



Papuan Precious Metals Corp.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended

September 30, 2012

(Unaudited)

Papuan Precious Metals Corp.

Condensed Interim Consolidated Financial Statements For the Three Months Ended September 30, 2012

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Notice

The following unaudited condensed interim consolidated financial statements of the Company for the period ended September 30, 2012 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



	Note	September 30, 2012	June 30, 2012
ASSETS			
Current assets			
Cash and cash equivalents		\$ 1,362,461	\$ 1,652,920
Amounts receivable		36,197	19,526
Prepaid expenses		39,280	79,947
		1,437,938	1,752,393
Property and equipment	4	73,035	85,448
Exploration and evaluation assets	5	11,216,523	11,088,671
Total Assets		12,727,495	12,926,512
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		179,750	212,771
Total Liabilities		179,750	212,771
SHAREHOLDERS' EQUITY			
Share capital	6	14,058,149	14,058,149
Other capital reserves	6	5,541,730	5,516,520
Deficit		(7,052,134)	(6,860,928)
		12,547,745	12,713,741
Total Liabilities and Shareholders' Equity		\$ 12,727,495	\$ 12,926,512

Nature and continuance of operations (Note 1)

Approved on November 26, 2012 by the 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



		Three Months Ended September 30,	
	Note	2012	2011
Expenses			
Business development		\$ -	\$ 11,199
Consulting and management fees	8	47,250	47,502
Depreciation		3,268	3,145
Office and administration		13,934	25,226
Professional fees		18,570	124,646
Public relations and communications		12,219	54,897
Regulatory fees		10,508	4,282
Rent		4,704	2,652
Share-based compensation	6	33,715	141,710
Transfer agent		1,635	3,089
Wages and benefits		45,266	45,521
		191,069	463,870
Loss before other items		(191,069)	(463,870)
Other items - income/(expense)			
Interest		(5,492)	(10,602)
Foreign exchange gain (loss)		5,629	-
		(137)	(10,602)
Net loss and comprehensive loss for the period		\$ (191,206)	\$ (453,268)
Basic and diluted loss per common share		\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding		69,544,638	60,432,645

Papuan Precious Metals Corp.

Condensed Interim Consolidated Statements of Changes in Equity

Unaudited - Expressed in Canadian Dollars



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	Note	Common Shares		Other Capital Reserves	Deficit	Total Shareholders' Equity
		Shares	Amount			
Balance July 1, 2010		24,182,291	\$ 2,379,667	\$ -	\$ (908,953)	\$ 1,470,714
4:1 rollback of Jalna shares		(18,136,718)	-	-	-	-
Issuance of shares pursuant to reverse takeover	6	44,386,026	6,087,992	2,436,281	-	8,524,273
Private Placements	6	18,933,334	6,423,915	1,596,085	-	8,020,000
Share issuance costs		-	(458,025)	(114,377)	-	(572,402)
Broker warrants		-	(431,807)	431,807	-	-
Exercise of option/warrants		4,200	2,394	(715)	-	1,679
Share-based compensation		-	-	722,063	-	722,063
Net loss and comprehensive loss		-	-	-	(3,780,960)	(3,780,960)
Balance June 30, 2011		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		-	-	209,805	-	209,805
Net loss and comprehensive loss		-	-	-	(453,268)	(453,268)
Balance September 30, 2011		\$ 69,480,256	\$ 14,058,149	\$ 5,272,529	\$ (5,143,181)	\$ 12,713,741
Share-based compensation		-	-	243,991	-	243,991
Net loss and comprehensive loss		-	-	-	(1,717,747)	(1,717,747)
Balance June 30, 2012		69,480,256	\$ 14,058,149	\$ 5,516,520	\$ (6,860,928)	\$ 12,713,741
Share-based compensation		-	-	25,210	-	25,210
Net loss and comprehensive loss		-	-	-	(191,206)	(191,206)
Balance, September 30, 2012		69,480,256	\$ 14,058,149	\$ 5,541,730	\$ (7,052,134)	\$ 12,547,745

Papuan Precious Metals Corp.

Condensed Interim Consolidated Statements of Cash Flows

Unaudited - Expressed in Canadian Dollars



	For the Three Months Ended September 30,	
	2012	2011
Cash flows used in operating activities		
Net loss and comprehensive for the period	\$ (191,206)	\$ (453,268)
Items not affecting cash:		
Depreciation	3,268	3,145
Share-based compensation	33,715	141,710
	(154,223)	(308,413)
Changes in non-cash working capital items:		
(Increase) decrease in amounts receivable	(16,671)	(23,323)
(Increase) decrease in prepaid expenses	40,667	(1,942)
Increase (decrease) in accounts and accrued liabilities	(33,019)	248,879
Cash used in operations activities	(163,246)	(84,799)
Investing activities		
Property and equipment purchased	-	(21,364)
Exploration and evaluation additions	(127,213)	(1,647,364)
Cash used in investing activities	(127,213)	(1,668,728)
Financing activity		
Proceeds from exercise of options/warrants	-	45,593
Cash provided by financing activities	-	45,593
Net increase (decrease) in cash and cash equivalents	(290,459)	(1,707,934)
Cash and cash equivalents, beginning of period	1,652,920	8,904,745
Cash and cash equivalents, end of period	\$ 1,362,461	\$ 7,196,811

Supplemental disclosure with respect to cash flows (Note 7).

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2012
(Unaudited - Expressed in Canadian Dollars)



1. Nature and Continuance of Operations

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

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

These condensed interim consolidated financial statements have been prepared by management on a going concern basis with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has no significant source of revenue and has significant cash requirements to meet its administrative overhead and to maintain its mineral property interests. The Company's ability to continue as a going concern is dependent on its ability to secure equity, debt or joint venture financing and generate profitable future operations.

These financial statements do not include any adjustments to assets and liabilities should the Company be unable to continue as a going concern. Management has carried out an assessment of the going concern assumption and has concluded that the company has sufficient cash and cash equivalents as well as no debt obligations outside the normal course accounts payable and accrued liabilities. As at September 30, 2012 the Company has cash and cash equivalents of \$1,362,461 (\$7,196,811 at September 30, 2011) and working capital of \$1,258,188 (\$6,427,919 at September 30, 2011).

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, 2012. 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 of the annual statements. These policies, judgements and estimates have been consistently applied in the preparation of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for certain financial instruments which are measured at fair value.

These financial statements have been authorized for issue by the Board of Directors on November 26, 2012.

3. New Standards, Amendments and Interpretations not yet Adopted

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

IAS 1 – *Presentation of Financial Statements*

IAS 24 – *Related Parties*

IFRS 7 – *Financial Instruments: Disclosures*

IFRS 10 – *Consolidated Financial Statements*

IAS 12 – *Deferred Tax*

IAS 28 – *Investments in Associates*

IFRS 9 – *Financial Instruments*

IFRS 11 – *Joint Arrangements*

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2012
(Unaudited - Expressed in Canadian Dollars)



IFRS 12 – Disclosures of Interests in Other Entities

IFRS 13 – Fair Value Measurement

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

4. Property and Equipment

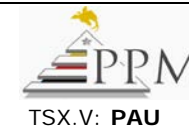
Cost	Geological Equipment	Office Equipment	Computer Equipment	Computer Software	Motor Vehicles	Total
As at June 30, 2011	\$ 29,772	\$ 992	\$ 25,535	\$ 48,508	\$ 73,184	\$ 177,991
Additions	9,239	-	2,766	9,704	1,913	23,622
Disposals	(4,819)	(992)	(8,490)	(12,564)	(24,080)	(50,945)
As at June 30, 2012	34,192	-	19,811	45,648	51,017	150,668
As at September 30, 2012	34,192	-	19,811	45,648	51,017	150,668
Accumulated Depreciation						
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	19,019	65,220
Depreciation	1,646	-	1,637	5,336	3,794	12,413
As at September 30, 2012	14,278	-	5,717	34,823	22,813	77,633
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 30, 2012	21,560	-	15,731	16,161	31,998	85,447
As at September 30, 2012	\$ 19,914	\$ -	\$ 14,094	\$ 10,825	\$ 28,204	\$ 73,034

5. Exploration and Evaluation Assets

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 properties 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.

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2012
(Unaudited - Expressed in Canadian Dollars)



5. Exploration and Evaluation Assets (continued)

Three Months Ended September 30, 2012

Exploration Costs	New Hanover	Mt Suckling		Waria Petromin Farm-in			Total CDN \$
	New Hanover	Mt Suckling	Upper Ada'u River	Waria River	Ondowa Creek	Bowutu Mtns	
	EL 1566	EL 1424	EL 1618	EL 1271	EL 1732	EL 1943	
Balance June 30, 2012	\$ 4,711,387	\$ 4,481,975	\$ 468,710	\$ 1,177,212	\$ 227,530	\$ 21,857	\$ 11,088,671
Camp and field costs	32,103	672	-	99	-	-	32,875
Charter hire	-	-	-	-	-	-	-
Drilling	-	-	-	-	-	-	-
Geological and other consulting	10,208	4,092	652	3,646	-	-	18,598
Geochemistry	(692)	997	-	-	171	-	476
Geophysics	308	-	-	-	-	-	308
Tenement expense	130	3,757	2,468	130	130	1,569	8,184
Project costs	27,735	13,997	4,582	5,172	5,820	4,483	61,788
Travel	7,822	6,074	-	-	-	-	13,896
Freight	48	185	-	-	-	-	232
Stock-based compensation	(6,455)	(2,836)	199	328	162	96	(8,506)
Additions	71,207	26,939	7,902	9,374	6,282	6,148	127,852
Balance September 30, 2012	\$ 4,782,594	\$ 4,508,914	\$ 476,612	\$ 1,186,586	\$233,812	\$ 28,005	\$ 11,216,523

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2012
(Unaudited - Expressed in Canadian Dollars)



5. 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 CDN \$
	New Hanover	Lavongai	Mt Suckling	Upper Ada'u River	Waria River	Ondowa Creek	Bowutu Mtns	Goroa East	Bewani Mountains	
	EL 1566	ELA 1856	EL 1424	EL 1618	EL 1271	EL 1732	EL 1943	EL 1683	EL 1574	
Balance June 30, 2011	\$ 2,261,222	\$ 6,152	\$ 1,572,463	\$ 429,339	\$ 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	-	77,331	-	-	-	-	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	26,103
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

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2012
(Unaudited - Expressed in Canadian Dollars)



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5. Exploration and Evaluation Assets (continued)

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 594km² 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 8km² of quartz-alunite lithocap rock where significant gold and copper results from outcrop samples have identified the exploration potential for high-sulphidation epithermal gold and porphyry copper-gold mineralization. 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 km². 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

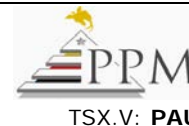
The Waria River project was comprised of four exploration licenses with PPM earning a 50% interest (EL 1271 – Waria River & EL 1732 – Ondowa Creek; PPM 100% (EL 1683 – Goroa East and ELA 1943 – Bowutu Mountains): covering 731km² in the Central New Guinea Range. The Company entered into a farm-in agreement 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.

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.

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2012
(Unaudited - Expressed in Canadian Dollars)



6. Share Capital and Reserves

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

(a) Reverse Take-over

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

- (a) the Company is considered to be a continuation of Papuan, the legal subsidiary except with regard to the authorized and issued share capital, which is that of Jalna, the legal parent.
- (b) the retained earnings (deficit) and other equity balances are the retained earnings (deficit) and other equity balances of Papuan immediately prior to the transaction.
- (c) the assets and liabilities of the legal subsidiary are recognized and measured at their pre-transaction carrying amounts and the net assets of the Company (Papuan and Jalna) have been measured at their estimated fair value.
- (d) comparative information presented in the condensed consolidated interim financial statements is that of Papuan.

(b) Private Placement Financings

There were no common share offerings nor exercise of warrants or options during the three month period ended September 30, 2012.

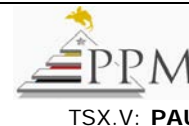
July 6, 2010: The Company, formerly Jalna Minerals Ltd, completed the first tranche of a non-brokered Private Placement financing pursuant to the reverse take-over agreement. There were 22,452,003 subscription receipts issued for units of the proposed amalgamated company (PPM) at a price of \$0.30 per unit and gross proceeds were \$6,735,601. 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 3 year period.

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. The Company paid agents' commissions of \$19,464, \$54,268 in fees and issued 64,878 broker warrants exercisable at \$0.40 per share for a 3 year period.

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. 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. As of September 30, 2012, the warrants on the foregoing placement have expired.

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited - Expressed in Canadian Dollars)



(c) 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.

At September 30, 2012, stock options and share purchase warrants outstanding are:

Stock Options					
Issue Date	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date	
October 15, 2010	3,520,000	\$ 0.30	2,640,000	October 15, 2013	
July 8, 2011	650,000	\$ 0.40	325,000	July 8, 2014	
As at September 30, 2012	4,170,000		2,965,000		

Warrants				
Date issued	Exercise Price	Shares Issuable	Expiry Date	
July 6, 2010	\$ 0.40	23,705,231	July 6, 2013	
October 15, 2010	\$ 0.40	3,398,211	October 15, 2013	
As at September 30, 2012		27,103,442		

	Stock Options		Warrants	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
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
Forfeited	(300,000)	0.40	-	-
Expired	-	-	(7,800,002)	0.55
As at September 30, 2012	4,170,000	\$ 0.32	27,103,442	\$ 0.43

(c) Share-based Compensation

During the three months ended September 30, 2012 no stock options were granted and no options were exercised. Pursuant to the granting and vesting of options issued, total stock based compensation recognized in the statement of operations during the three months ended September 30, 2012 was \$33,715 and (\$8,506) was capitalized to Exploration and Evaluation asset (2011 – \$141,790 and \$67,195). Share-based compensation reserves on the statement of changes in equity increased by \$25,210. 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:

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
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	September 30, 2012	September 30, 2011
Annualised Volatility	99.50%	99.50%
Risk Free interest rate	1.77%	1.78%
Expected Life - Years	3	3
Dividend Rate	0%	0%

7. Supplemental Disclosure with respect to Cash Flows

Cash and Cash Equivalents	September 30, 2012	September 30, 2011
Cash	\$ 62,461	\$ 266,630
Redeemable term deposits	1,300,000	6,930,181
	\$ 1,362,461	\$ 7,196,811

Due Within the Year	September 30, 2012	September 30, 2011
Trades Payable	\$ 75,133	\$ 762,706
Accrued Liabilities	104,617	100,000
	\$ 179,750	\$ 862,706

There were no cash payments for interest or income taxes during the three months ended September 30, 2012 and September 30, 2011.

Non-cash transactions for the three months ended September 30, 2012 included:

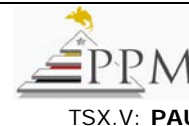
- (a) Incurring exploration and evaluation assets related expenditures of \$10,663 through accounts payable and accrued liabilities;
- (b) Recognizing stock-based compensation expense of \$33,715

Significant non-cash transactions for the three months ended September 30, 2011 included:

- (a) Incurring exploration and evaluation assets related expenditures of \$543,182 through accounts payable and accrued liabilities;
- (b) Recognizing stock-based compensation expense of \$141,710
- (c) Reclassifying \$18,967 from other capital reserves to share capital on exercise of warrants

Papuan Precious Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements
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8. Related Party Transactions

The comprehensive costs for key management personnel for the three months ended September 30, 2012 and 2011 are as follows:

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

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

Included in accounts payable at September 30, 2012 is \$45,369 (September 30, 2011 - \$5,018) owing to officers and companies controlled by a director for consulting fees, deferred exploration, general and administrative costs. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. 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 September 30, 2012 and 2011 are considered to be solely related to this segment.

Total assets by geographic area are as follows:

	September 30, 2012		September 30, 2011	
	Canada	Papua New Guinea	Canada	Papua New Guinea
Property and Equipment	\$ 7,993	\$ 65,041	\$ 22,514	\$ 110,999
Exploration and Evaluation Assets	-	11,216,523	-	7,625,166
	\$ 7,993	\$ 11,281,564	\$ 22,514	\$ 7,736,165

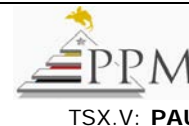
10. Capital Management

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.

Papuan Precious Metals Corp.

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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.

11. Financial Instruments and Risk Management

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

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

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

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

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

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

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

(a) Credit Risk

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

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

1. Cash and Cash Equivalents;
2. Short-term Investments; and
3. Amounts Receivable.

The Company has not had any credit losses in the past, nor does it expect to have any credit losses in the future. At September 30, 2012 and 2011, the Company has no financial assets that are past due or impaired due to credit risk defaults.

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

	Class Level	September 30, 2012	September 30, 2011
Cash and Cash Equivalents	1	\$ 1,362,461	\$ 7,196,811
Amounts Receivable and Prepaids	3	75,477	93,814
		\$ 1,437,938	\$ 7,290,625

(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:

Due within the year	September 30, 2012	September 30, 2011
Accounts Payable and Accrued Liabilities	\$ 179,750	\$ 862,706

(c) Market Risk

Market Risk is potential that the fair value for assets will fluctuate 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.

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.

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

	September 30, 2012		September 30, 2011		
	AUD	PGK	USD	AUD	PGK
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$47,342	\$ 96,611
Accounts Payable and Accrued Liabilities	2,137	11,269	600,914	18,279	89,788
	\$ 2,137	\$ 11,269	\$600,914	\$65,621	\$186,399

Based on the above net exposures at September 30, 2012, a 10% change for/against the Canadian dollar in USD would result in a change of \$Nil (September 30, 2011 \$60,091), AUD would result in a \$214 change (September 30, 2011 \$6,562) in the Company's net loss. Similarly a 10% change in the PGK against the Canadian dollar would result in a \$1,127 (September 30, 2011 - \$18,640) change in the Company's net loss.