair value with unrealized gains and losses recognized in to other comprehensive income or loss except for losses in value considered other than temporary which are recognized in profit or loss. The Company has not classified any financial assets as available for sale at June 30, 2012, June 30, 2011 or July 1, 2010.

(d) Cash and Cash Equivalents

Cash and Cash Equivalents include deposits and redeemable term deposits with major financial institutions with original maturities of less than 90 days and readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

(e) Foreign Currency Translation

The functional currency is the currency of the primary economic environment in which an entity operates and has been determined that for the parent company and its subsidiary PPM Ltd. is the Canadian dollar. These determinations were conducted through an analysis of the consideration factors identified in IAS 21 - The Effects of Changes in Foreign Exchange Rates.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses are recognized in the consolidated statement of income (loss) upon settlement of such transactions. Translation of monetary assets and liabilities denominated in foreign currencies at exchange rates prevailing at the reporting date are also recognized in the consolidated statement of income (loss).

(f) Property and Equipment

Property and Equipment is stated at historical 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%

When an item of Property and Equipment comprises major components with different useful lives, the components are accounted for as separate items of Property 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.

Property and Equipment is reviewed for indications of impairment at the end of each reporting period. If there are indications of impairment, the asset's recoverable amount is estimated. A gain or loss arising on any impairment losses 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.

(g) Exploration and Evaluation Assets

All direct costs attributable to the acquisition, exploration and evaluation of Exploration and Evaluation assets are capitalized as intangible assets on the basis of specific Exploration Licences 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. Upon commencement of commercial production these costs are to be amortized over the estimated productive lives of the properties using the units-of-production method.

Exploration and Evaluation assets are reviewed on an ongoing basis to consider any indicators of impairment. If any indication of impairment exists, an estimate of the Exploration and Evaluation assets' recoverable amount is determined. The recoverable amount is calculated as the fair value less selling costs and its value in use. This value is determined for an individual exploration and evaluation interest unless it does not generate cash inflows that are largely independent of other exploration and evaluation property interests. If this is the case the interests are grouped together into Cash Generating Units ("CGUs") for impairment purposes.

The Company uses the following indicators to test its Exploration and Evaluation assets for impairment:

(i) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

(ii) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

(iii) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

(iv) The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

If a mineral property is abandoned, the exploration and evaluation costs related to the mineral property will be written off to the consolidated statement of income (loss) in the year of abandonment. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the mineral property's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the mineral property is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the mineral property interest in prior years. Such reversal is recognized in the consolidated statements of income (loss).

(h) Financial Liabilities

All Financial Liabilities are initially recorded at fair value and designated as FVTPL or other financial liabilities when recognized. Financial Liabilities classified as other financial liabilities are initially recognized at fair value and thereafter are subsequently measured at amortized cost using the effective interest rate method. This method calculates the amortized cost of a financial liability and the attributable interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments over the expected duration of the financial liability or where appropriates a shorter period. The Company's accounts payable, accrued liabilities and future income tax liabilities are classified as other financial liabilities.

Derivatives, including separately embedded derivatives are also classified as FVTPL and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss. The Company has no liabilities or derivatives classified as FVTPL.

(i) 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 volatility of the expected market price of the Company's common shares, risk-free interest rates, expected life of the options. The fair value less estimated forfeitures is charged to profit or loss and/or capitalized to the Exploration and Evaluation assets over the vesting period of the related options with a corresponding credit to equity in other capital reserves. 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.

Share-based awards issued to non-employees are generally measured on the fair value of goods or services received unless that fair value cannot be reliably measured. The fair value is measured at the date the entity obtains the goods or services or when the counterparty renders service. If the fair value cannot be reliably measured, the fair value of the share-based payments to non-employees are periodically re-measured using the Black Sholes option pricing model until the counterparty performance is complete and any change therein is recognized over the vesting period of the award. The cost of share-based payments to non-employees that are fully vested and non-forfeitable at the date of the grant are measured and recognized at that date.

When 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.

(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 liability 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. It 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

The Company presents basic and diluted earnings (loss) per share for its common shares, calculated by dividing earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated similar to basic income (loss) per share except it is assumed that outstanding stock options, restricted share units and warrants, with the average market price that exceeds the average exercise prices of the options and warrants for the year, are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of the common shares for the year. Diluted earnings (loss) per share does not adjust the gain or loss attributable to common shareholders when the effect is anti-dilutive.

(l) 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.

4. New Standards, Amendments and Interpretations not yet Adopted

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 July 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 July 1, 2013:

(i) IAS 1, Presentation of Financial Statements

The presentation in the statement of shareholders' equity or in the notes to the financial statements of other comprehensive income is amended. The Company does not anticipate a significant impact on its consolidated financial statements.

(ii) IAS 12, Deferred Taxes

An amendment was made to IAS 12 that provides a practical solution to determine the expected manner of recovery of investment properties as it relates to the accounting for deferred income taxes. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

(iii) IAS 24, Related Party Disclosures

The definition of related parties is clarified. The Company does not anticipate a significant impact on its consolidated financial statements.

(iv) IFRS 7, Financial Instruments: Disclosures

Amendments to IFRS 7 were implemented in 2010 to improve the disclosure requirements in relation to transferred financial assets. The Company is currently analyzing the possible impact of this amendment on its consolidated financial statements.

(v) IFRS 10, Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation-Special purpose Entities and parts of IAS 27 – Consolidated and Separate Financial Statements. The Company is currently analyzing the possible impact of this standard on its consolidated financial statements.

(vi) IAS 28, Investments in Associates

IAS 28 was amended to include joint ventures in its scope and to address the changes in IFRS 10 to 12. This amendment is effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate the application of IAS 28 to have a significant impact on its consolidated financial statements.

(vii) IFRS 11, Joint Arrangements

The IASB issued IFRS 11 – *Joint Arrangements* on May 12, 2011. IFRS 11 eliminates the use of proportionately consolidated jointly controlled entities and required such entities to be accounted for using the equity method. It 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.

(viii) IFRS 12, Disclosure of Interests in Other Entities

The IASB has issued IFRS 12, Disclosure of Involvement with Other Entities, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. This Standard will become effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this standard on its consolidated financial statements.

(ix) IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. This Standard will become effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this standard on its consolidated financial statements.

<u>Accounting standards anticipated to be effective July 1, 2015:</u>

(x) IFRS 9, Financial Instruments

New IFRS 9 introduces new requirements for the impairment of financial assets measured at amortized cost and classification and measurement of financial instruments. This Standard will become effective for annual periods beginning on or after January 1, 2015. Earlier application is permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this standard on its consolidated financial statements.

5. Key Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimated 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 Expenditures

The Company's accounting policy for Exploration and Evaluation expenditure results in certain items of expenditure being capitalized for prospective areas where it is considered likely to be recovered by future exploitation or sale and where the activities have not reached a stage which permits a reasonable assessment of the 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 this 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 income (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 11.

(Expressed in Canadian Dollars)

6. 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 has not made any allowance for doubtful accounts.

	June 30, 2012	June 30, 2011	July 1, 2010
Amounts Receivable	**$ 19,526**	$ 20,245	$ -

7. Property and Equipment

Property and Equipment consists 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	26,112	-	21,645	34,702	49,707	132,166
Disposals	-	-	-	-	-	-
As at June 30, 2011	29,772	992	25,535	48,508	73,184	177,991
Additions	9,239	-	2,766	9,704	1,913	23,622
Disposals	(4,819)	(992)	(8,490)	(12,564)	(24,080)	(50,945)
As at June 30, 2012	**34,192**	**-**	**19,811**	**45,648**	**51,017**	**150,668**
Accumulated Depreciation						
As at July 1, 2010	66	234	1,772	9,234	15,646	26,952
Depreciation	6,624	565	(29)	10,148	5,408	22,716
As at June 30, 2011	6,690	799	1,743	19,382	21,054	49,668
Depreciation	7,180	193	8,992	22,668	22,045	61,078
Disposals	(1,238)	(992)	(6,655)	(12,563)	(24,080)	(45,526)
As at June 30, 2012	**12,632**	**-**	**4,080**	**29,487**	**19,018**	**65,220**
Net Book Value						
As at July 1, 2010	3,594	758	2,118	4,572	7,831	18,873
As at June 30, 2011	23,082	193	23,792	29,126	52,130	128,323
As at June 30, 2012	**21,560**	**-**	**15,731**	**16,161**	**31,999**	**85,448**

(Expressed in Canadian Dollars)

8. Exploration and Evaluation Assets

For the Year ended June 30, 2012

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	Total
	EL 1566	*ELA 1856*	*EL 1424*	*EL 1618*	*EL 1271*	*EL 1732*	*EL 1943*	*EL 1683*	*EL 1574*	CDN $
Balance June 30, 2011	$2,261,222	$ 6,152	$1,572,463	$429,339	$ 970,693	$188,887	$ 8,545	$246,473	$ 213,803	$ 5,897,577
Camp and field costs	495,455	1,477	228,467	10,136	58,741	8,258	921	8,225	4,307	815,987
Charter hire	447,732	-	1,232,351	-	77,421	-	-	-	-	1,757,504
Drilling	821,810	-	961,553	-	-	-	-	-	-	1,783,363
Geological and other consulting	177,506	-	88,586	3,042	5,482	1,365	-	3,116	2,614	281,711
Geochemistry	212,763	-	77,286	-	4,077	3,111	-	3,306	-	300,543
Geophysics	10,309	-	10,987	-	8,993	-	-	-	-	30,289
Tenement expense	13,445	112	112	5,204	112	112	523	4,149	2,332	26,101
Project costs	163,412	12,096	152,262	16,421	33,395	20,248	11,708	17,835	14,943	442,320
Travel	33,455	-	4,518	90	6,243	2,184	-	1,126	2,365	49,981
Freight	16,060	82	107,834	82	82	82	83	82	82	124,469
Stock-based compensation	58,218	-	45,556	4,396	11,973	3,283	77	92	4,533	128,128
Additions	2,450,165	13,767	2,909,512	39,371	206,519	38,643	13,312	37,931	31,176	5,740,396
Write-downs	-	(19,919)	-	-	-	-	-	(284,404)	(244,979)	(549,302)
Balance June 30, 2012	**$4,711,387**	**$ -**	**$4,481,975**	**$468,710**	**$1,177,212**	**$227,530**	**$21,857**	**$ -**	**$ -**	**$ 11,088,671**

(Expressed in Canadian Dollars)

8. Exploration and Evaluation Assets (continued)

For the 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	Total
	EL 1566	*ELA 1856*	*EL 1424*	*EL 1618*	*EL 1271*	*EL 1732*	*EL 1943*	*EL 1683*	*EL 1574*	CDN $
Balance, July 1, 2010	$ 327,237	$ -	$ 959,447	$ 159,352	$ 418,938	$ -	$ -	$ 62,208	$ 163,740	$ 2,090,922
Camp 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	233,723	-	-	-	-	-	-	-	-	233,723
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	505,117	-	217,952	116,698	389,244	133,581	-	65,984	-	1,428,576
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	292,797
Travel	70,973	217	1,915	1,869	330	238	217	244	240	76,243
Freight	147,855	148	47,644	4,974	73,177	298	150	2,271	685	277,202
Stock-based Compensation	75,892	-	26,866	30,432	14,622	12,412	-	20,531	5,514	186,269
Additions	1,933,987	6,152	613,036	269,987	551,755	188,887	8,545	184,265	50,063	3,806,653
Balance June 30, 2011	$2,261,224	$ 6,152	$1,572,463	$ 429,339	$ 970,693	$ 188,887	$ 8,545	$ 246,473	$ 213,803	$ 5,897,577

8. 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, which entitles the holder to commence mine construction, to acquire up to a 30% participating interest in mining projects on a fully contributing basis. The New Hanover, Mt Suckling, Waria River, Ondowa Creek and Bowutu Mountains license renewals have been applied for but the Company has not received official notification of the renewals. The Company has not received any indication that the licenses will not be renewed.

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 identified a highly prospective anomaly at the Kuliuta prospect. The company completed a 2,583m drilling program there in November, 2011. This drilling encountered a high level sub-volcanic stock containing trace native copper as stockworks, fracture fillings and disseminations, typical of a porphyry copper system. Narrow intervals of sulphide copper stockworks were also intersected. The Metewoi prospect, located 4km southeast of Kuliuta, covers approximately 8km^2 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. At the Rande'i prospect about 4km southwest of Kuliuta, an extensive area of previously undiscovered alterations with outcropping Au-Ag and base metal values was defined.

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 interval 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 was completed in March 2012 on the Urua Creek prospect. Long intervals of low-grade porphyry-copper mineralization were intersected from the surface and several narrow high-grade gold and copper mineralized zones were intersected at depth. Doriri Creek is a unique prospect in that it is a low temperature hydrothermal accumulation of nickel, platinum and palladium. A 150m drill program commenced in April 3, 2012. A total of four holes were drilled and the program was completed April 23, 2012. 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.

Waria River

The Waria River project was comprised of 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. A charge of $284,404 to income/loss was recognized in the year upon the relinquishment of EL 1683 – Goroa East in June 2012.

(Expressed in Canadian Dollars)

Bewani Mountains

Upon review of the potential of the Bewani Mountains project, Management has relinquished this exploration licence to this tenement in June, 2012. A charge of $244,979 to income/loss was recognized in the year.

9. Accounts Payable and Accrued Liabilities

Due Within the Year	**June 30, 2012**	June 30, 2011	July 1, 2010
Trades Payable	**$ 104,631**	$ 80,494	$ -
Accrued Liabilities	**108,140**	533,333	471,644
Payable to Jalna Minerals	**-**	-	25,000
Shareholders Loans Payable	**-**	-	206,600
	$ 212,771	$ 613,827	$ 703,244

10. 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 Interim 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.

11. 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: The Company, formerly 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 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, dividend rate 0%.

October 15, 2010: The Company completed the second and final tranche of a non-brokered Private Placement raising $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: volatility 99.33%; risk free interest 1.59%; expected life 3 years, dividend rate 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 using the following assumptions: volatility 99.33%: risk free interest 1.59%, expected life 3 years, 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, 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 $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, 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.

(Expressed in Canadian Dollars)

(b) Stock Options and Warrants

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 date of grant.

Stock options and share purchase warrants transactions are as summarized as follows:

Stock Options

Date Issued	Number Outstanding	Exercise Price	Number Vested	Expiry Date
October 15, 2010	3,520,000	$ 0.30	2,640,000	October 15, 2013
July 12, 2011	950,000	$ 0.40	312,500	July 12, 2014
Outstanding June 30, 2012	4,470,000		2,952,500	

	Number of Shares Issuable Upon Exercise	Weighted Average Exercise Price
Outstanding July 1, 2010	-	-
Granted	4,570,000	$ 0.30
Exercised	-	-
Forfeited	(50,000)	0.30
Outstanding June 30, 2011	4,520,000	0.30
Granted	1,100,000	0.40
Exercised	-	-
Forfeited	(1,150,000)	0.33
Outstanding June 30, 2012	4,470,000	$ 0.32

Warrants

Date issued	Exercise Price	Shares Issuable	Expiry Date
July 6, 2010	$ 0.40	23,705,232	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
		34,903,444	

(Expressed in Canadian Dollars)

	Stock Options		Warrants	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding, July 1, 2010				
Granted	4,570,000	$ 0.30	36,052,658	$ 0.44
Exercised	-	-	(4,200)	0.40
Forfeited	(50,000)	0.30	-	-
Outstanding, June 30, 2011	4,520,000	0.30	36,048,458	0.44
Granted	1,100,000	0.40	-	-
Exercised	-	-	(111,123)	0.41
Forfeited	(1,150,000)	0.31	-	-
Expired	-	-	(1,033,891)	0.55
Outstanding, June 30, 2012	4,470,000	$ 0.32	34,903,444	$ 0.43

(c) Share-based Compensation

During the year ended June 30, 2012, the Company granted 1,100,000 options (2011 – 4,570,000). Pursuant to the granting and vesting of options issued, total stock based compensation recognized in the statement of operations during the year ended June 30, 2012 was $325,668 and $128,128 was capitalized to Exploration and Evaluation asset (June 30, 2011 – $535,794 and $186,269). This amount was also recorded as share-compensation reserves on the statement of financial position. 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:

	June 30, 2012	June 30, 2011
Risk Free interest rate	**1.71%**	1.78%
Expected Life - Years	**3**	3
Annualised Volatility	**99.50%**	96.75%
Dividend Rate	**0%**	0%

12. Supplemental Disclosure with respect to Cash Flows

Cash and Cash Equivalents	**June 30, 2012**	June 30, 2011	July 1, 2010
Cash	**$ 52,920**	$ 1,074,564	$ 36,899
Redeemable term deposits	**1,600,000**	7,830,181	-
	$ 1,652,920	$ 8,904,745	$ 36,899

During the year the Company earned $54,829 (June 30, 2011 $92,687) in interest income on its redeemable term deposits. There were no cash payments for interest or income taxes during the years ended June 30, 2012 and June 30, 2011.

(Expressed in Canadian Dollars)

Significant non-cash transactions for the year ended June 30, 2012 included:

(a) Incurring exploration and evaluation assets related expenditures of $85,738 through accounts payable and accrued liabilities;

(b) Reclassifying $8,420 from other capital reserves to share capital on exercise of warrants;

(c) Recognizing share-based compensation of $128,128 in exploration and evaluation assets.

Significant non-cash transactions for the year ended June 30, 2011 included:

(a) Reclassifying $4,032,366 from share capital to other capital reserve for warrants included in share units issued; and

(b) Reclassifying $114,378 from share issue costs to reserve for the proportionate share of broker warrants included in the share units issued.

(c) Recognizing share-based compensation of $186,269 in exploration and evaluation assets.

13. 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 year ended June 30, 2012 and 2011 are as follows:

		June 30, 2012		June 30, 2011
Wages and consulting fees paid to key management personnel	**$**	**495,560**	$	426,567
Share-based payments for options granted to key management personnel		**202,995**		292,789
	$	**698,555**	$	719,356

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

Included in accounts payable at June 30, 2012 is $27,114 (June 30, 2011 - $NIL) owing to officers and companies controlled by directors for consulting and directors fees. 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.

(Expressed in Canadian Dollars)

14. Income Taxes

A reconciliation of current income taxes at statutory rates (25.75%) with the period income taxes as follows:

	June 30, 2012	June 30, 2011
Loss before income taxes	**$ (2,171,015)**	$ (3,780,690)
Expected income tax recovery	**(559,036)**	(1,039,764)
Effect of tax rate differences for foreign jurisdictions	**(35,118)**	-
Effect of change in tax rates	**7,638**	25,918
Permanent differences	**84,028**	814,767
Benefits of tax attributes not recognized	**570,607**	103,257
Other	**(68,119)**	95,822
Future income tax recovery	**$ -**	$ -

As at June 30, 2012, the Company has unrecognized tax attributes aggregating to $1,233,457 (June 30, 2011 $719,248) as noted below, that are available to offset future taxable income:

Unrecognized defered tax assets (liabilities)	June 30, 2012	June 30, 2011
Non-capital losses carried forward	**$ 1,056,818**	$ 489,743.00
Share issuance costs and other assets	**169,193**	225,591
Equipment	**7,446**	3,914
Total	**1,233,457**	719,248

The Company has available approximately $4,006,000 of non-capital losses which will expire between 2028 and 2032 if unutilized.

15. 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, 2012 and 2011 are considered to be solely related to this segment.

Long lived assets by geographic area are as follows:

	June 30, 2012		June 30, 2011		July 1, 2010	
	Canada	**Papua New Guinea**	Canada	Papua New Guinea	Canada	Papua New Guinea
Property and equipment	**$ 11,262**	**$ 74,186**	$ 13,947	$ 114,376	$ -	$ 18,873
Exploration and evaluation assets	**-**	**11,088,671**	-	5,897,577	-	2,090,922
	$ 11,262	**$ 11,162,857**	$ 13,947	$ 6,011,953	$ -	$ 2,109,795

16. 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 dependant 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 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 agreements and continuing to access equity markets to fund the sustained exploration of its exploration and evaluation assets and to ensure the future growth of the business.

17. 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. 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 any active hedging or derivative trading policies to manage these risks as it has been determined by management that the current size, scale and pattern of its operations would warrant such hedging activities.

(a) Credit Risk

Credit Risk is such 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 have the expectation of any credit losses in the future. At June 30, 2012 and 2011, the Company has had no financial assets that are past due or impaired due to credit risk defaults.

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

Cash and Cash Equivalents	**June 30, 2012**	June 30, 2011	July 1, 2010
Cash	**$ 52,920**	$ 1,074,564	$ 36,899
Redeemable term deposits	**1,600,000**	7,830,181	-
	$ 1,652,920	$ 8,904,745	$ 36,899

(b) Liquidity Risk

Liquidity Risk is the risk that the Company will be unable to meet its 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 its current cash flow position to meet current obligations by monitoring and maintaining sufficient cash and cash equivalents to meet its anticipated operational needs.

The Company's financial liabilities, consisting of Accounts Payable and Accrued Liabilities, arise 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	**June 30, 2011**	June 30, 2011	July 1, 2010
Accounts Payable and Accrued Liabilities	**$ 212,771**	$ 613,827	$ 471,644

(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"), Papua New Guinea Kina ("PGK") and Australian Dollars ("AUD"). Derivative instruments are currently not used to reduce exposure to fluctuations in foreign currency exchange rates.

(Expressed in Canadian Dollars)

Changes in the value of USD, AUD and PGK against the CAD 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:

	June 30, 2012			June 30, 2011		
	USD	**AUD**	**PGK**	USD	AUD	PGK
Cash and cash equivalents	**$ -**	**$2,790**	**$ 22,704**	$ -	$ 56,349	$ 28,157
Accounts payable and accrued liabilities	**(81,517)**	**(3,374)**	**(847)**	(264,604)	-	(81,415)
	$(81,517)	**$ (584)**	**$ 21,857**	$ (264,604)	$ 56,349	$ (53,258)

Based on the above net exposures at June 30, 2012, a 10% change for/against the Canadian dollar in USD would result in a change of $8,152 (June 30, 2011 $26,460), AUD would result in a $58 change (June 30, 2011 $5,635) in the Company's net loss. Similarly a 10% change in the PGK against the Canadian dollar would result in a $2,186 (June 30, 2011 - $5,326) change in the Company's net loss.

18. 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 standards are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to deficit 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 3 have been applied in preparing these consolidated financial statements and selected comparative information presented below. The following tables reconcile the Company's statements of financial position, statements of loss and comprehensive loss and statement of cash flows prepared in accordance with IFRS to those prepared and previously reported in accordance to Canadian GAAP.

(Expressed in Canadian Dollars)

First Time Adoption to IFRS
Consolidated Statements of Financial Position
As at July 1, 2010

	Notes	Canadian GAAP	Adoption Adjustments	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 36,899	$ -	$ 36,899
Short-term investments (Note 3)		-	-	-
Amounts receivable		-	-	-
Prepaid expenses		27,264	-	27,264
Total current assets		64,163	-	64,163
Property, plant and equipment		18,873	-	18,873
Mineral property interests		2,090,922	-	2,090,922
Total Assets		2,173,958	-	2,173,958
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		471,644	-	471,644
Due to Jalna Minerals		25,000		25,000
Due to Shareholders		206,600		206,600
Total Liabilities		703,244	-	703,244
SHAREHOLDERS' EQUITY				
Share capital		2,379,667	-	2,379,667
Other capital reserves		-	-	-
Deficit		(908,953)	-	(908,953)
Total Shareholders' Equity		1,470,714	-	1,470,714
Total Liabilities and Shareholders' Equity		$ 2,173,958	$ -	$ 2,173,958

(Expressed in Canadian Dollars)

First Time Adoption to IFRS

Consolidated Statements of Financial Position

As at June 30, 2011

	Notes	Canadian GAAP	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	18(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	18(a)	4,761,741	(309,403)	5,071,144
Deficit	18(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

(Expressed in Canadian Dollars)

First Time Adoption to IFRS

Consolidated Statements of Comprehensive Loss

For the Year Ended June 30, 2011

	Notes	Canadian GAAP	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	18(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)

(Expressed in Canadian Dollars)

First Time Adoption to IFRS
Consolidated Statements of Cash Flows
For the Year Ended June 30, 2011

	Notes	Canadian GAAP	Adoption Adjustments	IFRS
Cash Flows Used in Operating Activities				
Net loss and comprehensive loss for the period	18(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	18(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		36,899	-	36,899
Cash and Cash Equivalents, End of Year		$ 8,904,745	$ -	$ 8,904,745

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 under Canadian GAAP the total fair value of the award was recognized on a straight-line basis over the vesting period.

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

Adjustments were calculated for options issued and outstanding after the Transition Date as prior to this date no options had been granted. 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.

19. Subsequent events

Subsequent to the year ended June 30, 2012, Mr. Christopher Cornelius resigned from the Board of Directors effective September 15, 2012.