Papuan Precious Metals Corp.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended

September 30, 2013

Papuan Precious Metals Corp.

Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2013

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Notice

The following unaudited condensed interim consolidated financial statements of the Company for the period ended September 30, 2013 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or a review of these condensed consolidated interim financial statements.

Papuan Precious Metals Corp.

Condensed Interim Consolidated Statements of Financial Position

Unaudited - Expressed in Canadian Dollars

TSX.V: **PAU**

	Note	**September 30, 2013**	June 30, 2013
Assets			
Current assets			
Cash and cash equivalents	9	**$ 667,645**	$ 754,060
Amounts receivable	4	**80,837**	75,525
Prepaid expenses		**29,709**	46,534
		778,191	876,119
Property and equipment	5	**32,650**	41,541
Exploration and evaluation assets	6	**4,845,258**	4,837,320
Total assets		**5,656,098**	5,754,980
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	**188,525**	170,000
Total liabilities		**188,525**	170,000
Shareholders' Equity			
Share capital	8	**14,058,149**	14,058,149
Shares held in escrow	6	**(106,896)**	(106,896)
Other capital reserves	8	**5,542,594**	5,542,037
Deficit		**(14,026,274)**	(13,908,310)
		5,467,573	5,584,980
Total liabilities and shareholders' equity		**$ 5,656,098**	$ 5,754,980

Nature and continuance of operations (Note 1)

Approved on November 19, 2013 by the Board of Directors:

" Devinder Randhawa"

Devinder Randhawa, Director

"Ross McElroy"

Ross McElroy, Director

Papuan Precious Metals Corp.

Condensed Interim Consolidated Statements of Comprehensive Loss

Unaudited - Expressed in Canadian Dollars

TSX.V: **PAU**

	Note		Three Months Ended September 30, 2013		2012
General and administrative expenses					
Business development		$	**646**	$	-
Consulting and management fees	10		**48,000**		47,250
Depreciation			**732**		3,268
Office and administration			**7,288**		13,934
Professional fees			**2,800**		18,570
Public relations and communications			**-**		12,219
Regulatory fees			**7,890**		10,508
Rent			**3,315**		4,704
Share-based compensation	8(c)		**557**		33,715
Transfer agent			**4,760**		1,635
Wages and benefits			**39,958**		45,266
			115,946		191,069
Loss before other items			**(115,946)**		(191,069)
Other income (expense)					
Interest			**1,863**		5,492
Loss on disposal of property and equipment			**(1,814)**		-
Foreign exchange loss			**(2,067)**		(5,629)
			(2,018)		(137)
Net loss and comprehensive loss for the period		$	**(117,964)**	$	(191,206)
Basic and diluted loss per common share		$	**(0.01)**	$	(0.01)
Weighted average number of common shares outstanding			**69,544,638**		69,544,638

Papuan Precious Metals Corp.

Condensed Interim Consolidated Statements of Changes in Equity

Unaudited - Expressed in Canadian Dollars

TSX.V: **PAU**

	Note	Common Shares Shares	Common Shares Amount	Common Shares Held In Escrow	Other Capital Reserves	Deficit	Total
Balance as at 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 as at September 30, 2012		69,480,256	14,058,149	-	5,541,730	(7,052,134)	12,547,745
Common shares held in escrow		-	-	(106,896)	-	-	(106,896)
Share-based compensation		-	-	-	307	-	307
Net loss and comprehensive loss		-	-	-	-	(6,856,176)	(6,856,176)
Balance as at June 30, 2013		69,480,256	14,058,149	(106,896)	5,542,037	(13,908,310)	5,584,980
Share-based compensation	8(c)	-	-	-	557	-	**557**
Net loss and comprehensive loss		-	-	-	-	(117,964)	**(117,964)**
Balance as at September 30, 2013		**69,480,256**	**$ 14,058,149**	**$ (106,896)**	**$ 5,542,594**	**$ (14,026,274)**	**$ 5,467,573**

Papuan Precious Metals Corp.

Condensed Interim Consolidated Statements of Cash Flows

Unaudited - Expressed in Canadian Dollars

TSX.V: **PAU**

	For the Three Months Ended September 30,	
	2013	2012
Cash used in operating activities		
Net loss and comprehensive loss for the period	**$ (117,964)**	$ (191,206)
Items not affecting cash:		
Depreciation	**732**	3,268
Share-based compensation	**557**	33,715
Loss on disposal of property and equipment	**1,814**	-
	(114,861)	(154,223)
Changes in non-cash working capital items:		
(Increase) decrease in amounts receivable	**(5,312)**	(16,671)
Decrease (Increase) in prepaid expenses	**16,825**	40,667
(Decrease) in accounts payable and accrued liabilities	**18,526**	(33,019)
Cash used in operating activities	**(84,822)**	(163,246)
Investing activities		
Exploration and evaluation additions	**(1,593)**	(127,213)
Cash used in investing activities	**(1,593)**	(127,213)
Net decrease in cash and cash equivalents	**(86,415)**	(290,459)
Cash and cash equivalents, beginning of period	**754,060**	1,652,920
Cash and cash equivalents, end of period	**$ 667,645**	$ 1,362,461

Supplemental disclosure with respect to cash flows (Note 9).

1. Nature and Continuance of Operations

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

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. Management has determined that the Company will be able to continue as a going concern for the foreseeable future and realize its assets and discharge its liabilities and commitments in the normal course of business, and therefore, these interim consolidated financial statements have been prepared on a going concern basis and do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. The Company's ability to continue as a going concern is dependent on its ability to secure equity, debt or joint venture financing and generate profitable future operations.

These interim consolidated financial statements for the three months ended September 30, 2013 and 2012 were approved and authorized for issuance by the Board of Directors on November 19th, 2013.

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, 2013. The annual statements include information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies and the use of judgements and estimates are presented in Note 3 and note 5 of the annual statements. These policies, judgements and estimates have been consistently applied in the preparation of these condensed interim consolidated financial statements. See also note 3 below.

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

3. New Standards, Amendments and Interpretations

The IASB issued the following pronouncements that are effective for years beginning January 1, 2013 or later. These new accounting policies were adopted by the Company on July 1, 2013 and have had no significant impact on the Company's financial position and results of operation.

IAS 1 – *Presentation of Financial Statements*
IAS 24 – *Related Parties Disclosures*
IFRS 7 - *Financial Instruments: Disclosures*
IFRS 10 – *Consolidated Financial Statements*
IFRS 12 – *Disclosures of Interests in Other Entities*
IAS 12 – *Deferred Tax*
IAS 28 – *Investments in Associates*
IFRS 9 – *Financial Instruments*
IFRS 11 – *Joint Arrangements*
IFRS 13 – *Fair Value Measurement*

(Unaudited - Expressed in Canadian Dollars)

4. Amounts Receivable

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

	September 30, 2013	September 30, 2012
Amounts Receivable	**$ 80,837**	$ 36,197

5. Property and Equipment

Cost	Geological Equipment	Computer Equipment	Computer Software	Motor Vehicles	Total
As at June 30, 2012	$ 34,192	$ 19,811	$ 45,648	$ 51,017	$ 150,668
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
As at June 30, 2013	34,192	19,811	45,648	51,017	150,668
Additions	-	-	-	-	-
Disposals	-	(5,718)	(45,648)	-	(51,366)
As at September 30, 2013	**34,192**	**14,093**	**-**	**51,017**	**99,302**
Accumulated Depreciation					
As at June 30, 2012	12,632	4,080	29,487	19,019	65,220
Depreciation	6,584	6,297	15,850	15,176	39,483
Disposals	-	-	-	-	-
As at June 30, 2013	19,216	10,377	45,337	34,195	109,127
Depreciation	1,646	1,637	-	3,794	7,077
Disposals	-	(4,216)	(45,337)	-	(49,553)
As at September 30, 2013	**20,862**	**7,798**	**-**	**37,989**	**66,651**
Net Book Value					
As at June 30, 2012	21,560	15,731	16,161	31,999	85,448
As at June 30, 2013	14,976	9,434	311	16,822	41,541
As at September 30, 2013	**$ 13,330**	**$ 6,295**	**$ -**	**$ 13,028**	**$ 32,650**

(Unaudited - Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets

Exploration Costs	New Hanover	Mt Suckling		Waria Petromin Farm-in			Total
	New Hanover *EL 1566*	Mt Suckling *EL 1424*	Upper Ada'u River *EL 1618*	Waria River *EL 1271*	Ondowa Creek *EL 1732*	Bowutu Mtns *EL 1943*	CDN $
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	45,443	672	-	99	-	-	46,214
Geological and other consulting	5,664	38	-	3,212	-	-	8,914
Geochemistry	(692)	997	-	-	171	-	476
Geophysics	308	-	-	-	-	-	308
Tenement expense	130	18,482	2,468	130	130	3,517	24,857
Project costs	73,177	17,530	5,960	6,905	6,827	6,234	116,633
Travel	8,080	6,074	-	-	-	-	14,154
Freight	48	185	-	-	-	-	233
Share-based compensation	(6,225)	(3,682)	(381)	(306)	(488)	(28)	(11,110)
Additions	125,933	40,296	8,047	10,040	6,640	9,723	200,679
Write Down of Assets	-	(4,522,271)	(476,757)	(1,187,252)	(234,170)	(31,580)	(6,452,030)
Balance June 30, 2013	4,837,320	-	-	-	-	-	4,837,320
Tenement expense	**288**	-	-	-	-	-	**288**
Project costs	**7,650**	-	-	-	-	-	**7,650**
Additions	**7,938**	-	-	-	-	-	**7,938**
Balance September 30, 2013	**$4,845,258**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$4,845,258**

6. 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 titles 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 to acquire up to a 30% participating interest in mining projects on a fully contributing basis. The Special Mining Licence entitles the holder to commence mine construction. The New Hanover and Mt Suckling license renewals have been applied for but the Company has yet to receive 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 in the south-western portion of the island which is 100 km west of the New Ireland provincial capital of Kavieng. 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 during the year sold an undivided 90% interest in the Mt. Suckling tenement to Suckling Minerals Limited ("Suckling Minerals"), accompany formed by the former Chief Operating Officer of the Company and a former director of the company. The Company retains a 10% carried interest and a 2% Net Smelter Royalty ("NSR"). Under the terms of the sale agreement, Suckling Minerals and its directors surrendered 5,344,791 common shares of the Company valued at $106,896 in exchange for the 90% interest. This resulted in an impairment loss on exploration and evaluation assets of $4,457,913. The transaction was approved on January 29, 2013 by the TSX-V. The shares surrendered are held in escrow pending transfer approval by the Mining Resources Authority of PNG. Pending this approval, the escrow shares are subject to a cancellation agreement whereby 25% of the shares are cancelled every 6 months from the date of TSX-V approval. Suckling Minerals can purchase the Company's remaining 10% interest for $4.7m and they also have the option to purchase the 2% NSR for $2.0m.

The Mt. Suckling prospect is 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.

Doriri Creek is a unique prospect in that it is a low temperature hydrothermal accumulation of nickel, platinum and palladium. A 150m, four hole drill program was completed in April of 2012. Significant sulphide nickel and platinum metals mineralization was intersected in all 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 elements.

PPM identified three gold-copper porphyries within an 18km interval along the Keveri Fault Zone. Drill targets were selected with the assistance of 3D IP and aero-mag surveys 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.

(Unaudited - Expressed in Canadian Dollars) TSX.V: PAU

Waria River

The Waria River project was comprised of four exploration licenses 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 of 2008. The Company had earned a 50% interest in the licences with expenditures commitments of $1.2m having been met in September, 2011. Management concluded that the prospect was no longer of merit after several years' exploration producing insignificant areas of further interest. As a result, the company relinquished the rights to the property in May of 2013. Previously, a charge of $284,404 to comprehensive loss was recognized upon the relinquishment of the 100% PPM owned EL 1683 – Goroa East in June 2012.

Bewani Mountains

Upon review of the potential of the Bewani Mountains project, management relinquished the exploration licence to this tenement in June of 2012 and a charge of $244,979 to comprehensive loss was recognized.

7. Accounts Payable and Accrued Liabilities

Trades payable are indebtedness incurred in the normal course of operations and are typically paid within 30 days. The accrued liabilities are non-interest bearing.

Due within the year	**September 30, 2013**	September 30, 2012
Trades Payable	**$ 47,908**	$ 75,133
Accrued Liabilities	**140,617**	104,617
	$ 188,525	$ 179,750

8. Share Capital and Reserves

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

(a) Private Placement Financings

There were no common share offerings, exercise of warrants or options during the three month period ended September 30, 2013.

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.

(Unaudited - 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. As at September 30, 2013, stock options and share purchase warrants outstanding were:

Stock Options

Date Issued	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
October 15, 2010	1,950,000	$ 0.30	1,950,000	October 15, 2013
July 12, 2011	600,000	$ 0.40	600,000	July 12, 2014
As at September 30, 2013	**2,550,000**		**2,550,000**	

Warrants

Date Issued	Exercise Price	Shares Issuable	Expiry Date
October 15, 2010	$ 0.40	3,398,212	October 15, 2013
As at September 30, 2013		**3,398,212**	

	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	(1,920,000)	0.33	-	-
Expired	-	-	(7,800,000)	0.43
As at June 30, 2013	2,550,000	$ 0.32	27,103,444	$ 0.40
Expired	-		(23,705,232)	0.55
As at September 30, 2013	**2,550,000**	**$ 0.32**	**3,398,212**	**$ 0.40**

(Unaudited - Expressed in Canadian Dollars)

(c) Share-based Compensation

During the three months ended September 30, 2013 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, 2013 was $557 (2012 – $33,715). 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:

	September 30, 2013	September 30, 2012
Annualised Volatility	**97.28%**	99.50%
Risk Free interest rate	**1.77%**	1.77%
Expected Life - Years	**3**	3
Dividend Rate	**0%**	0%

9. Supplemental Disclosure with respect to Cash Flows

Cash and cash equivalents consist of:

	September 30, 2013	September 30, 2012
Cash	**$ 5,221**	$ 62,461
Redeemable term deposits	**662,424**	1,300,000
	$ 667,645	$ 1,362,461

There were no cash payments for interest or income taxes during the three months ended September 30, 2013 and September 30, 2012.

Non-cash transactions for the three months ended September 30, 2013 included:

- Recognizing stock-based compensation expense of $557;

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

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

10. Related Party Transactions

The comprehensive costs for key management personnel for the three months ended September 30, 2013 and 2012 are as follows:

	September 30, 2013	September 30, 2012
Wages and consulting fees paid to key management personnel	**$ 75,000**	$ 85,000
Share-based payments for options granted to key management personnel	**-**	26,781
	$ 75,000	$ 111,781

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

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Included in accounts payable and accrued liabilities at September 30, 2013 is $ 50,000 (September 30, 2012 - $45,369) owing to officers and companies controlled by a director for consulting fees, 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.

11. Segmented Information

The Company operates under one business segment being the exploration of mineral property interests operating in two different geographical locations; Canada and Papua New Guinea. The loss from operations for the periods ended September 30, 2013 and 2012 are considered to be solely related to this segment.

Total assets by geographic area are as follows:

	September 30, 2013		September 30, 2012	
	Canada	**Papua New Guinea**	Canada	Papua New Guinea
Property and equipment	**$ 775**	**$ 31,875**	$ 7,993	$ 65,041
Exploration and evaluation assets	**-**	**4,845,258**	-	11,216,523
	$ 775	**$ 4,865,619**	$ 7,993	$ 11,281,564

12. Capital Management

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

The Company is 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 option agreements and continuing to access equity markets to fund the sustained exploration of its mineral properties and to ensure the future growth of the business.

13. Financial Instruments and Risk Management

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

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

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

(Unaudited - Expressed in Canadian Dollars)

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, 2013 and 2012, the Company has no financial assets that are past due or impaired due to credit risk defaults.

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

	Class Level	**September 30, 2013**		September 30, 2012	
Cash and cash equivalents	1	**$**	**667,645**	$	1,362,461
Amounts receivable and Prepaids	3		**110,546**		75,477
		$	**778,191**	$	1,437,938

(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, 2013**	September 30, 2012
Accounts payable and accrued liabilities	**$ 188,525**	$ 179,750

(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.

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:

	September 30, 2013		September 30, 2012	
	AUD	**PGK**	AUD	PGK
Cash and cash equivalents	**$ -**	**$ 1,248**	$ 2,702	$ 381
Accounts payable and accrued liabilities	**-**	**(4,124)**	(2,137)	(11,269)
	$ -	**$ (2,876)**	$ 565	$ (10,888)

Based on the above net exposures at September 30, 2013, a 10% change for/against the Canadian dollar in the AUD would result in a $Nil change (September 30, 2012 - $57) to the Company's net loss. Similarly a 10% change in the PGK against the Canadian dollar would result in a $288 (September 30, 2012 - $1,089) change in the Company's net loss.

14. Subsequent Events

On October 15, 2013 3,398,212 warrants expired, leaving no warrants outstanding. Also on that date 1,950,000 stock options expired leaving 600,000 options available exercisable at $0.40.