

Company Registration No 07791328 (England and Wales)

## Papua Mining plc

Financial statements for the year ended 31 December 2013

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**Papua Mining plc**  
**Financial statements for the year ended 31 December 2013**

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**Directors, secretary and advisers**

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<b>Secretary</b>	Scrp Secretaries Limited 3 <sup>rd</sup> Floor 17 Hanover Square London W1S 1HU
<b>Company registration number</b>	07791328
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**Papua Mining plc**  
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**Strategic Report**

**Chairman's Statement**

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I am pleased to be presenting our report for Papua Mining plc ("Papua" or "the Company") for the financial year ended 31<sup>st</sup> December 2013 at this exciting time in your Company's development. It has been a very busy year and there have been many very positive developments in our exploration activities within this highly prospective part of the Pacific "Ring of Fire".

Papua now holds thirteen Exploration Licences granted by the Minister for Mining in PNG. Twelve of the licences are located in the central part of New Britain Island and the thirteenth is in the East Sepik region of the mainland. The total area under licence is currently approximately 2,600 square kilometres. In addition, two further licences covering just over 1,000 square kilometres in New Britain are under application.

Our exploration programmes over the past year have succeeded in outlining some very attractive targets, especially in the Mt Nakru area of Exploration Licence ("EL") 1462. Most of this work has been carried out in very difficult terrain and often in appalling weather conditions with heavy rainfall a constant companion. Notwithstanding these challenges, our dedicated geologists and exploration crews have persevered and discovered some very exciting copper mineralization, the most advanced of which has been the focus of a diamond drilling programme at Tripela since January 2014. This drilling programme at Tripela follows on an earlier drilling programme in the second half of 2013, during which the first two targets were drilled at Junction and Flying Fox. The results of all of the comprehensive, methodical exploration work carried out to date give us great hope that we are moving ever closer to the porphyry body or bodies that we believe to be present in the area we are drilling.

Despite the decline in the market valuations of publicly quoted mining and exploration companies in the last year in particular, Papua has continued with its aggressive exploration activity in PNG and indeed we are one of the most active explorers currently in the country. We have a large area of very prospective ground under licence and we have a first class technical team so that, when the market conditions do improve, we will be ready to take full advantage of the very positive exploration results we have already achieved and expect to continue to achieve through 2014. PNG is 'elephant country' when it comes to the potential size of copper porphyry deposits and we are hopeful that all the positive signs we have seen in our field exploration and our drilling to date will lead us to such a deposit.

While we carried on our drilling programme on the Tripela target during the first half of 2014, we also continued with our focused exploration programmes on selected targets on our other licences. It was one of these targets on EL 2051, which returned very significant gold results during May of this year. High grade gold values of up to 35.5 grams per tonne in outcrop were discovered over a wide area measuring some 4.5 kilometres by 1.5 kilometres. Associated high copper values of up to 9% Cu have also been found in outcrop in this area. Although the initial sampling programme on EL2051 was reconnaissance in nature, further, follow-up soil geochemistry, rock sampling and trenching is now planned for this exciting new target.

We have been fortunate in that the strength of our exploration results to date has enabled us to secure new equity financing as required. Our latest financing was completed in June and comprised of a Placing of 12,500,000 Placing Units, each Placing Unit consisting of one ordinary share and one warrant at a price of £0.20 per Placing Unit. Each warrant is exercisable over a two year period for one new ordinary share at an exercise price of £0.30 per share. This Placing raised a total of £2.5 million before expenses. An Offer for Subscription to existing shareholders of up to £1.5 million in new shares and warrants on the same terms and conditions as the Placing is currently underway and the results of this offer will be announced following the closure of acceptances on June 30<sup>th</sup>. This funding will be adequate to complete the next phase of drilling which we expect will continue well into 2015.

The Government of Papua New Guinea is very committed to the future of the resource industry in the country. The process of Exploration Licence issue and renewal has been considerably improved over the last year or so and credit is due to the Mineral Resource Authority in PNG for their continuing efforts to streamline the regulatory process and to make it more responsive to the Industry.

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**Chairman's Statement (Continued)**

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I am very mindful of the hardships endured by our team in Papua New Guinea. The weather and topographic conditions are extremely difficult and it is a great credit to all of our management and exploration team to have achieved as much as we have done in spite of those circumstances. Our technical management team of senior geologists Lindsay Bandy and Yaeti Gaegae, led by Kieran Harrington and Chns Muller, is committed to progressing our programme to the extent necessary to fully evaluate our targets and to locate whatever porphyry deposits may lie beneath our extensive, prospective acreage.

In conclusion, I thank all our shareholders for their patience. We are greatly encouraged by the results of our exploration to date. We are confident that we are getting closer to discovery of the porphyry body or bodies that we believe lie within our target zone at Tripela and we are hopeful that the drilling programme recently recommenced there will result in confirmation of that belief. The new high grade gold discovery on EL2051, confirming the potential of some of our other licence areas, will ensure that we can look forward to an exciting twelve months ahead of us.

Michael Gordon Jolliffe  
26 June 2014

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**Directors' Biographies**

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***Michael Gordon Jolliffe (aged 64) Non-Executive Chairman***

Michael Jolliffe holds dual Greek/U K citizenship. He is currently Chairman and the largest beneficial shareholder of Wigham-Richardson Shipbrokers Limited ("WRS"), one of the oldest established shipbrokers, which was established in 1894 in the U K. WRS is one of the oldest members and shareholders of the Baltic Exchange. WRS also owns Harion Shipping Services, a shipbroker based in Piraeus. Michael Jolliffe was one of the two founding shareholders of Burren Energy plc (originally known as Sumo Oil Limited) and was its original President and CEO. Following the involvement of outside private equity investors and its focus on E&P, and the appointment of Finian O'Sullivan (former Chevron executive) as the CEO of the company, Michael Jolliffe remained as a director of Burren until its flotation on the London Stock Exchange some eleven years later in 2003. The company was sold to ENI the Italian State Oil Company in 2007.

Mr Jolliffe also has significant experience with maritime companies in accessing the public capital markets in the U S. He was the former Joint Managing Director and is currently Co-Founder and Vice Chairman of Tsakos Energy Navigation which is currently quoted on the New York Stock Exchange, and today controls 61 tankers with an average age of around five years.

Mr Jolliffe is also Chairman of StealthGas Inc, a shipping company which has 51 LPG ships under operation, and four product tankers. This company was listed on the NASDAQ in October 2005.

***Hugh Martin McCullough (aged 64), Chief Executive Officer***

Hugh McCullough has over 40 years' experience in gold and base metal exploration, principally in Ireland, Ghana and Mali.

Having previously worked as a project geologist, in 1982 he became chief executive of Glencar Mining plc, a public company listed on the IEX (of the Dublin Stock Exchange) and AIM. Mr McCullough was responsible for the management, financing and strategy of Glencar for over 27 years until Glencar was taken over by Gold Fields Limited in September 2009. During his time at Glencar, Mr McCullough was involved in a number of multimillion ounce gold discoveries and oversaw the development of one of those gold deposits from exploration to production.

Mr McCullough is a Professional Geologist and holds an Honours degree in Geology from University College Dublin and the degree of Barrister-at-Law from the King's Inns, Dublin. In 1994 he was appointed by the then Irish Minister for Energy to the National Minerals Policy Review Group to review Irish Minerals Policy and to make recommendations to the Minister for the reform of the fiscal and regulatory policy for the mining industry in Ireland.

***Kieran Harrington (aged 51), Technical Director***

Kieran Harrington is a geologist with over 30 years of experience and expertise in gold exploration, mine development, project evaluation and project management, with particular experience and past success in exploration of gold deposits in West Africa and Europe. He joined Glencar Mining plc in 1992 as a senior geologist where he was involved in the discovery of a major commercial mine in Ghana (Wassa) and the more recent discovery of the Komana Deposit in Southern Mali. He left Glencar as Technical Director on its acquisition by Gold Fields Limited in 2009. Prior to joining Glencar, Mr Harrington worked with Tara Prospecting Ltd and Burmin Exploration and Development Ltd. Mr Harrington is a Professional Geologist holding an Honours degree in Geology from the National University of Ireland, Galway.

***Keith Geddes Lough (aged 55), Non-Executive Director***

Keith Lough has over 30 years experience in the natural resources sector in both senior finance and general management roles. Mr Lough was previously CEO of Hutton Energy plc and CEO and Founder Shareholder of Composite Energy Limited. He was also Finance Director of British Energy plc from 2001 to 2004 during which he led the financial restructuring of that company.

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**Directors' Biographies (Continued)**

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***Keith Geddes Lough (aged 55), Non-Executive Director (Continued)***

He is currently also a Non-Executive Director and Audit Chair of the UK Gas & Electricity Markets Authority (Ofgem) and of Rockhopper Exploration plc and is a Non-Executive Director of Rock Solid Images plc and IM Power plc

Mr Lough has an Honours Degree in Economics from Edinburgh University, an MSc in Finance from London Business School and is a Fellow of the Chartered Association of Certified Accountants

***Gunnar Palm (aged 57), Non-Executive Director***

Gunnar Palm is a partner at Richmond Park Partners LLP, an independent merchant bank providing advisory, capital markets and risk and asset management services. Prior to Richmond Park Partners LLP, Mr Palm was Co-head of HSBC Global Banking, Coverage and Client Management for EMEA

He has advised on a number of cross border mandates in the Middle East, India, Europe and the US. Prior to HSBC, Mr Palm was a managing director at Barclays Capital and Credit Suisse First Boston in New York and London. Between 2007 and 2010 Mr Palm was also a Director of Bay Capital Partners (UK) Ltd, an independent India focused investment management firm. Mr Palm began his career with The Boston Consulting Group in Munich. Mr Palm received a BA from the Stockholm School of Economics and a MBA from The Wharton School of the University of Pennsylvania

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**Review of Operations**

The year in review saw the landmark completion of our first phase of drilling on our New Britain project. In total, just over 4,000 metres of drilling have been completed at the Junction, Flying Fox and Tripela targets. Extensive "boots on the ground" exploration carried out between 2011 and 2013 had delineated three priority drilling target areas within EL1462 namely the Flying Fox, Junction and Tripela prospects. The relatively easily accessible Junction and Flying Fox targets were the first two targets to be drilled.

On 1<sup>st</sup> June 2014 the Group held thirteen exploration licences over an aggregate area of 2,642 square kilometres. Twelve of these licence areas are on New Britain island. In addition two further applications have been lodged with the Mineral Resource Authority over an aggregate area of 1,063 square kilometres on New Britain island.

Lease ID	Status	Held by	Location	Lease Size sub-blocks	Lease Size sq km	Expiry Date
EL 1462	Current	Sagittarius Mining Ltd	New Britain	91	310	17/09/15
EL 1766	Current	Aries Mining Ltd	East Sepik	53	181	15/03/15
EL 1730	Current	Aries Mining Ltd	New Britain	86	294	15/03/15
EL 1731	Current	Aries Mining Ltd	New Britain	94	321	27/09/15
EL 1802	Current	Aries Mining Ltd	New Britain	27	92	19/12/14
EL 1803	Current	Aries Mining Ltd	New Britain	40	137	14/05/16
EL 2048	Current	Aries Mining Ltd	New Britain	36	123	26/09/14
EL 2049	Current	Aries Mining Ltd	New Britain	48	164	26/06/15
EL 2050	Current	Aries Mining Ltd	New Britain	41	140	26/09/14
EL 2051	Current	Aries Mining Ltd	New Britain	67	229	26/09/14
EL 2144	Current	Aries Mining Ltd	New Britain	33	113	19/12/14
EL 2145	Current	Aries Mining Ltd	New Britain	74	255	17/12/14
EL 2146	Current	Aries Mining Ltd	New Britain	83	283	17/12/14
ELA1804	application	Aries Mining Ltd	New Britain	285	974	-
ELA2322	application	Sagittarius Mining Ltd	New Britain	26	89	-

*Table 1 List of the Papua Mining plc Group tenements in Papua New Guinea*

**The Junction target**

Two holes were drilled between April and August 2013 at the Junction prospect to 841 metres and 736 metres respectively for a total of 1,577 metres of drilling. Both holes were targeted at a strong combined chargeability and conductivity anomaly delineated in ground geophysical surveys in 2012. No ore-grade copper intervals were intersected but significant copper mineralisation was recorded in an intrusive lithology intersected below 700 metres downhole depth. Both drillholes intersected widespread brecciation and extensive zones of intense alteration consistent with proximity to a porphyry copper gold deposit. The Junction drillcore was reviewed by Dr Greg Corbett and Mr Douglas Menzies of Corbett and Menzies Consulting in September 2013. Several features intersected in the drillcore are regarded by Corbett & Menzies as particularly diagnostic of nearby porphyry intrusion such as pebble dykes and mineralised D-veins. D-veins are relatively distal veins related to porphyry intrusion and the term is derived from a porphyry vein type classification proposed by researchers Gustafson & Hunt in 1975. From their observations at Junction, Corbett & Menzies concluded that the porphyry intrusion there may be deeper than we had originally envisaged and they recommended a deep borehole possibly to a depth of some 1,500 metres. The full text of the Corbett & Menzies report on their review of the Junction drilling data was made available for download on our company website at [www.papuamining.com](http://www.papuamining.com)

**Review of Operations (Continued)**

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**Tripela Target**

While the Junction drilling was underway, an intensive sampling and mapping programme was undertaken over the Tripela target area immediately east of Junction. Previous sampling in this area had discovered a number of high grade copper occurrences in a zone of strong copper in soil anomalism. The follow-up sampling and geological and alteration mapping recognised significant D-vein development in the area closely associated with the main copper geochemical anomaly. The work culminated in the decision to commence a relatively shallow drilling programme in January 2014. The programme was designed to test for alteration mineralogy and other geological data to identify and map a zonation vector towards the inferred porphyry body already interpreted from geological evidence.

A kilometre - long drill access track was constructed between Junction and Tripela and a new drilling basecamp was constructed capable of accommodating 80 people. During the drill pad preparation some spectacular alteration zones were exposed. These exposures included several spectacular developments of massive sulphide, primarily pyrite but including significant copper mineralisation.

The initial shallow vectoring programme was completed in early May 2014 with seven drillholes completed for a total of 2,169 metres of drilling. The map below shows the location of the holes relative to copper in the soil anomaly and the distribution of mapped D-veins at surface. Several of the holes in this programme intersected broad zones of visible copper mineralisation which, although not of economic grade, represent further positive vectors towards the projected deeper porphyry. All core has been systematically tested for a range of geological, geochemical and geophysical parameters. Of particular significance are the tests mapping the clay mineralogy zonation in the downhole data. This is one of the key datasets which will direct the next deeper phase of drilling. Test results to date suggest that we have drilled through Phyllic zone (retrograde) and Outer Propylitic zone (prograde) margins of a porphyry system. Potassic zone alteration characteristic of the central parts of most porphyry systems has not yet been intersected.

The entire downhole database is currently being collated into a comprehensive 3-dimensional geological model. These drilling results to date combined with the surface discovery of high-grade copper mineralisation in outcrops, many of which are interpreted as D Veins, point to the potential presence of a porphyry nearby.

The next phase of drilling at Tripela has already commenced. This will be the first deeper drilling in the area aimed at intersecting a porphyry intrusion. We anticipate a programme of up to 4,500 metres during the coming year at Tripela.

**The Flying Fox Prospect**

The Flying Fox prospect lies some five kilometres north of the Junction prospect and some six kilometres north west of Tripela. Mapping of zones of intense clay alteration and the discovery of widespread copper mineralisation at surface were followed up with soil geochemical surveys which delineated a broad zone of copper-lead-mercury-arsenic anomalism. These results provided the impetus for a ground geophysics survey which was completed in the first quarter of 2013. That survey defined a north-south trending chargeability anomaly at least 800 metres long which lies east of the main geochemical anomaly.

In September 2013 a single drillhole was drilled to a depth of 470 metres targeting the centre of the chargeability anomaly. Our geologists logged multiple phases of intrusion occurring extensively down the hole below 60 metres depth - an earlier phase of quartz-feldspar andesite porphyry dykes was recorded, mineralised with disseminated pyrite +/- copper (primarily in the form of chalcopyrite) and a second phase of intrusion of microdiorite mineralised with pyrite-chalcopyrite +/- bornite. However no ore-grade intersections were recorded. In addition we did not recognise porphyry alteration zonation and we feel Flying Fox does not present an immediate target as compelling as those at Junction and Tripela. Consequently no further drilling is planned here for the time being.

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**Review of Operations (Continued)**

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**Discoveries on EL2051 and EL2050**

During the first quarter of 2014 and while drilling at Tripela was ongoing, the Group's exploration team continued to carry out some limited reconnaissance work on a number of our other licence areas, most notably EL2051, EL2050 and EL2146

**EL2051, East New Britain/West New Britain**

Reconnaissance rock sampling and mapping was completed between March and April 2014. This area had been selected for reconnaissance ground surveys based on geological, aerial reconnaissance and remote sensing data. Our field team located evidence of extensive surface mineralisation in both float and outcrop in a predominantly intrusive rock suite in the south-eastern part of the licence area where well developed copper and zinc mineralisation were observed. Assay results have subsequently confirmed that the outcrop and float contain significant gold mineralisation with values up to 35.5 grams per tonne. Of 326 samples collected, 28 graded above 1.0 grams per tonne gold and 13 were greater than 5 grams per tonne gold. The maximum grade returned was 35.5 grams per tonne gold from a sulphide rich andesitic outcrop. Ten samples returned grades greater than 1% copper. The anomalous outcrop falls largely within a zone with a north-south extent of 4.5 kilometres and an east-west extent of 1.5 kilometres.

The mineralised zone falls within an area which lies close to the eastern and southern boundaries of the EL2051 tenement. The Group has a pre-existing application for ELA1804 which incorporates a possible southerly extension of the mineralised zone, immediately adjacent to the southern boundary of EL2051. In May 2014 an application was lodged with the MRA for an area of approximately 89 square kilometres contiguous with the eastern boundary of EL2051.

EL2051 is located some 20 kilometres northeast of EL1462, the licence area which includes the Tripela, Junction and Flying Fox targets. Follow up geochemical sampling on the target commenced in early-June 2014.

**EL2050, East New Britain**

A short reconnaissance programme was carried out in the Mt Silo area in the central part of EL2050 in November 2013. As with the EL2051 reconnaissance work described above, this area was selected for reconnaissance ground surveys based on geological, aerial reconnaissance and remote sensing data. Of particular significance here is the presence of a geological contact between the volcanic sequence and the overlying limestone.

139 outcrop and float samples were collected during the field programme. The field team observed significant copper mineralisation within the northern half of the tenement area. The samples were analysed using our in-house XRF analyser. 28 samples returned copper values greater than 0.1% with five of those samples yielding values greater than 1% copper. The anomalous copper values were split quite evenly between outcrop and float samples.

EL2050 lies some 25 kilometres east of EL2051 and some 50 kilometres northeast of EL1462.

Follow-up mapping and sampling is planned for this area in mid-2014.

**EL2146, West New Britain**

The EL2146 licence area is contiguous with the eastern boundary of EL1462. During the year in review a reconnaissance ridge and spur soil sampling programme was completed over a ten kilometre long (N-S) by five kilometre wide (E-W) area east of the Tripela target area. Some clustering of point anomalies for copper and other pathfinder elements is evident from the resulting assay data in the northwest and northeast quadrants of the surveyed area. A follow-up programme of outcrop and float sampling and prospecting is underway at the time of writing. Grid based soil sampling will follow where and if warranted.

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**Review of Operations (Continued)**

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**Other Licences**

Reconnaissance exploration comprising ridge and spur soil geochemical surveys were completed across a 99 square kilometer area of EL1802 in West New Britain between July and August of 2013. No significant anomalies for base metal or pathfinder elements were defined. No further work is currently planned for this small licence area.

The EL1766 licence was finally renewed in November 2013 after a protracted renewal process. No fieldwork was completed during the year on this licence.

**The Corbett & Menzies Project Review of EL1462 exploration results**

The Corbett & Menzies review of our work in the Mt Nakru area was delivered to us in September 2013 and gave a positive review of our exploration methodology. When exploring for porphyry copper-gold systems Corbett & Menzies utilise established vectors when assessing exploration programs in copper-gold systems. These are namely zoned wall rock mineral assemblages, proximal to distal quartz-sulphide vein styles, zoned surface metal content in soil and rock samples, the presence of multi-phases of igneous intrusion activity and prominent geophysical targets. The CMC report concluded that our project in the Mt Nakru area exhibits the following key characteristics:

- well defined wall-rock mineral assemblage and quartz-sulphide veins typical of the upper parts of mineralised porphyry copper-gold bearing environments,
- elevated copper-molybdenum in surface soil samples similar to copper-gold deposits elsewhere,
- multiple phases of igneous intrusions and
- geophysical targets indicative of mineralisation

We regard Dr Corbett as one of the world's leading experts in porphyry copper-gold deposits. The CMC findings are a valuable validation of our view that the project area is highly prospective for porphyry-related copper-gold mineralisation and of our exploration strategy towards discovery of a major copper-gold porphyry deposit in the Kulu-Fulleborn Trend.

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**Key Performance Indicators and Risk Management**

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**Key performance indicators**

The Board monitors KPIs which it considers appropriate for a group at Papua Mining's stage of development

As a mineral exploration business, an important factor is a steadily improving market perception of the progress and value of the business leading to an improving share price, continued support from shareholders and therefore the ability to raise new equity capital at increasing prices, thus minimising dilution for those early investors who bore significant risk

The KPIs for the Group are as follows

**Financial KPIs**

*Shareholder return* – the performance of the share price

The Company listed on AIM in March 2012 at a share price of £0.44 (\$0.68) and issued further shares in February 2013 at £0.80 (\$1.24) per share. The share price at 11 June 2014 was £0.21 (\$0.36). The recent fall in share price is unfortunate, but not entirely unexpected in the context of current market conditions and given the early stage of development of the Group's exploration activities. The Directors are, however, optimistic of an improved market value of the business in 2014 and 2015 given the positive future prospects for the Group's exploration operations, as demonstrated by the confidence shown by investors in the June 2014 share placing.

*Exploration expenditure* – funding and development costs

The availability of sufficient cash to facilitate continued investment and funding of exploration programmes is essential. The Group monitors the availability of sufficient cash to fund exploration programmes. At 31 December 2013 the Group had cash of \$3,626,880 (2012: \$6,996,182), and has raised further funds of \$4.2m since the year end.

**Non financial KPIs**

*Environment management* – the Group has environmental policies in place

The Group is aware of the potential impact that its operations may have on the environment. The Group ensures that, at a minimum, its subsidiaries comply with the local regulatory requirements and industry standard principles for environmental and social risk management.

Performance against these environmental policies is continuously monitored. The Directors consider that this has served to minimise any negative impact of current exploration activities on the environment.

*Operational* – the number of additional Exploration Licences and exploration successes

There has been extensive exploration activity in the year, and the Directors are encouraged by the prospectivity of the Group's Exploration Licences and by the exploration results obtained to date. The Group currently has two new Exploration Licence applications pending.

Except for the fall in share price during the year, the Directors consider that performance against all other KPIs in 2013 was acceptable.

**Risk Management**

The Directors consider that assessing and monitoring the inherent risks in the exploration business, as well as other financial risks, is crucial for the success of the Group. Risk assessment is essential in the Group's planning processes. The Board regularly reviews the performance of projects against plans and forecasts. Further detail on management of financial risk is set out in note 16.

**Principal Risks and Uncertainties**

The management of the business and the execution of the Board's strategy are subject to a number of risks:

- the success of mineral exploration projects is, by their nature, inherently uncertain, and the availability of new information can significantly change estimates of mineral reserves,
- the viability of exploration projects is largely driven by commodity prices,
- commodity prices can be subject to volatile fluctuations.

The principal risks and the measures taken by the Group in order to mitigate these risks are set out in more detail below.

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**Key Performance Indicators and Risk Management (Continued)**

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**Exploration and development risk**

The Group's business operations are subject to risks and hazards inherent in the exploration industry. The exploration for and the development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, it is impossible to ensure that the Group's current exploration programmes will result in a profitable commercial mining operation.

The Board aims to manage the development of the Group as a successful exploration business by ensuring that additional prospective licences are applied for and granted on a timely basis, or otherwise acquired.

Exploration licences are held on the Papua New Guinea island of New Britain and in the East Sepik region on the mainland of Papua New Guinea. Thirteen Exploration Licences are currently held, and two further licences are under application.

**Political Risk**

There is a risk that assets will be lost through expropriation, unrest or war. Papua Mining minimises political risk by operating in a country with relatively stable political systems, established fiscal and mining codes and a well established, successful mining industry.

Papua Mining further minimizes risk by ensuring that the majority of cash funds are securely held within financial institutions of high standing outside of Papua New Guinea.

**Commodity Risk**

Commodities are subject to high levels of volatility in price and demand. The price of commodities depends on a whole range of factors, which are outside the control of the Group. There is the risk the price for minerals will fall to a point where it becomes uneconomic to extract them from the ground. This is an inherent risk of the mining industry, mitigation of which is currently outside of the group's control whilst it is still in an exploration, rather than extraction, phase.

**Liquidity Risk**

There is a risk of running out of working and investment capital. The Group relies for funding on the issue of share capital. The Group has no borrowing and maintains tight financial and budgetary control to keep its operations cost effective. The Directors are confident that adequate resources exist to finance future exploration operations. However, to the extent that there can be no absolute assurance that adequate funding will be available when required, the Directors do have a reasonable expectation that they will secure additional funding when required to do so, as demonstrated by the fundraising in February 2013 and the recent fundraising of June 2014.

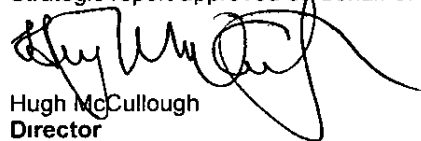
**Currency risk**

Fluctuations in currency exchange risks can significantly impact cash flows. The Group maintains currency in Sterling and Papua New Guinea Kina to finance its overseas operations. In 2014 the Group will have exposure amongst others to Sterling, Euro, Australian Dollars and Papua New Guinea Kina. The mix of currencies are such that the Directors believe the Group's exposure is minimal. The Directors do however regularly monitor currency exchange rates and make judgments as to whether to enter into hedging contracts accordingly. Currently no such hedging contracts are in place.

**Interest rate risk**

The only significant interest-bearing asset within the Group is cash. The Directors constantly review the interest rate to ensure optimum return on deposits for the Group.

Strategic report approved on behalf of the board



Hugh McCullough  
Director

Date 26 June 2014

**Papua Mining plc**  
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**Directors' Report**

**Principal Activity**

The principal activities of the Group are the exploration for gold and copper resources in Papua New Guinea (PNG). The Group's strategy is to explore for and, where the Directors believe that it is commercially feasible, develop deposits of gold and/or copper within the territory of PNG.

Thirteen Exploration Licences have so far been granted by the Minister for Mining in PNG. Twelve of the licences are located in the central part of New Britain Island and the thirteenth is in the East Sepik region of the mainland. Two further licences in New Britain are under application.

**Financial overview**

The loss for the year is in line with the Directors' expectations. With significant funding being raised in February 2013, and further funds of \$4.2m (£2.5m) raised subsequent to the year end (see note 22), the Directors are satisfied that the Group has sufficient working capital to complete the planned exploration programmes.

A detailed review of the Group's business, including its targets and strategies is given in the Chairman's Statement and the Review of Operations.

**Results and Dividends**

The results for the year are in line with Directors' expectations. The Directors do not recommend a dividend.

**Going Concern**

It is the prime responsibility of the Board to ensure the Group remains a going concern. The Group raised funds of \$3.9m through a private equity placing in February 2013. At 31 December 2013 the Group had cash of \$3,626,880 (2012 \$6,996,182) and no borrowings. The Group has raised further funds of \$4.2m (£2.5m) through a share placing in June 2014. The Board considers it has sufficient cash to maintain the Group as a going concern for a period of at least 12 months from the date of signing the annual report and accounts. Although Papua Mining was successful in raising finance in June 2014, there is no assurance that it will be able to obtain adequate finance in the future. However the Directors have a reasonable expectation that they will secure additional funding when required. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

**Directors**

The Directors in office during the year are listed below. The interests of the Directors in the shares of the Company at the relevant dates were as follows:

	As at 11 June 2014	As at 31 December 2013	As at 31 December 2012	Number of options held at 31 December 2013
	- Ordinary Shares	- Ordinary Shares	- Ordinary Shares	
Michael Jolliffe	185,004	185,004	185,004	250,000
Hugh McCullough	354,571	354,571	354,571	796,908
Kieran Hamington	328,392	328,392	328,392	796,908
Gunnar Palm	-	-	-	-
Keith Lough	-	-	-	-

**Papua Mining plc**  
**Financial statements for the year ended 31 December 2013**

**Directors' Report (Continued)**

**Substantial Shareholdings**

As at 11 June 2014, being the latest practical date prior to publication of this document, the Company was aware of the following holdings of 3% or more of the issued share capital of the Company

	Shares in the company	% of the Company's issued share capital
South Pacific Mining Holdings Limited	9,884,621	28.25
Michael Somerset-Leeke	6,501,026	18.58
JP Morgan Asset Management UK Ltd	2,550,000	7.29
Hargreave Hale Limited	2,285,000	6.53
Peter de Savary	2,025,000	5.79
Salida Capital (Europe) Limited	1,700,000	4.86
Stanley Nominees Limited	1,325,000	3.79

**Directors' remuneration**

The remuneration of the Directors during the year was made on the recommendation of the Remuneration Committee, taking into consideration remuneration packages of directors in comparable businesses and in order to retain high quality executives within a competitive market place

Salaries and fees were paid to the Directors for the year ended 31 December 2013. In addition, certain directors also received benefits in kind, principally private medical insurance, and fees were paid to businesses with which some of the Directors are associated

The Group made payments into the private pension schemes of two of the Directors

No share options were granted to the Directors during the year

Full details of Directors' emoluments are set out in note 19 of the financial statements

**Environmental Policy**

The Group's projects are subject to the relevant PNG laws and regulations relating to environmental matters

The Group's strategy is to explore for and, where the Directors believe that it is commercially feasible, develop deposits of gold and/or copper within the territory of PNG. It is the Group's intention to conduct its activities in a professional and responsible manner, for the benefit of the Company's shareholders, its employees and the national and local communities within which it operates

The Group aims to, at all times, conduct its operations in an environmentally responsible manner and in accordance with relevant legislation. The Group aims to adopt Best Practice policies as recommended by the World Bank, the International Council on Mining & Metals ("ICMM") and others where the Group deems local legislation to be inadequate in terms of environmental protection. The Group has in place a detailed Field Operations Guidelines Manual which covers in considerable detail the measures to be taken by field personnel to minimize any negative environmental impact of current exploration activities on the environment

The Group also recognises the enormous potential of its activities for positive impact on the communities in which it operates and strives to optimise these positive impacts as far as is possible

The Papua Mining plc ("PM plc") Executive Directors have extensive experience and expertise in environmental aspects of mineral exploration and mining. The Group Country Manager, Chris Muller, who, in addition to his significant geological qualifications and experience, is a renowned lepidopterist who has participated in many important environmental studies in PNG and who is credited with the discovery of a significant number of new butterfly species. All Group personnel are encouraged to take an active interest in environmental matters

**Directors' Indemnities**

The Group has purchased insurance to cover its Directors and officers against the costs of defending themselves in legal proceedings taken against them in that capacity and in respect of any damages resulting from those proceedings. The insurance does not provide cover where the Director has acted fraudulently or dishonestly

**Papua Mining plc**  
**Financial statements for the year ended 31 December 2013**

**Directors' Report (Continued)**

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**Political contributions**

No political donations have been made

**Corporate Governance**

The Board of Directors is committed to maintaining high standards of corporate governance and is accountable to the shareholders for the proper corporate governance of the group. The UK Corporate Governance Code does not apply to AIM companies, and Papua Mining plc instead follows the principles of corporate governance set out in the QCA Guidelines. Papua Mining plc operates within the mining sector in an effective and efficient way, with integrity and due regard for the interests of shareholders, and applies principles of general governance applicable to the size and stage of development of the Group.

**- Audit Committee**

The Audit Committee ensures the operation of good financial practices throughout the Group, ensures that controls are in place to protect the assets of the Group, reviews the integrity of financial information, reviews the interim and annual financial statements and reviews all aspects of the audit programme.

The Audit Committee is chaired by Mr Keith Lough and also comprises Mr Michael Jolliffe and Mr Gunnar Palm.

**- Remuneration Committee**

The Remuneration Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration packages of individual Executive Directors, and will meet at least twice per annum.

The Remuneration of Non-Executive Directors will be a matter for the executive members of the Board.

The Remuneration Committee is chaired by Mr Michael Jolliffe and also comprises Mr Keith Lough and Mr Gunnar Palm.

**Auditor**

The auditor, Grant Thornton UK LLP, has indicated its willingness to continue in office and a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

**Statement of Disclosure to Auditor**

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Shareholders' consent is sought at the Annual General Meeting which will propose the reappointment of Grant Thornton UK LLP as independent auditor of the Company and to authorise the Directors to determine the auditor's remuneration.

**Papua Mining plc**  
**Financial statements for the year ended 31 December 2013**

**Directors' Report (Continued)**

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**Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Strategic Report, the Director's Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state whether they have been prepared in accordance with IFRSs adopted by the EU.

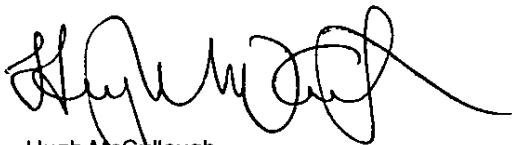
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Group's report and accounts will be published on the Group's website and in this regard the Directors accept responsibility for the maintenance and integrity of the website.

**Annual General Meeting and Recommendation**

The Board considers that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and the Group as a whole and its unanimous recommendation is that shareholders support these proposals as the Directors intend to do in respect of their own holdings.

On behalf of the board



Hugh McCullough  
Director

Date 26 June 2014

## Independent auditor's report to the members of Papua Mining plc

We have audited the financial statements of Papua Mining plc for the year ended 31 December 2013 which comprises the group and parent company's statement of financial position, the group statement of comprehensive income, the group and parent company statements of changes in equity, the group and parent company statements of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provision of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of the audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinions on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Christopher Smith  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor  
Chartered Accountants  
London

26 June 2014

**Papua Mining plc**  
**Consolidated statement of financial position at 31 December 2013**

	Note	2013 US\$	2012 US\$
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	9	12,881,863	7,495,843
		<u>12,881,863</u>	<u>7,495,843</u>
<b>Current assets</b>			
Cash and cash equivalents	12	3,626,880	6,996,182
		<u>3,626,880</u>	<u>6,996,182</u>
<b>Total assets</b>		<u><u>16,508,743</u></u>	<u><u>14,492,025</u></u>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the parent</b>			
Share capital	13	5,489,648	5,002,366
Share premium	13	11,458,500	8,047,529
Other reserves		3,087,062	3,087,062
Share based payment reserve		1,073,442	584,459
Retained deficit		(4,846,664)	(2,757,029)
<b>Total equity</b>		<u>16,261,988</u>	<u>13,964,387</u>
<b>Current liabilities</b>			
Trade and other payables	15	<u>246,755</u>	<u>527,638</u>
<b>Total equity and liabilities</b>		<u><u>16,508,743</u></u>	<u><u>14,492,025</u></u>

The financial statements were approved and authorised for issue by the Board of Directors on 26 June 2014 and signed on its behalf by



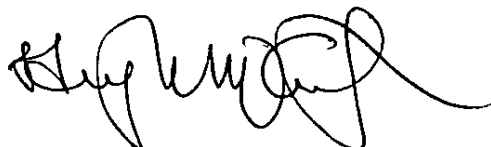
Hugh McCullough  
 Director

The notes on pages 25 to 38 form part of these financial statements

**Papua Mining plc**  
**Company statement of financial position at 31 December 2013**

	Note	2013 US\$	2012 US\$ (restated)
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	9	2,672,328	806,726
Investments	10	4,888,219	4,888,219
Trade and other receivables	11	6,299,225	2,235,624
		<u>13,859,772</u>	<u>7,930,569</u>
<b>Current assets</b>			
Cash and cash equivalents	12	3,498,557	6,862,990
		<u>3,498,557</u>	<u>6,862,990</u>
<b>Total assets</b>		<u><u>17,358,329</u></u>	<u><u>14,793,559</u></u>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders</b>			
Share capital	13	5,489,648	5,002,366
Share premium	13	11,458,500	8,047,529
Other reserves		2,425,281	2,425,281
Share based payment reserve		1,073,442	584,459
Retained deficit		(3,338,817)	(1,797,235)
<b>Total equity</b>		<u>17,108,054</u>	<u>14,262,400</u>
<b>Current liabilities</b>			
Trade and other payables	15	<u>250,275</u>	<u>531,159</u>
<b>Total equity and liabilities</b>		<u><u>17,358,329</u></u>	<u><u>14,793,559</u></u>

The financial statements were approved and authorised for issue by the Board of Directors on 26 June 2014 and signed on its behalf by



Hugh McCullough  
 Director

The notes on pages 25 to 38 form part of these financial statements

**Papua Mining plc**  
**Company statement of financial position at 31 December 2013**

	Note	2013 US\$	2012 US\$
Administrative expenses		(2,136,348)	(1,829,033)
<b>Operating loss</b>	<b>6</b>	<u>(2,136,348)</u>	<u>(1,829,033)</u>
Finance income	5	46,713	70,913
<b>Loss before taxation</b>		<u>(2,089,635)</u>	<u>(1,758,120)</u>
Income tax expense	7	-	-
<b>Loss for the year attributable to the owners of the company</b>		<u>(2,089,635)</u>	<u>(1,758,120)</u>
Other comprehensive income		-	-
<b>Total comprehensive income attributable to the owners of the company</b>		<u><u>(2,089,635)</u></u>	<u><u>(1,758,120)</u></u>
<b>Loss per share attributable to shareholders</b>			
Basic	8	(0 06)	(0 06)
Diluted	8	<u>(0 06)</u>	<u>(0 06)</u>

The notes on pages 25 to 38 form part of these financial statements

The Company has elected to take exemption under section 408 of the Companies Act 2006 to not present the parent Company statement of comprehensive income. The loss for the Company is shown in the statement of changes in equity.

**Papua Mining plc**  
**Consolidated statement of changes in equity for the year ended 31 December 2013**

	Share Capital US\$	Share Premium US\$	Other Reserve US\$	Share Based Payment Reserve US\$	Retained Deficit US\$	Total Equity US\$
At 1 January 2012	2,462,938	-	3,087,062	-	(998,909)	4,551,091
<b>Comprehensive income</b>						
Loss for the year and total comprehensive income	-	-	-	-	(1,758,120)	(1,758,120)
<b>Transactions with owners</b>						
Issue of share capital	2,539,428	8,047,529	-	-	-	10,586,957
Share based payment	-	-	-	584,459	-	584,459
<b>Total transactions with owners</b>	<u>2,539,428</u>	<u>8,047,529</u>	<u>-</u>	<u>584,459</u>	<u>-</u>	<u>11,171,416</u>
<b>At 31 December 2012</b>	<u>5,002,366</u>	<u>8,047,529</u>	<u>3,087,062</u>	<u>584,459</u>	<u>(2,757,029)</u>	<u>13,964,387</u>
<b>Comprehensive income</b>						
Loss for the year and total comprehensive income	-	-	-	-	(2,089,635)	(2,089,635)
<b>Transactions with owners</b>						
Issue of share capital	487,282	3,410,971	-	-	-	3,898,253
Share based payment	-	-	-	488,983	-	488,983
<b>Total transactions with owners</b>	<u>487,282</u>	<u>3,410,971</u>	<u>-</u>	<u>488,983</u>	<u>-</u>	<u>4,387,236</u>
<b>At 31 December 2013</b>	<u>5,489,648</u>	<u>11,458,500</u>	<u>3,087,062</u>	<u>1,073,442</u>	<u>(4,846,664)</u>	<u>16,261,988</u>

The notes on pages 25 to 38 form part of these financial statements

**Share capital**

Represents the par value of shares in issue

**Share premium**

Represents amounts subscribed for share capital in excess of nominal value, net of directly attributable issue costs

**Share based payment reserve**

Represents the reserve account which is used for the corresponding entry to the share based payment charge through profit and loss (note 14)

**Other reserve**

Represents the reserve arising from a share for share exchange as part of a group reorganisation in 2011

**Papua Mining plc**  
**Company statement of changes in equity for the year ended 31 December 2013**

	Share Capital US\$	Share Premium US\$	Other Reserve US\$	Share Based Payment Reserve US\$	Retained Deficit US\$	Total Equity US\$
<b>Comprehensive income</b>						
At 1 January 2012	2,462,938	-	2,425,281	-	(337,128)	4,551,091
<b>Comprehensive income</b>						
Loss for the year and total comprehensive income	-	-	-	-	(1,460,107)	(1,460,107)
<b>Transactions with owners</b>						
Issue of share capital	2,539,428	8,047,529	-	-	-	10,586,957
Share based payment	-	-	-	584,459	-	584,459
<b>Total transactions with owners</b>	<u>2,539,428</u>	<u>8,047,529</u>	<u>-</u>	<u>584,459</u>	<u>-</u>	<u>11,171,416</u>
At 31 December 2012	<u>5,002,366</u>	<u>8,047,529</u>	<u>2,425,281</u>	<u>584,459</u>	<u>(1,797,235)</u>	<u>14,262,400</u>
<b>Comprehensive income</b>						
Loss for the year and total comprehensive income	-	-	-	-	(1,541,582)	(1,541,582)
<b>Transactions with owners</b>						
Issue of share capital	487,282	3,410,971	-	-	-	3,898,253
Share based payment	-	-	-	488,983	-	488,983
<b>Total transactions with owners</b>	<u>487,282</u>	<u>3,410,971</u>	<u>-</u>	<u>488,983</u>	<u>-</u>	<u>4,387,236</u>
At 31 December 2013	<u>5,489,648</u>	<u>11,458,500</u>	<u>2,425,281</u>	<u>1,073,442</u>	<u>(3,338,817)</u>	<u>17,108,054</u>

The notes on pages 25 to 38 form part of these financial statements

**Share capital**

Represents the par value of shares in issue

**Share premium**

Represents amounts subscribed for share capital in excess of nominal value, net of directly attributable issue costs

**Share based payment reserve**

Represents the reserve account which is used for the corresponding entry to the share based payment charge through profit and loss (note 14)

**Other reserve**

Represents the reserve arising from a share for share exchange as part of a group reorganisation in 2011

**Papua Mining plc**  
**Consolidated statement of cash flows for the year ended 31 December 2013**

	2013 US\$	2012 US\$
<b>Cash flow from operating activities</b>		
<b>Total comprehensive expense for the year before tax</b>	(2,089,635)	(1,758,120)
Adjustments to reconcile net loss before income tax to cash flow from operating activities		
Share based payments	488,983	584,459
Currency adjustments	368,553	(37,732)
Net (decrease)/increase in operating liabilities		
- Other liabilities	(266,875)	44,555
<b>Net cash flow from operating activities</b>	<u>(1,498,974)</u>	<u>(1,166,838)</u>
<b>Cash flow from investing activities</b>		
Exploration expenditure	(5,386,020)	(2,804,091)
<b>Net cash generated from investing activities</b>	<u>(5,386,020)</u>	<u>(2,804,091)</u>
<b>Cash flow from financing activities</b>		
Proceeds from issuance of ordinary shares	3,898,253	10,484,447
<b>Net cash generated from financing activities</b>	<u>3,898,253</u>	<u>10,484,447</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(2,986,741)</u>	<u>6,513,518</u>
Cash and cash equivalents at the beginning of year	6,996,182	325,102
Effect of foreign exchange rates changes	(382,561)	157,562
<b>Cash and cash equivalents at the end of the year</b>	<u><u>3,626,880</u></u>	<u><u>6,996,182</u></u>

The notes on pages 25 to 38 form part of these financial statements

**Papua Mining plc**  
**Company statement of cash flows for the year ended 31 December 2013**

	2013	2012
	US\$	US\$
<b>Cash flow from operating activities</b>		
<b>Total comprehensive expense for the year before tax</b>	(1,541,582)	(1,460,107)
Adjustments to reconcile net loss before income tax to cash flow from operating activities		
Share based payments	488,983	584,459
Currency adjustments	215,893	21,829
Net increase in operating assets		
- Other receivables	(4,063,601)	(2,288,656)
Net (decrease)/increase in operating liabilities		
- Other liabilities	(266,875)	108,217
<b>Net cash flow from operating activities</b>	<u>(5,167,182)</u>	<u>(3,034,258)</u>
<b>Cash flow from investing activities</b>		
Exploration expenditure	(1,865,602)	(738,232)
<b>Net cash used in investing activities</b>	<u>(1,865,602)</u>	<u>(738,232)</u>
<b>Cash flow from financing activities</b>		
Proceeds from issuance of ordinary shares	3,898,253	10,484,447
<b>Net cash generated from financing activities</b>	<u>3,898,253</u>	<u>10,484,447</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(3,134,531)</u>	<u>6,711,957</u>
Cash and cash equivalents at the beginning of year	6,862,990	-
Effect of foreign exchange rates changes	(229,902)	151,033
<b>Cash and cash equivalents at the end of the year</b>	<u>3,498,557</u>	<u>6,862,990</u>

The notes on pages 25 to 38 form part of these financial statements

**Papua Mining plc**  
**Financial statements for the year ended 31 December 2013**  
**Notes to the financial statements**

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## **1 Group and principal activities**

For the purposes of these financial statements, the term "PM plc Group" is defined as the companies Papua Mining plc (the "Company"), Papua Mining Limited, Anes Mining Limited and Sagittarus Mining Limited

Papua Mining plc is a public limited company, quoted on AIM, and is incorporated and domiciled in England and Wales

The PM plc Group's main activity is the exploration for gold and copper resources in Papua New Guinea, as set out in the Directors' Report

## **2 Adoption of new and revised standards**

The statements, standards and interpretations, effective for reporting periods beginning on or before 1 January 2013 have been applied, being those standards that will be applied to PM plc Group's financial statements for the year ending 31 December 2013

### **Standards affecting presentation and disclosure**

New standards and interpretations currently in issue but not effective for accounting period commencing on 1 January 2013 are

IFRS 9 – Financial Instruments	(no mandatory effective date)
IFRS 10 – Consolidated Financial Statements	(effective 01/01/2013**)
IFRS 11 – Joint Arrangements	(effective 01/01/2013**)
IFRS 12 – Disclosure of Interest in Other Entities	(effective 01/01/2013**)
IAS 27 – (Revised), Separate Financial Statements	(effective 01/01/2013**)
IAS 28 – (Revised), Investments in Associates and Joint Ventures	(effective 01/01/2013**)
Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	(effective 01/01/2014)
IFRIC Interpretation 21 Levies	(effective 1 January 2014)
Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12	(effective 1 January 2013**)
Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27	(effective 1 January 2014)
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	(effective 1 January 2014)
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	(effective 1 January 2014)
Defined Benefit Plans Employee Contributions (Amendments to IAS 19)	(effective 1 July 2014)

\*\* EU mandatory effective date is 1 January 2014 not 2013 Hence, following the EU effective date these standards are included in the list of standards in issue not yet effective as at 31 December 2013

The Directors anticipate that the adoption of these standards and interpretations will not have a material impact on the PM plc Group's financial statements in the period of initial adoption

## **3 Basis of preparation and significant accounting policies**

### **a) Basis of preparation**

These consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively IFRSs) as adopted for use in the European Union and as issued by the International Accounting Standards

The financial statements are prepared on the historical cost basis The principal accounting policies adopted are set out below

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Group's accounting policies

### **b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and subsidiaries controlled by the Company as at 31 December 2013

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**3 Basis of preparation and significant accounting policies (Continued)**

**b) Basis of consolidation (Continued)**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, contingent consideration and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date.

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**c) Going concern**

The Group raised funds of \$3.9m through a private equity placing in February 2013. At 31 December 2013 the company had cash of \$3,626,880 (2012: \$6,996,182) and no borrowings. The Group raised further funds of \$4.2m (£2.5m) through a share placing in June 2014. The directors believe the Group has sufficient cash resources to continue its operations and meet its commitments for the foreseeable future. The directors therefore believe it is appropriate for the financial statements to be prepared on the going concern basis, and they do not reflect any adjustments that would be required if this was not appropriate.

**d) Intangible assets – exploration and evaluation costs**

Exploration and evaluation expenditure costs comprise costs associated with the acquisition of mineral rights and mineral exploration and are capitalised as intangible assets pending the feasibility of the project. They also include certain administrative costs that are allocated to the extent that those costs can be related directly to operational activities.

If an exploration project is deemed successful based on feasibility studies, the related expenditures are transferred to development and production assets and amortised over the estimated useful life of the ore reserves on a unit of production basis. Where a project is abandoned or considered to be no longer economically viable, the related costs are written off to profit or loss.

To date the PM plc Group has not progressed to the development and production stage in any areas of operation.

**e) Impairment of non-financial assets**

The PM plc Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the PM plc Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset. For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the PM plc Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

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**3 Basis of preparation and significant accounting policies (Continued)**

**f) Financial instruments**

*Financial assets*

The PM plc Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired

**Other receivables** These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

**Cash and cash equivalents** These include cash in hand, deposits held at call with banks and bank overdrafts.

**Investments in subsidiaries** These are included in these financial statements at the cost of the ordinary share capital acquired. Adjustments to this value are only made when, in the opinion of the Directors, a permanent diminution in value has taken place and where there is no prospect of an improvement in the foreseeable future.

*Financial liabilities*

The PM plc Group classifies its financial liabilities as

**Trade and other payables** These are initially recognised at fair-value and then carried at amortised cost. They arise principally from the receipt of goods and services.

**Equity instruments** These are recorded at fair value on initial recognition net of transaction costs.

**g) Provisions**

A provision is recognised in the balance sheet when the PM plc Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

**h) Deferred tax**

The tax expense represents the sum of the current tax expense and deferred tax expense.

Tax payable is based on taxable profit for the year. Taxable profit differs from accounting profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and further excludes items that are never taxable or deductible. The Group's liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or if from the initial liabilities in a transaction that affects either the taxable profit or the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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**3 Basis of preparation and significant accounting policies (Continued)**

**i) Pensions**

Pension costs charged in the financial statements represent the contributions payable by the group during the year into defined contribution pension schemes

**j) Foreign currency**

**Functional and presentation currency**

The consolidated financial statements are presented in US Dollars which is also the functional currency of the parent company

**Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency of the respective PM plc Group entity, using the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

**Foreign operations**

In the PM plc Group's financial statements, all assets, liabilities and transactions of PM plc Group entities with a functional currency other than the US Dollar are translated into US Dollar upon consolidation. The functional currency of the entities in the PM plc Group has remained unchanged during the reporting period. On consolidation, assets and liabilities have been translated into US Dollars at the closing rate at the reporting date. Income and expenses have been translated into US Dollars at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

The principal exchange rates used to the US Dollar in the preparation of the 2013 financial statements are

	Annual average		Year end	
	2013	2012	2013	2012
<b>Sterling</b>	1 5642	1 5868	1 6368	1 6125
<b>PNG Kina</b>	0 4301	0 4770	0 3864	0 4758
<b>Australian Dollar</b>	0 9683	1 0358	0 8983	1 0457
<b>Euro</b>	1 3280	1 2944	1 3694	1 3105

**k) Segmental Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive & Technical Director. They are the Directors of the PM plc Group who allocate resources to and assess the performance of the segments. The Directors consider there to be only one operating segment, being the exploration licences in Papua New Guinea.

**l) Investments (parent company)**

Investments held as non-current assets comprise investments in subsidiary undertakings and are stated at cost less any provision for any impairment.

**m) Equity and reserves**

Equity and reserves comprises the following

- "Share capital" is the nominal value of equity shares
- "Share premium" represents amounts subscribed for share capital in excess of nominal value, net of directly attributable issue costs
- "Share based payment reserve" represents a reserve arising on the grant of share options to certain Directors and key employees
- "Other reserve" represents a reserve arising from a group reorganisation in 2011

**n) Share based payments**

The Group issues equity-settled share-based payments to certain directors and key employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

**o) Critical accounting estimates and judgements**

The PM plc Group makes estimates and assumptions concerning the future. The resulting estimates will by definition, seldom equal the actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Certain amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, but actual results may differ from the amounts included in the financial statements. The Board has considered the critical accounting estimates and assumptions used in the historical financial information and concluded that the area of judgement that has the most significant effect on the amounts recognised in the financial statements concern

**Recoverability of deferred exploration costs**

All costs associated with gold and copper exploration are capitalised on a project basis, pending a decision on the economic feasibility of the project. This capitalisation of such costs gives rise to an intangible asset in the consolidated statement of financial position. Exploration costs are capitalised where it is considered likely that the amount will be recovered by future exploitation, sale or alternatively where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This requires management to make estimates and assumptions as to the future events and circumstances, especially in relation to whether an economically viable extraction operation can be established. Such estimates are subject to change and following initial capitalisation, should it become apparent that recovery of the expenditure is unlikely, the relevant capitalised amount will be impaired and written off to the consolidated statement of comprehensive income on disposal of the net investment.

**Functional currency of the parent company**

Management has concluded that the US dollar is the currency of the primary economic environment in which the group operates and therefore it's functional currency. The US dollar is the currency in which business risks and exposures are measured and the Company's assets and liabilities are largely denominated and settled in US dollars.

**p) Exceptional items**

The PM plc Group has adopted an accounting policy and income statement format that seeks to highlight significant items of income and expense within PM plc Group results for the year. The Directors believe that this presentation provides a more helpful analysis as it highlights one-off items. Such items may include significant restructuring costs, profits or losses on disposal or termination of operations, litigation costs and settlements, profit or loss on disposal of investments, significant impairment of assets and unforeseen gains/losses arising on derivative instruments. The Directors in assessing the particular items, which by virtue of their scale and nature are disclosed in the income statement and related notes as exceptional items, use judgement.

**4 Segmental reporting**

During the year under review Management identified the PM plc Group's only operating segment as the exploration of gold and copper resources in Papua New Guinea. This one segment is monitored and strategic decisions are made based upon it and other non-financial data collated from the on-going exploration activities. All of PM plc Group's exploration assets are based in Papua New Guinea. The formats of financial reports that are reported to the Chief Decision Makers are consistent with those presented in the annual financial statements.

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<b>5 Finance income</b>	<b>2013</b>	<b>2012</b>
	US\$	US\$
Bank interest received	46,713	70,913
	<u>46,713</u>	<u>70,913</u>
<b>6 Loss before taxation</b>	<b>2013</b>	<b>2012</b>
	US\$	US\$
Operating loss is stated after charging		
Fees payable to the PM plc Group's auditor for the audit of PM plc Group's financial statements	44,317	45,203
Fees payable to the PM plc Group's auditor for taxation services	5,657	-
Share based payment expense	488,983	584,459
Foreign exchange losses/(gains)	368,553	(37,732)
	<u>867,510</u>	<u>1,091,929</u>
<b>7 Taxation</b>		
<b>Group</b>	<b>2013</b>	<b>2012</b>
	US\$	US\$
<b>Domestic current year tax</b>		
U K corporation tax - current year	-	-
<b>Deferred tax</b>		
Origination and reversal of temporary differences	-	-
	<u>-</u>	<u>-</u>
<b>Income tax expense</b>	<u>-</u>	<u>-</u>
<b>Factors affecting tax charge for the year</b>		
Loss on ordinary activities before taxation	<u>(2,089,635)</u>	<u>(1,758,120)</u>
Loss on ordinary activities at the UK standard rate of 23 25% (2012 24 5%)	<u>(485,840)</u>	<u>(430,740)</u>
Effects of		
Carried forward losses	244,729	213,604
Non-deductible expenses	195,783	212,400
Other tax adjustments	45,328	4,736
	<u>485,840</u>	<u>430,740</u>
<b>Current tax charge</b>	<u>-</u>	<u>-</u>

The Group has UK tax losses of approximately \$1,965,639 (2012 \$913,041) available to carry forward against future trading profits, subject to agreement by HMRC. No provision has been made for a potential deferred tax asset of approximately \$412,784 at 21% (2012 \$194,246 at 23%) arising from UK tax losses. The Group has not recognised a deferred tax asset on any losses carried forward due to the uncertainty of future profits and due to the relatively unsettled legal and tax codes of Papua New Guinea.

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**8 Loss per share**

<b>Group</b>	<b>2013</b>	<b>2012</b>
	US\$	US\$
Loss for the purpose of basic and diluted earnings per share	<u>(2,089,635)</u>	<u>(1,758,120)</u>
<b>Numbers</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>34,476,334</u>	<u>29,219,973</u>
	US\$	US\$
Loss per share – basic	(0.06)	(0.06)
Loss per share – diluted	<u>(0.06)</u>	<u>(0.06)</u>

Loss per share has been calculated by dividing loss for the year by the weighted average number of ordinary shares in issue during the year

Diluted loss per share has been calculated by dividing the loss for the year by the weighted average number of ordinary shares in issue during the year adjusted to assume conversion of all dilutive potential options/warrants. In accordance with the provisions of IAS33, shares under option in 2013 were not regarded as dilutive in calculating diluted earnings per share

**9 Intangible assets**

<b>Group</b>	<b>2013</b>	<b>2012</b>
	US\$	US\$
<b>Exploration costs</b>		
At beginning of period	7,495,843	4,691,752
Additions	5,386,020	2,804,091
At the end of year	<u>12,881,863</u>	<u>7,495,843</u>
<b>Company</b>	<b>2013</b>	<b>2012</b>
	US\$	US\$
<b>Exploration costs</b>		
At beginning of period	806,726	68,494
Additions	1,865,602	738,232
At the end of year	<u>2,672,328</u>	<u>806,726</u>

The Directors have reviewed all exploration costs for indications of impairment. They do not consider there to be any such indications and therefore consider the carrying value at 31 December 2013 not to be impaired.

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**10 Investments**

<b>Company</b>	<b>2013</b> US\$	<b>2012</b> US\$
Investment in Papua Mining Limited	<u>4,888,219</u>	<u>4,888,219</u>

The Group's principal subsidiary undertakings at 31 December 2013, all of which are included in the consolidation, were as follows

<b>Name of Company</b>	<b>Proportion held</b>	<b>Class of shareholding</b>	<b>Nature of business</b>	<b>Country of incorporation</b>
<b>Subsidiary</b>				
Papua Mining Limited	100%	Ordinary	Exploration	British Virgin Islands
Aries Mining Limited	100%	Ordinary	Exploration	Papua New Guinea
Sagittarius Mining Limited	100%	Ordinary	Exploration	Papua New Guinea

**11 Trade and other receivables**

<b>Company</b>	<b>2013</b> US\$	<b>2012</b> US\$ (restated)
Amounts owed by Group undertakings (non current)	<u>6,299,225</u>	<u>2,235,624</u>

There are no fixed terms of repayment of amounts owed by Group undertakings, which are technically repayable on demand. As it is not intended for the amounts due to be repaid within one year these receivables have been classified in the financial statements as non current assets.

The Directors have reviewed the classification of amounts owed by Group undertakings at 31 December 2012 and have concluded that the nature of the receivables of \$2,235,624 was also that of non current assets. This amount has therefore been restated in order to reclassify from current assets to non current assets within the Statement of Financial Position.

The Directors consider the carrying value of trade and other receivables to equal their fair value.

**12 Cash and cash equivalents**

<b>Group</b>	<b>2013</b> US\$	<b>2012</b> US\$
Cash at bank	<u>3,626,880</u>	<u>6,996,182</u>
<b>Company</b>	<b>2013</b> US\$	<b>2012</b> US\$
Cash at bank	<u>3,498,557</u>	<u>6,862,990</u>

Cash and cash equivalents comprise cash

The directors consider the carrying value of cash and cash equivalents to equal fair value

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**13 Share capital**

<b>Group and Company</b>	<b>2013 Number</b>	<b>2012 Number</b>
<b>Authorised</b>		
Ordinary shares of £0 10 (\$0 16) each	40,078,190	40,078,190
<b>Issued share capital</b>		
Ordinary shares of £0 10 (\$0 16) each	34,996,334	31,876,334
	<u>                    </u>	<u>                    </u>
	<b>2013</b>	<b>2012</b>
	US\$	US\$
<b>Issued share capital</b>		
Fully paid	<u>5,489,648</u>	<u>5,002,366</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends. There are no shares held by the entity or its subsidiaries or associates.

3,120,000 ordinary shares of £0 10 (\$0 16) each were issued at a price of £0 80 (\$1 24) per share on 14 February 2013.

**Share premium**

The share premium account represents amounts subscribed for share capital in excess of nominal value, net of directly attributable issue costs.

**Capital management**

The Group's objectives when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to ensure sufficient resources are available to meet day to day operating requirements. The Group defines capital as 'equity' and 'cash' as shown in the consolidated statement of financial position. As at 31 December 2013 the Group held equity and cash balances of \$16,261,988 and \$3,626,880 respectively.

The Board of Directors takes full responsibility for managing the Group's capital and does so through board meetings, review of financial information, and regular communication with officers and senior management.

In order to maximise ongoing development efforts, the Company does not pay dividends. The Group's investment policy is to invest its cash in deposits with high credit worthy financial institutions with short term maturity. The Group expects its current capital resources will be sufficient to carry out its operating plans over the foreseeable future.

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**14 Share based payments**

Details of share options granted are as follows

	2013		2012	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding at 1 January 2013	2,720,724		-	
Granted during the year	120,000		2,720,724	
Outstanding at 31 December 2013	<u>2,840,724</u>	<u>0.75</u>	<u>2,720,724</u>	<u>0.68</u>
Exercisable at 31 December 2013	<u>2,840,724</u>	<u>0.75</u>	<u>2,720,724</u>	<u>0.68</u>

No shares options were exercised in this or the prior period

On 16 May 2013 share options were granted over 120,000 ordinary shares to certain employees. These share options are exercisable at £0.77 (\$1.25) and the vesting periods are one year (60,000 shares) and two years (60,000) from the grant date. The options lapse on the fifth anniversary of the grant date.

On 18 September 2012 share options were granted over 80,000 ordinary shares to certain employees. These share options are exercisable at £0.54 (\$0.88) and the vesting periods are one year (40,000 shares) and two years (40,000 shares) from the grant date. The options lapse on the fifth anniversary of the grant date.

On 2 March 2012 share options were granted over 2,640,724 ordinary shares to certain Directors and key employees. These share options are exercisable at £0.44 (\$0.72) and the vesting periods are one year (846,908 shares), two years (896,908) and three years (896,908) from the grant date. The options lapse on the tenth anniversary of the grant date.

The inputs into the Black Scholes model are as follows	2013	2012
Share price	51.5 - 76.5p	46.5p
Exercise price	51.5 - 76.5p	44.0p
Expected volatility		
Year 1	78 - 84%	87%
Year 2	102 - 119%	129%
Year 3	N/A%	243%
Expected life	1-2 years	1-3 years
Discount rate	1.5%	1.5%

Expected volatility was determined by reference to the historical volatility of the share price of peer companies to the Group. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of \$488,983 (2012: \$584,459) relating to equity-settled share based payment transactions in the year.

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**15 Trade and other payables**

<b>Group</b>	<b>2013</b>	<b>2012</b>
	US\$	US\$
Trade payables	36,515	95,400
Other payables	109,062	328,347
Accruals	101,178	103,891
	<u>246,755</u>	<u>527,638</u>
<b>Company</b>	<b>2013</b>	<b>2012</b>
	US\$	US\$
Trade payables	36,515	95,400
Other payables	112,582	331,868
Accruals	101,178	103,891
	<u>250,275</u>	<u>531,159</u>

The Directors consider the carrying value of trade and other payables to equal their fair value

**16 Financial instruments**

In common with other businesses, the PM plc Group is exposed to risks that arise from its use of financial instruments. This note describes the PM plc Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 3.

The PM plc Group does not have any derivative products or any long term borrowings. The PM plc Group is not exposed to interest-bearing indebtedness. The exploration activities of the PM plc Group were financed by proceeds of issue of shares.

**Principal financial instruments**

The principal financial instruments used by the PM plc Group, from which financial instrument risk arises, are as follows:

	<b>2013</b>	<b>2012</b>
	US\$	US\$
<i>Financial Assets</i>		
Cash and cash equivalents	<u>3,626,880</u>	<u>6,996,182</u>
<i>Financial Liabilities</i>		
Trade payables	36,515	95,400
Other payables	109,062	328,347
	<u>145,577</u>	<u>423,747</u>

The Directors consider that the fair value of the above financial instruments is equal to the carrying values.

**General objectives, policies and processes**

The Directors have overall responsibility for the determination of the PM plc Group's risk management objectives and policies and, while retaining ultimate responsibility for them, has delegated authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the PM plc Group's finance function. The Board receives regular reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the PM plc Group's competitiveness and flexibility. The Directors consider that the risk components detailed below apply to the PM plc Group and is managed at Group level.

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**16 Financial instruments (Continued)**

*Credit risk*

Credit risk refers to the risk that the PM plc Group's financial assets will be impaired by the default of a third party. The PM plc Group is exposed to this risk primarily on its cash and cash equivalents as set out in note 12. Credit risk is managed by ensuring that surplus funds are deposited only with well-established financial institutions of high quality credit standing.

*Foreign currency risk*

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates.

The PM plc Group operates primarily in Papua New Guinea. Transactions are substantially denominated in PNG Kina, Australian \$, Sterling and US Dollars (its reporting currency). As such the PM plc Group is exposed to transaction foreign exchange risk. The mix of currencies and terms of trade with its suppliers are such that the Directors believe that the PM plc Group's exposure is minimal and consequently they have not, to date, specifically sought to hedge that exposure. Most of the PM plc Group's funds are in Sterling with only sufficient funds held overseas to meet local costs. Funds are periodically transferred overseas to meet local costs when required.

*Commodity price risk*

Commodity price risk is the risk that the PM plc Group's future earnings will be adversely impacted by changes in the market prices of commodities. The PM plc Group is exposed to commodity price risk as its future revenues may be determined by reference to market prices of copper and gold.

*Liquidity risk*

Liquidity risk relates to the ability of the PM plc Group to meet future obligations and financial liabilities. To date the PM plc Group has relied upon shareholder funding of its activities. Future exploration and development activities may be dependent upon the PM plc Group's ability to obtain further financing through equity financing or other means. Although the PM plc Group has been successful in the past in obtaining equity finance there can be no assurance that the PM plc Group will be able to obtain adequate financing in the future or that the terms of the financing will be favorable.

The financial statements have been prepared on a going concern basis and note 3(c) provides further information in this regard.

**Sensitivity analysis**

*Foreign currency sensitivity analysis*

Currency risks are defined by IFRS 7 as the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.

*Foreign currency sensitivity analysis (Continued)*

The following table details the transactional impact of changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the (decrease)/increase in PM plc Group operating result caused by a 10% strengthening of Sterling, PNG Kina and the Euro compared to the year end spot rate. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The PM plc Group operates in four different currencies, and those with a material impact are noted here.

	Year ended 31 December 2013 US\$	Year ended 31 December 2012 US\$
Sterling	(289,795)	(662,725)
PNG Kina	(12,832)	(13,719)
Euro	-	17,001
Australian Dollar	(47,053)	-

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**17 Capital commitments**

The PM plc Group's capital commitments relate to licence expenditure and related exploration activities, the cost of which will be met from funds raised in February 2013

The PM plc Group now holds thirteen Exploration Licences and two further licenses are currently under application. If all of the licence applications are granted, the Group's licences will have total expenditure commitments of approximately US\$0.8 million over the coming 12 month period.

**18 Staff costs**

**Number of employees**

The average monthly number of employees (including Directors) of the Group during the year was

	2013	2012
Administration	15	13
Technical	26	25
	<u>41</u>	<u>38</u>

**Employment costs (including directors)**

	2013 US\$	2012 US\$
Wages and salaries	1,378,199	1,034,391
Social security costs	100,617	95,065
Pension costs	67,440	45,000
Employee share based payment charge	488,983	584,459
	<u>2,035,239</u>	<u>1,758,915</u>

**19 Directors emoluments**

Aggregate emoluments, including benefits in kind, by director are as follows

2013 Directors	Directors' fees US\$	Salary US\$	Pension contributions US\$	Sub total US\$	Medical insurance US\$	Social security costs US\$	Total US\$
H McCullough	-	200,000	30,035	230,035	12,271	21,500	263,806
K Harrington	-	242,630	37,405	280,035	9,565	26,160	315,760
M Jolliffe	13,945	62,860	-	76,805	-	-	76,805
G Palm	-	47,145	-	47,145	-	5,657	52,802
K Lough	-	47,145	-	47,145	-	5,657	52,802
	<u>13,945</u>	<u>599,780</u>	<u>67,440</u>	<u>681,165</u>	<u>21,836</u>	<u>58,974</u>	<u>761,975</u>

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**19 Directors emoluments (Continued)**

2012 Directors	Directors' fees US\$	Salary US\$	Pension contributions US\$	Sub total US\$	Medical insurance US\$	Social security costs US\$	Total US
H McCullough	33,333	166,667	22,500	222,500	12,047	16,483	251,037
K Harrington	33,333	191,667	22,500	247,500	10,270	17,379	275,149
M Jolliffe	-	63,388	-	63,388	-	8,748	72,136
G Palm	-	47,541	-	47,541	-	6,561	54,102
K Lough	-	35,656	-	35,656	-	4,920	40,576
	<u>66,666</u>	<u>504,919</u>	<u>45,000</u>	<u>616,585</u>	<u>22,317</u>	<u>54,091</u>	<u>692,997</u>

Share options are held by the directors as follows

	2013 Number of options	2012 Number of options
Michael Jolliffe	250,000	250,000
Hugh McCullough	796,908	796,908
Kieran Harrington	796,908	796,908

The key management personnel of the Group are considered to be entirely represented by the Directors

No Director has yet benefitted from any increase in value of share capital since issuance of the options

No Director exercised share options in the year

**20 Related party transactions**

As well as remuneration of Directors (note 19), the following transactions fall within the scope of IAS 24 Related Party Disclosures

- (1) Companies in which the Directors, Hugh McCullough and Kieran Harrington, have an interest (Ghalu Limited and Hybreasal Limited respectively) charged fees of \$Nil (2012 \$33,333) and \$Nil (2012 \$33,333) respectively to the company during the year. These fees are included within the remuneration stated in note 19
- (2) The Company was charged fees of \$6,082 (2012 \$19,558) during the year by AA Corporate Management in respect of accounting and company secretarial services. AA Corporate Management is controlled by Antoine Awad, a director of Papua Mining Limited
- (3) Hanjin Eurobulk Limited, a company connected to the director Michael Jolliffe charged rent of £Nil (2012 £15,940) in respect of office space used by the Company during the year. Wighams Capital Partners Limited, another company connected to Michael Jolliffe, charged fees of \$13,945 to the company during the year. These fees are included within the remuneration stated in note 19

At 31 December 2013 there were \$Nil amounts payable to the above related parties

**21 Control**

The company is quoted on AIM and there is no individual controlling party. The Directors' Report provides details of those shareholders with an individual holding exceeding 3% of issued share capital

**22 Post balance sheet events**

The Group raised \$4.2m (£2.5m) through a share placing in June 2014