



**Papuan Precious Metals Corp.**

**Consolidated Financial Statements**

**For the Year Ended**

**June 30, 2014**

# 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, 2014 and 2013, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, 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 audit 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, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada,  
September 12, 2014.

*Ernst & Young LLP*

Chartered Accountants



# Papuan Precious Metals Corp.

## Consolidated Financial Statements For the Year Ended June 30, 2014

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



	Note	June 30, 2014	June 30, 2013
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	11	\$ 902,507	\$ 754,060
Amounts receivable	6	53,139	75,525
Prepaid expenses		126,933	46,534
		<b>1,082,579</b>	876,119
Property and equipment	7	12,733	41,541
Exploration and evaluation assets	8	4,918,665	4,837,320
<b>Total assets</b>		<b>6,013,977</b>	5,754,980
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9, 12	335,497	170,000
<b>Total liabilities</b>		<b>335,497</b>	170,000
<b>Shareholders' Equity</b>			
Share capital	10	14,720,632	14,058,149
Shares held in escrow	8, 17	(59,165)	(106,896)
Other capital reserves	10	5,789,546	5,542,037
Accumulated deficit		(14,772,533)	(13,908,310)
<b>Total shareholders equity</b>		<b>5,678,480</b>	5,584,980
<b>Total liabilities and shareholders' equity</b>		<b>\$ 6,013,977</b>	\$ 5,754,980

On Behalf of the Board of Directors:

**"Devinder Randhawa"**

Devinder Randhawa, Director

**"Ross McElroy"**

Ross McElroy, Director

**Papuan Precious Metals Corp.**  
**Consolidated Statements of Comprehensive Loss**

(Expressed in Canadian Dollars)



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		For the years ended June 30,	
	Note	2014	2013
<b>General and administrative expenses</b>			
Business development		\$ 32,862	\$ 1,975
Consulting and management fees	12	250,250	191,375
Depreciation		1,571	9,103
Office and administration		31,232	41,136
Professional fees		80,682	121,381
Public relations and communications		7,960	18,964
Regulatory fees		32,436	40,167
Rent		13,260	17,799
Share-based compensation	10	235,371	36,627
Transfer agent		13,685	10,459
Wages and benefits	12	159,559	165,943
		<b>858,868</b>	<b>654,929</b>
<b>Loss before other items</b>		<b>(858,868)</b>	<b>(654,929)</b>
<b>Other income (expense)</b>			
Interest		7,262	13,738
Foreign exchange loss		(7,157)	(18,519)
Loss on disposal of property and equipment		(5,460)	-
Exploration and evaluation assets write-down	8	-	(6,387,672)
		<b>(5,355)</b>	<b>(6,392,453)</b>
<b>Net loss and comprehensive loss for the year</b>		<b>\$ (864,223)</b>	<b>\$ (7,047,382)</b>
<b>Basic and diluted loss per common share</b>		<b>\$ (0.01)</b>	<b>\$ (0.10)</b>
<b>Weighted average number of common shares outstanding</b>		<b>68,683,424</b>	<b>69,480,256</b>

**Papuan Precious Metals Corp.**  
**Consolidated Statements of Changes in Equity**  
Expressed in Canadian Dollars



	Note	Common Shares		Common Shares	Other Capital	Deficit	Total
		Shares	Amount	Held in Escrow	Reserves		
Balance as at June 30, 2012		69,480,256	\$ 14,058,149	\$ -	\$ 5,516,520	\$ (6,860,928)	\$ 12,713,741
Common shares held in escrow	8	-	-	(106,896)	-	-	(106,896)
Share-based compensation	10	-	-	-	25,517	-	25,517
Net loss and comprehensive loss		-	-	-	-	(7,047,382)	(7,047,382)
<b>Balance as at June 30, 2013</b>		<b>69,480,256</b>	<b>\$ 14,058,149</b>	<b>\$ (106,896)</b>	<b>\$ 5,542,037</b>	<b>\$ (13,908,310)</b>	<b>\$ 5,584,980</b>
Exercise of option/warrants		50,000	4,895	-	(2,395)	-	<b>2,500</b>
Private placements	10(a)	9,700,000	776,000	-	-	-	<b>776,000</b>
Share issuance costs		8,750	(56,148)	-	-	-	<b>(56,148)</b>
Warrants		-	(14,533)	-	14,533	-	-
Common shares held in escrow	8	(2,386,564)	(47,731)	47,731	-	-	-
Share-based compensation	10	-	-	-	235,371	-	<b>235,371</b>
Net loss and comprehensive loss		-	-	-	-	(864,223)	<b>(864,223)</b>
<b>Balance as at June 30, 2014</b>		<b>76,852,442</b>	<b>\$ 14,720,632</b>	<b>\$ (59,165)</b>	<b>\$ 5,789,546</b>	<b>\$ (14,772,533)</b>	<b>\$ 5,678,480</b>

**Papuan Precious Metals Corp.**  
**Consolidated Statements of Cash Flows**

(Expressed in Canadian Dollars)



	For the years ended June 30,	
	2014	2013
<b>Cash used in operating activities</b>		
Net loss and comprehensive loss for the year	\$ (864,223)	\$ (7,047,382)
Items not affecting cash:		
Depreciation	1,571	9,103
Share-based compensation	235,371	36,627
Loss on disposal of property and equipment	5,460	-
Write-down of exploration and evaluation assets	-	6,387,672
	<b>(621,821)</b>	<b>(613,980)</b>
<b>Changes in non-cash working capital items</b>		
(Increase) decrease in amounts receivable	22,386	(55,999)
Decrease (Increase) in prepaid expenses	(80,399)	33,413
(Decrease)/Increase in accounts payable and accrued liabilities	165,497	(42,771)
Cash used in operating activities	<b>(514,337)</b>	<b>(679,337)</b>
<b>Investing activities</b>		
Property and equipment purchased	(2,580)	-
Exploration and evaluation additions	(56,988)	(219,523)
Cash used in investing activities	<b>(59,568)</b>	<b>(219,523)</b>
<b>Financing activity</b>		
Proceeds from issuance of common shares	776,000	-
Proceeds from exercise of stock options	2,500	-
Share issuance costs	(56,148)	-
Cash provided by financing activities	<b>722,352</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>148,447</b>	<b>(898,860)</b>
Cash and cash equivalents, beginning of the year	754,060	1,652,920
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 902,507</b>	<b>\$ 754,060</b>
Compromised of		
Cash and cash equivalents of continuing operations		
Cash and cash equivalents of discontinued operations		

Supplemental disclosure with respect to cash flows (Note 11).



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# Papuan Precious Metals Corp.

Notes to the Consolidated Financial Statements  
For the Years Ended June 30, 2014 and 2013  
(Expressed in Canadian Dollars)



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## 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 under the symbols "PAU" on the TSX Venture Exchange ("TSX.V"). 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 annual 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 consolidated financial statements for the years ended June 30, 2014 and 2013 were approved and authorized for issuance by the Board of Directors on September 12, 2014.

## 2. Basis of Presentation

These consolidated financial statements of the Company and its subsidiary, including comparative figures, have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

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% owned subsidiary Papuan Precious Metals Ltd., ("PPM Ltd.") located in Port Moresby, PNG.

## 3. Significant Accounting Policies

### (a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its PNG incorporated wholly owned subsidiary 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.

## Papuan Precious Metals Corp.

Notes to the Consolidated Financial Statements  
For the Years Ended June 30, 2014 and 2013  
(Expressed in Canadian Dollars)



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

### (c) *Financial Assets*

Financial assets are initially recorded at 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 as FVTPL if it is held for trading or designated as FVTPL 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 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, 2014 or June 30, 2013.

### (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*

Functional currency is the currency of the primary economic environment in which an entity operates and it has been determined that for the Company and its subsidiary, the Canadian dollar is the functional currency. 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 comprehensive 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 statements of comprehensive loss.

## Papuan Precious Metals Corp.

Notes to the Consolidated Financial Statements  
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### (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%
• Motor 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 recoverable amount and the carrying amount of the asset, is recognized in the consolidated statements of comprehensive 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 relinquishment or 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 higher of fair value less selling costs and its value in use. This value is determined for individual exploration and evaluation assets unless it does not generate cash inflows that are largely independent of other exploration and evaluation assets. If this is the case, the assets are grouped together into Cash Generating Units ("CGUs") for impairment purposes.

The Company considers the following factors to review its Exploration and Evaluation assets for indicators of 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.

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## Papuan Precious Metals Corp.

Notes to the Consolidated Financial Statements  
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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. In such a 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 reversals are recognized in the consolidated statements of comprehensive loss. If a mineral property is relinquished, the exploration and evaluation costs related to the mineral property will be written off to the consolidated statements of comprehensive loss in the year of relinquishment.

### *(h) Financial Liabilities*

All financial liabilities are initially recorded at fair value and designated as FVTPL or classified as 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 its 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 appropriate, a shorter period. The Company's accounts payable and accrued 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 the consolidated statements of comprehensive 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 and 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-Scholes 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.

## Papuan Precious Metals Corp.

Notes to the Consolidated Financial Statements  
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### (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 as at 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 either accounting or 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) *Loss per Share*

The Company presents basic and diluted loss per share for its common shares, calculated by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is similarly calculated except it is assumed that outstanding stock options 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 loss per share does not adjust the 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 can 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 including key management personnel.

## 4. **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 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 11 – *Joint Arrangements*

IFRS 13 – *Fair Value Measurement*

IAS 12 – *Deferred Tax*

IAS 28 – *Investments in Associates*

IFRS 10 – *Consolidated Financial Statements*

IFRS 12 – *Disclosure of Interests in Other Entities*

On July 24, 2014 the IASB issued IFRS 9 - *Financial Instruments*. This is the final version of the Standard and supersedes all previous versions. The Standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted. This standard introduces new requirements for the impairment of financial assets measured at amortized cost and classification and measurement of financial instruments. The Company will be analyzing the possible impacts of these amendments on its future consolidated financial statements.

## Papuan Precious Metals Corp.

Notes to the Consolidated Financial Statements  
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### 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 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 expenditures 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 consolidated statement of comprehensive 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 10.

### 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.

	<b>June 30, 2014</b>	June 30, 2013
Amounts receivable	<b>\$ 53,139</b>	\$ 75,525

## Papuan Precious Metals Corp.

Notes to the Consolidated Financial Statements  
For the Years Ended June 30, 2014 and 2013  
(Expressed in Canadian Dollars)



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### 7. Property and Equipment

Property and Equipment consists of:

<b>Cost</b>	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	-	2,580	-	-	2,580
Disposals	(8,441)	(19,811)	(45,648)	(11,921)	(85,821)
<b>As at June 30, 2014</b>	<b>\$ 25,751</b>	<b>\$ 2,580</b>	<b>\$ -</b>	<b>\$ 39,096</b>	<b>\$ 67,427</b>
<b>Accumulated Depreciation</b>					
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	5,736	4,349	-	15,844	25,929
Disposals	(8,441)	(14,661)	(45,337)	(11,921)	(80,360)
<b>As at June 30, 2014</b>	<b>\$ 16,511</b>	<b>\$ 65</b>	<b>\$ -</b>	<b>\$ 38,118</b>	<b>\$ 54,694</b>
<b>Net Book Value</b>					
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
<b>As at June 30, 2014</b>	<b>\$ 9,240</b>	<b>\$ 2,515</b>	<b>\$ -</b>	<b>\$ 978</b>	<b>\$ 12,733</b>

### 8. 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 titles to its property is in good standing under the Mining Act 1992 of the Independent State of Papua New Guinea. The New Hanover license renewal has been applied for but the Company has yet to receive official signed notification of the renewals. Proposed work program commitments of \$36,580 per year on EL-1566 have been preliminarily approved by the Mining Resource Authority. The Company has not received any indication that the licenses will not be renewed. The State of Papua New Guinea may elect at the time that a "Special Mining Licence" be granted to acquire up to a 30% participating interest in mining projects on a fully contributing basis. The Special Mining Licence entitles the holder to commence mine construction.

During the year ended June 30, 2013, the Company sold to Suckling Minerals Ltd. an undivided 90% interest in the Mt. Suckling tenement and retains a 10% carried interest and a 2% Net Smelter Royalty. Under the terms of the sale agreement, Suckling Minerals and its directors surrendered 5,344,791 common shares of the Company valued at \$106,896 in exchange for the 90% interest. The shares surrendered are held in escrow until final tenement transfer is approved 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 January 29, 2013, the date of TSX-V approval. As at June 30, 2014, 3,593,593 shares held in escrow have been returned to treasury and cancelled.

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### 8. Exploration and Evaluation Assets

For the Year ended June 30, 2014

Exploration Costs	New Hanover <i>EL 1566</i>	Mt Suckling		Waria Petromin Farm-in			Total CDN \$
		Mt Suckling <i>EL 1424</i>	Upper Ada'u River <i>EL 1618</i>	Waria River <i>EL 1271</i>	Ondowa Creek <i>EL 1732</i>	Bowutu Mtns <i>EL 1943</i>	
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	-	-	-	-	232
Stock-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
Camp and field costs	4,646	-	-	-	-	-	4,646
Geological and other consulting	17,500	-	-	-	-	-	17,500
Geochemistry	3,046	-	-	-	-	-	3,046
Tenement expense	23,066	-	-	-	-	-	23,066
Project costs	29,710	-	-	-	-	-	29,710
Travel	1,847	-	-	-	-	-	1,847
Freight	1,530	-	-	-	-	-	1,530
Stock-based compensation	-	-	-	-	-	-	-
Additions	<b>81,345</b>	-	-	-	-	-	<b>81,345</b>
<b>Balance June 30, 2014</b>	<b>\$4,918,665</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$4,918,665</b>



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### 9. Accounts Payable and Accrued Liabilities

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

<b>Due within the year</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Accounts payable	\$ 128,362	\$ 41,474
Accrued liabilities	207,135	128,526
	<b>\$ 335,497</b>	<b>\$ 170,000</b>

### 10. Share Capital and Reserves

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

#### (a) Private Placement Financings

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

#### (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 summarized as follows:

<b>Stock Options</b>				
Date Issued	Number Outstanding	Exercise Price	Number Exercisable	Remaining Life in years
As at June 30, 2012	4,470,000	\$ 0.32	917,500	-
Forfeited	(1,920,000)	0.30	(1,920,000)	-
As at June 30, 2013	2,550,000	0.32	2,550,000	-
Expired	(1,950,000)	0.30	(1,950,000)	-
Granted	5,800,000	0.05	4,750,000	2.79
Exercised	(50,000)	0.05	-	-
<b>As at June 30, 2014</b>	<b>6,350,000</b>	<b>\$ 0.08</b>	<b>5,350,000</b>	<b>-</b>

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### Warrants

Date issued	Number of Shares Issuable	Exercise Price	Expiry Date
As at June 30, 2012	34,903,444	\$ 0.43	July 6, 2013
Expired	7,800,000	0.40	October 15, 2013
As at June 30, 2013	27,103,444	0.40	
Expired	(23,705,232)	0.40	July 6, 2013
Expired	(3,398,212)	0.40	October 15, 2013
Issued	4,850,000	0.12	June 24, 2015
<b>As at June 30, 2014</b>	<b>4,850,000</b>	<b>\$ 0.12</b>	

#### (c) Share-based Compensation

During the year ended June 30, 2014, the Company granted 5,800,000 (2013 – nil) stock options. The options granted to executives, directors and employees vested upon issuance. Options granted to consultants vest over a period of one year with 25% of the options vesting quarterly. Pursuant to the granting and vesting of options issued, total stock based compensation recognized in the consolidated statements of loss during the year ended June 30, 2014 was \$235,371 (June 30, 2013 – \$36,627 expensed and (\$11,110) capitalized to Exploration and Evaluation asset). This amount was also recorded as share-based compensation in other capital reserves on the statement of changes in equity. All options are recorded at fair value as at the grant date determined using the Black-Scholes option pricing model for which the following assumptions were used:

Assumptions	June 30, 2014	June 30, 2013
Risk Free interest rate	1.47%	1.77%
Expected Life - Years	3	3
Annualised Volatility	118.86%	97.28%
Dividend Rate	0%	0%

### 11. Supplemental Disclosure with Respect to Cash Flows

Cash and cash equivalents	June 30, 2014	June 30, 2013
Cash	\$ 570,840	\$ 16,636
Redeemable term deposits	331,667	737,424
	<b>\$ 902,507</b>	<b>\$ 754,060</b>

During the year the Company earned \$7,262 (June 30, 2013 \$13,738) in interest income on its redeemable term deposits. There were no cash payments for interest or income taxes during the years ended June 30, 2014 and June 30, 2013.

- Significant non-cash transactions for the year ended June 30, 2014 included: share-based compensation of \$235,371 expensed
- Significant non-cash transactions for the year ended June 30, 2013 included: share-based compensation of \$36,627 expensed and the reversal of share-based compensation of \$11,110 in exploration and evaluation assets due to forfeitures.

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### 12. Related Party Transactions

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the year ended June 30, 2014 and 2013 are as follows:

<b>Key management personnel</b>	<b>June 30, 2014</b>	June 30, 2013
Wages and consulting fees paid or payable	\$ 300,000	\$ 300,000
Share-based compensations for options granted	38,000	16,724
	<b>\$ 338,000</b>	<b>\$ 316,724</b>

Share-based compensation represents 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 and accrued liabilities at June 30, 2014 is \$150,000 (June 30, 2013 - \$54,000) owing to officers and companies controlled by directors/officers for consulting fees.

Included in amounts receivable at June 30, 2014 is \$4,508 for outstanding rents charged to related parties.

Payments made to related parties include rent (\$13,260), office & administration (\$6,318) and business development (\$11,037). Included in accounts payable and accrued liabilities at June 30, 2014 is \$16,861 for office & administration and business development expenses owing to related parties.

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.

### 13. Income Taxes

A reconciliation of current income taxes at statutory rates (26.00%; 2013: 25.23%) with the period income taxes is as follows:

<b>Future income tax recovery</b>	<b>June 30, 2014</b>	June 30, 2013
Loss before income taxes	\$ 864,223	\$ (7,047,382)
Expected income tax recovery	(224,698)	(1,778,054)
Effect of tax rate differences from foreign jurisdictions	(241)	(305,575)
Effect of change in tax rates	(37,295)	(17,436)
Permanent differences	61,262	9,347
Tax effect of tax losses and temporary differences not	200,972	2,132,199
Other	-	(40,481)
Future income tax recovery	\$ -	\$ -

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At June 30, 2014, the Company has unrecognized aggregate tax attributes of \$3,491,472 (June 30, 2013 \$3,313,770), that are available to offset future taxable income:

<b>Unrecognized deferred tax assets</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Mineral properties	\$ 1,893,032	\$ 1,893,032
Non-capital loss carried forward	1,529,000	1,293,321
Share issuance cost and other assets	69,424	117,307
Equipment	16	10,110
<b>Total</b>	<b>\$ 3,491,472</b>	<b>\$ 3,313,770</b>

The Company has available approximately \$5,880,769 of non-capital losses which will expire between 2014 and 2034 if unutilized.

### 14. Segmented Information

The Company operates under one business segment being the exploration of mineral property interests operating in two geographical locations; Canada and PNG. The loss from operations for the periods ended June 30, 2014 and 2013 are considered to be solely related to this segment.

<b>Non-Current assets by geographic region</b>	<b>June 30, 2014</b>		<b>June 30, 2013</b>	
	<b>Canada</b>	<b>PNG</b>	<b>Canada</b>	<b>PNG</b>
Property and equipment	\$ 2,515	\$ 10,217	\$ 2,159	\$ 39,382
Exploration and evaluation assets	-	4,918,665	-	4,837,320
<b>Total</b>	<b>\$ 2,515</b>	<b>\$ 4,928,882</b>	<b>\$ 2,159</b>	<b>\$ 4,876,702</b>

### 15. Capital Management

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

The Company is dependent on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. Changes in the equity accounts of the Company are disclosed in the statements of changes in 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 or acquire or dispose of assets. Any issuance of common shares requires approval of the Board of Directors.

In order to facilitate management with 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 also 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.

# Papuan Precious Metals Corp.

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## 16. 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.

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: cash and cash equivalents; short-term investments; and amounts receivable.

The Company has not had any credit losses in the past nor does it anticipate any credit losses in the future. At June 30, 2014 and 2013, 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:

<b>Cash and cash equivalents</b>	<b>June 30, 2014</b>	June 30, 2013
Cash	\$ 570,840	\$ 16,637
Redeemable term deposits	331,667	737,423
	<b>\$ 902,507</b>	<b>\$ 754,060</b>

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### (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:

<b>Maturity dates &lt;6 months</b>	<b>June 30, 2014</b>	June 30, 2013
Accounts payable and accrued liabilities	<b>\$ 335,497</b>	\$ 170,000

### (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"). Derivative instruments are currently not used to reduce exposure to fluctuations in foreign currency exchange rates.

Changes in the value of USD 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:

<b>Foreign Exchange Risk</b>	<b>June 30, 2014</b>		<b>June 30, 2013</b>	
	<b>PGK</b>	<b>USD</b>	<b>PGK</b>	<b>USD</b>
Cash and cash equivalents	<b>3,374</b>	-	684	-
Accounts payable and accrued liabilities	<b>(7,301)</b>	<b>(5,679)</b>	(4,526)	(81,517)
	<b>(3,927)</b>	<b>(5,679)</b>	(3,842)	(81,517)

Based on the above net exposures at June 30, 2014, a 10% change for/against the Canadian dollar would result in the following changes to the Company's net losses:

- PGK would result in a change of \$393, (June 30, 2013 - \$384)
- USD would result in a change of \$568 (June 30, 2013 - \$8,152)

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### 17. Subsequent Events

On July 7, 2014 600,000 \$0.40 options expired.

On July 29, 2014 1,207,031 shares held in escrow were cancelled.

On June 2, 2014 the Company signed a Letter Agreement to finance the acquisition of a Medical Marijuana dispensary in the state of Colorado for cash consideration.

Subsequent to the year ended June 30, 2014 the Company announced that according to the plan of arrangement ("The Arrangement") with its wholly owned subsidiary Pioneer Pacific Financial Corp. ("Pioneer"), the Company will transfer the Letter Agreement and may provide to the Subsidiary a one year interest free loan to help finance the acquisition. As a result of The Arrangement for every four shares of the Company (prior to any share consolidation) held by the Company's shareholders at the share distribution record date, Shareholders will receive one share in Pioneer. The Arrangement must be approved by a special resolution of the shareholders of the Company, the TSX Venture Exchange and the Supreme Court of British Columbia, and will have to be filed with the Corporate Registry of British Columbia before it becomes effective. If The Arrangement does not proceed the Company has no obligation to complete the acquisition of the Medical Marijuana dispensary.