

PACIFIC NIUGINI LIMITED

**ABN 30 003 207 467
AND CONTROLLED ENTITIES**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2011**

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

TABLE OF CONTENTS

CHAIRMAN'S LETTER TO SHAREHOLDERS	2
REVIEW OF OPERATIONS	3
DIRECTORS' REPORT	11
AUDITOR'S INDEPENDENCE DECLARATION	20
FINANCIAL STATEMENTS	
Statement of comprehensive income	21
Statement of financial position	22
Statement of changes in equity	23
Statement of cash flows	24
Notes to and forming part of the Financial Statements	25
DIRECTORS' DECLARATION	50
INDEPENDENT AUDIT REPORT TO THE MEMBERS	51
CORPORATE GOVERNANCE STATEMENT	53

C O R P O R A T E D I R E C T O R Y

Directors

Mr Peter COOK
(Non-Executive Chairman)
Mr Paul CMRLEC
(Managing Director)
Mr Sam AKOITAI
(Non Executive Director)
Mr David OSIKORE
(Executive Director)

Country of Incorporation

Australia

Auditors

BDO Audit (QLD) Pty Ltd
Level 18,300 Queen Street
Brisbane QLD 4000
Telephone: +61 (0) 7 3237 5999
Facsimile: +61 (0) 7 3221 9227

Company Secretary

Mr Dennis LOVELL

Share Registry

Computershare Investor Services Pty Ltd
117 Victoria Street
West End QLD 4101
GPO Box 2975 Melbourne Vic 3001
Telephone: (within Australia) 1300 850 505
Telephone: (outside Australia) +61 3 9415 4000
Facsimile: +61 3 9473 2500

Registered Office

Suite 14, 46 Douglas Street
Milton QLD 4064
Telephone: +61 (0) 7 3367 3996
Facsimile: +61 (0) 7 3368 2998

Principal Place of Business

Suite 14, 46 Douglas Street
Milton QLD 4064
Telephone: +61 (0) 7 3367 3996
Facsimile: +61 (0) 7 3368 2998

Home Exchange

Australian Stock Exchange Limited
Level 5
Riverside Centre
123 Eagle Street
Brisbane QLD 4000

Bankers

Westpac Banking Corporation
109 St Georges Terrace
Perth WA 6000

Website

www.niugini.com.au

ASX Code: PNR

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

It is my pleasure to present you the Audited Annual Financial Statements for your company for the year ended 30 June, 2011.

The Company has had a successful year and good progress has been made on the exploration front. We have been frustrated with our plans to recommence evaluation and then mining of the gold-bearing gravels in the Bulolo Goldfield. Whilst it is disappointing that the Company has not been able to progress this for our shareholders it is most pleasing to note that the potential remains in place and strong gains in the gold price over the year have made it an even more tantalizing prospect.

Post balance date we have commenced evaluation and have made significant progress that should see us develop and emerge as a gold producer in the ensuing year.

Our field teams have advanced exploration with encouraging early results at Garaina and Gusap and we are confident we are on the path to some interesting discoveries in the coming year.

The year witnessed the appointment of Mr. Paul Cmrlec as Managing Director and Mr. Peter Campbell as manager for the Bulolo Projects. This is a great win for the Company as both have huge ability, energy and a can-do approach that will lead to rapid advancement of the Company's assets in the future.

In addition Mr. Sam Akoitai joined the board as a non-executive director and has provided wonderful guidance and assistance to our PNG staff.

Our PNG resident director, David Osikore and his wholly melanesian exploration teams have done a good job in the thankless task of grass roots exploration in these difficult and undeveloped terrains. The fruits of their work will unravel in the ensuing years as we progress our exploration targets.

I thank our loyal guard of shareholders for your support and patience and assure you that all our staff are trying their hardest and doing their best to generate shareholder wealth.

We look to the year forward with much expectation and optimism.

Peter Cook
Chairman

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

REVIEW OF OPERATIONS

CORPORATE

Ruighoek Chrome Project –South Africa

New York Stock Exchange listed AMCOL elected to exercise their call option over the remaining 47% of the Ruighoek Chrome Project for US\$12.4 million. Settlement took place on 15 September 2010 by the payment of US\$11.5 million net of South African Revenue Service withholding tax, resulting in a gain on sale of \$8.97 million.

Share Issues

During the past year the following share issues were completed:

- (i) A placement of 30.45 million shares (15%) at \$0.20 per share was completed in September 2010 and raised a net amount of \$5.82 million.
- (ii) The exercise of 4,634,744, \$0.30, 30 Sept 2011 options to raise \$1,390,423.
- (iii) The exercise of 800,000 \$0.17 23 Feb 2013 employee options to raise \$136,000.

OPERATIONS

Papua New Guinea (PNG)

Pacific Niugini Minerals (PNG) Ltd

The Company's wholly owned PNG subsidiary Pacific Niugini Minerals (PNG) Ltd ("PNM") holds 5 exploration titles covering 2,142 square kilometres in Papua New Guinea.

PNM's projects and exploration tenements are located in three provinces of Papua New Guinea. Exploration titles EL1589, EL1614 and EL1616 are located in Morobe Province. Exploration titles EL1613 and EL1615 are located in Western Highlands and Madang provinces respectively. During the 2010/2011 year, the Company has been actively exploring in all of the tenement areas. Reconnaissance exploration has resulted in the discovery of significant surface mineralisation at Garaina (EL1614), Gusap (EL1615), and Mt Hagen (EL1613).

PNM continues to progress activities in PNG with a clear focus on the discovery of gold and copper-gold deposits and the re-commencement of gold production from the Bulolo Gravels Project. Activities into ensuing year will be concentrated on:

- Progressing the Bulolo Gravel Project to production status;
- Advancing exploration activities at the Kusi prospect, which lies within EL1614, with the goal of defining a maiden JORC resource; and
- Further defining mineralisation at Gusap to define multiple future drill targets.

The company will also maintain a watch on acquisition opportunities for producing (or near production) assets in the Asia Pacific region which are able to be further enhanced through PNM's skill set and operating strategy.

Morobe Province Exploration Projects

The Morobe Province, and in particular the gold towns of Wau and Bulolo are where PNG's rich mineral history began in the 1920's. A gold boom of many small alluvial miners soon gave way to commercial scale gravel dredging, the most significant being the Bulolo Field which in the 1930's was one of the most prolific gold producers in the world.

Famous as the birthplace of Placer Dome (now Barrick), one of the world's foremost gold miners and the most successful in PNG, the recorded production from gravel dredging is documented from historic records at 413.7 Million Tonnes at a recovered 0.16g/ton (0.31g/m³) Gold for the production of over 2.15 million ounces.

Modern day exploration and hard-rock have rapidly pushed the Morobe Goldfields back to prominence. Under a joint venture between Harmony Gold and Newcrest, the Hidden Valley Gold-Silver Mine is now operational and the nearby Wafi Gold and Golpu Porphyry Copper-Gold deposits have reported massive resource upgrades and each of these projects are world-class deposits in their own right.

PNM has a significant land position near these major deposits with three titles covering 631 square kilometres of the Morobe Province.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

EL 1616 – Bulolo

This tenement covers the vast bulk of historic gold production from within the Morobe Province. This gold production has come from gold dredging of the Bulolo Gravel Flats between 1934 and 1965, although significantly interrupted during World War II. EL1616 contains the best of the historically productive Bulolo gravel flats. Gold production from these gravel flats totalled 2.15 million ounces from the processing of approximately 200 million cubic metres of gravel at a recovered grade of 0.31g/m³ Gold. EL1616 covers the majority of historically dredged area, but also hosts significant areas of virgin gravel beds.

PNM is focussed on testing and bringing to production three main zones within the gravel project being:

- Virgin, unmined zones – There are several areas within EL1616 which flank previously dredged areas, and are the priority target for initial testing and production. One area at the southern end of the tenement, immediately west of previously dredged areas is approximately 2 km x 1km in area, and is expected to host significant volumes of economic mineralisation.
- Previously dredged gravels – it is considered likely that dredging methods employed historically resulted in significant gold losses. Review of historical records indicates that only recovered gold grades were measured, and actual insitu grades are unknown. Initial testing indicates that gold remains in the previously dredged areas, and PNM has a bulk sampling program in place to better quantify the economic potential of these zones.
- Depth extensions of previously dredged areas – seismic interpretation of the field undertaken in 2010 indicated that the overall depth of gravels extends beyond 100 metres. Dredging depths were restricted to between 30 and 35 metres, and PNM believes that there is excellent potential for additional gold recovery from below historically mined horizons.

Testing is to be undertaken by two primary methods, being bulk sampling of material mined from a grid of test pits to be excavated across all zones in the field, and with churn drilling to basement using a cable tool rig. Data from the test program will be utilised to select initial areas to be brought into production.

PNM has recently completed the construction of a 10 t/hr test plant for the bulk sampling of the Bulolo Gravels, and has mobilised contract machinery, including a 20t excavator to site. Preparation of drill pads and access tracks was well advanced at the end of the reporting period. The churn drilling contractor has commenced drilling subsequent to the end of the reporting period.

PNM also purchased a commercial scale production plant intended for use at Bulolo during the previous year. Pacific Niugini purchased the gravity processing plant capable of processing approximately 400tph of -3mm material during the September 2010 quarter. It is estimated that the plant capacity will translate into 10,000 – 15,000 m³ of raw gravel per day. Pacific Niugini is currently undertaking minor modification on the plant in preparation for production.

Based on historical production grades, the plant with the appropriate pre-screening additions is expected to facilitate production in excess of 30,000 ounces per annum once operational.

Whilst the main focus within this tenement is the assessment of the remaining Bulolo Gravels and a re-start of commercial scale gravel processing for gold, there remains significant potential within this tenement for primary sources of epithermal gold and porphyry copper style mineralization.

In the past, Bulolo Development Company, CRAE, and the PNG Geological Surveys for primary ore sources have completed sporadic exploration within the tenement. Target metals of past explorers were mainly gold and copper.

PNM has completed ground reconnaissance programs on the tenement and has outlined significant anomalies from stream sediment, ridge and spur and rock-chip sampling. These areas will be revisited once the gravel project is fully operational.

EL 1614 – Garaina

The Garaina tenement (EL1614) is 110km southeast of Lae and 50km southeast of Wau Town.

The tenement area covers the suture zone between the Owen Stanley Metamorphic thrust to the west and the Papuan Ultramafic to the east. Most of the EL is underlain by the Owen Stanley metamorphic complex. Alluvial gold continues to be worked by local villagers with crude equipment at Gerepo, Kamusi, Bapi and Garaina. To date no source of the alluvial gold has been discovered.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

Parts of EL1614 were investigated for mineral occurrence by the Bureau of Mineral Resources (BMR) in the 1950s. In the more recent times, Highland Gold Limited explored for nickel and gold in the late 1980s at an area to northeast of Garaina Station. Nickel, gold and copper occurrences have been previously reported. PNR considers the tenement has potential for discovery of economic gold, copper and nickel laterite deposits.

PNR discovered significant outcropping surface mineralisation at the Kusi Prospect in January 2011. Since that time, PNR has rapidly advanced field activities with initial drilling programs now underway.

Importantly, the Kusi deposit is well located in terms of future intensive exploration, and mining logistics. A road already exists between Wau Town and Kasangari, which is only 3 kilometers from Kusi. While the road is not currently in service, works to bring the road back to a trafficable condition are relatively minor, and are planned to be undertaken upon receipt of positive drilling results, in order to facilitate exploration logistics and to reduce operating costs by removing the need for helicopter support. Further, large areas of flat land exist in the Garaina Valley, approximately 12 kilometers east of Kusi. There is currently an operating airstrip in the area being used for transport of personnel, and consumables where possible. This large expanse of flat land will provide the ideal platform for mine infrastructure in the event that the deposit is developed.

Initial field campaigns have identified mineralisation and alteration signatures similar to those seen at the Kusi Prospect as far north as the Sim Prospect. While the immediate focus is on better defining mineralisation at Kusi, regional teams continue grass roots exploration work to further expand the currently defined mineralised envelope.

Kusi Gold/Silver Prospect

The prospect is defined by a highly anomalous polymetallic anomaly. Elevated gold, silver, copper, lead and zinc results exist in outcrop, coincidental with distinct magnetic anomalies in broad scale airborne and closer spaced ground geophysical surveys. PNR believes these are typical of those often seen with large scale porphyry copper/gold and epithermal gold/silver deposits.

Detailed costean sampling and ground mapping suggests that the gold and base metal mineralisation at Kusi prospect is structurally controlled. Mineralisation appears within structurally bounded stockwork and schistosity parallel sheeted quartz-pyrite-carbonate-base metal veins. Endoskarn mineralisation is also widespread occurring in discrete lenses. Surface geological mapping, and ground magnetic surveys have confirmed mineralisation over an area of approximately 2 km by 0.8 km with ongoing results demonstrating that mineralisation continues to the north for a currently unknown distance. PNR believes that the mineralisation is consistent with a large scale epithermal gold-silver system with similarity to the nearby Hidden Valley-Hamata systems.

The better runs of continuous assay results from manual costean sampling since discovery include:

Trench ID	Trench Starting Coordinates (m)		Sample Number	Distance from start of trench to start of intercept (m)	Distance from start of trench to end of intercept (m)	Significant Trench Intercepts (cut-off grade 0.5 g/t Au)	Total Trench Length (m)
	North	East					
KSTC30	9134440	493220	12836 -12869	0.0	34.0	34m @ 3.29 g/t Au & 39.17 g/t Ag incl. ☐ 8m @ 6.39 g/t Au & 57.24 g/t Ag ☐ 6m @ 4.86 g/t Au & 84.83 g/t Ag	34.0
KSTC26	9134850	494154	14559 - 14597	8.0	47.0	39m @ 2.59 g/t Au & 8.58 g/t Ag incl. ☐ 6m @ 5.19 g/t Au & 15.87 g/t Ag ☐ 8m @ 4.64 g/t Au & 6.01 Ag	64.0
KSTC37	9134762	494158	13312 -13332	26.0	47.0	21m @ 2.17 g/t Au & 4.34 Ag incl. ☐ 4m @ 5.11 g/t Au & 2.95 g/t Ag	47.0
KSTC42	9134860	494188	14996 -15006	0.0	11.0	11m @ 2.81 g/t Au & 9.45 g/t Ag incl. ☐ 3m @ 7.8 g/t Au & 23.37 g/t Ag	170.7
			15025-15036	51.7	63.7	12m @ 2.75 g/t Au & 4.8 g/t Ag incl.	

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

			15131	157.7	158.7	☒ 3m @ 7.53 g/t Au & 12.73 g/t Ag 1m @ 5.28 g/t Au & 7.8 g/t Ag	
KSTC25	9134343	493497	12565 - 12571 12611	35.0 82.0	43.0 83.0	8m @ 2.89 g/t Au & 2.3 g/t Ag 1m @ 8.4 g/t Au & 1.3 g/t Ag	272.0
KSTC38	9134890	494369	14799 - 14805 14849-14850 14781-14782 14835 - 14837	105.0 156.0 80.0 142.0	112.0 158.0 84.0 145.0	7m @ 2.43 g/t Au & 0.67 g/t Ag 2m @ 3.18 g/t Au & 7.75 g/t Ag 4m @ 2.25 g/t Au & 10.15 g/ Ag 3m @ 2.1 g/t Au & 0.6 g/t Ag	191.0
KSTC36	9134782	494100	13184 - 13190 13148 13267-13269	45.0 9.0 133.0	52.0 10.0 136.0	7m @ 2.17 g/t Au & 18.72 g/t Ag 1m @ 7.35 g/t Au & 24 g/t Ag 3m @ 2.18 g/t Au & 39.47 g/t Ag	152.0
KSTC08	9134382	495658	623643 - 623648	0.0	6.0	6m @ 2.36 g/t Au & 32.68 g/t Ag	10.0
KSTC40	9134559	494172	15222 - 15224	81.0	84.0	3m @ 6.93 g/t Au & 5.77 g/t Ag incl. ☒ 1m @ 17.9 g/t Au & 9.4 g/t Ag	185.0
KSTC33	9135002	494121	12926	35.0	36.0	1m @ 70 g/t Au & 22.5 g/t Ag	96.0
KSTC29	9134831	494124	13097 13131-13132	36.0 77.0	37.0 79.0	1m @ 54 g/t Au & 66.1 g/t Ag 2m @ 5.61 g/t Au & 6.55 g/t Ag incl. ☒ 1m @ 10.1 g/t Au & 5.3 g/t Ag	87.0

Table Showing significant trench results since discovery

Epithermal Gold/Silver mineralisation at Kusi remains open in all directions. First pass 200m-spaced ground based magnetic traverses completed during the quarter identified the intense magnetic high (also evident from wide-spaced areomagnetics) and an intensive zone of magnetic destruction (magnetic low) which appears to coincide with the epithermal style mineralisation which has been identified to date at Kusi.

Further to the magnetic lows identified, a circular magnetic high feature was identified in the southern portion of the prospect area and continuous rock chip sampling of outcropping veins in this zone returned impressive gold and copper values.

All four samples were continuous rock chip samples taken over a 1 metre interval.

- SN 15152: 1m @ 36.7 g/t Au, 22.4 g/t Ag, 3.04 % Cu & 10.1 % Zn
- SN: 15150: 1m @ 19.1 g/t Au, 19.7 g/t Ag, 3.92 % Cu & 1.95 % Zn
- SN 15149: 1m @ 11.9 g/t Au, 15 g/t Ag, 1.3 % Cu & 9.75 % Zn
- SN 15151: 1m @ 3.75 g/t Au, 0.84 % Cu & 4.07 % Zn

Continuous advancement of the Kusi program will be the prime exploration focus for the company in the ensuing period. PNM is very excited by both the geological observations, and early assay results from the Garaina prospect, and rapid advancement of this prospect will remain the primary exploration focus for the company for the foreseeable future.

EL 1589 – Zenag

The Zenag Prospect (EL1589) is located 65 kilometres southwest of Lae City and 12 kilometres southeast of Wafi/Golpu epithermal gold and porphyry copper-gold deposit. The key target is the Biamena magnetic anomaly considered to represent an intrusive magnetic body which straddles the western tenement boundary.

Zenag Tenement

Works completed in EL1589 by PNM and others have revealed widespread elevated gold in creeks and trenching shedding from this area. Historical mapping and sampling by the neighbour to the west has reported best surface trenching results of 15m @ 24 g/t Au and 1.44% Cu from what is considered to belong to the same intrusive system straddling the boundary of the tenement.

PNM completed soil sampling programs over the tenement during the year, with work limited by the priority given to other tenements held by the company. The tenement remains prospective for the discovery of a Wafi style copper-gold porphyry system. PNM will continue to undertake reconnaissance exploration programs at Zenag in the ensuing year, while focusing the majority of its exploration efforts on the priority programs at Garaina and Gusap.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

Madang Province

Gusap Project EL 1615

EL1615 is located in the Madang Province covering 2,171 square kilometres of prospective ground over the Finisterre Ranges. The tenement is underlain by a thrust sequence of indurated argillites, volcanic and limestone later intruded by intrusive of dioritic, granodiorite, microdiorite, gabbro, dolerite and tonalite differentiates. The sequence is overlain unconformably to the north by Pliocene limestone. A number of major regional, deeply sheeted structures, trending northwest, and dipping east, dominate the structural framework of the Finisterre Ranges.

The tenement area is highly prospective for the discovery of large porphyry copper gold, epithermal gold, and skarn deposits.

Pacific Niugini completed extensive exploration work on the tenement during the year, and was successful in identifying significant copper-gold mineralisation in several zones. Highly encouraging mineralisation was discovered at Turingopo, Gabana, Munambe, and Yanganon.

Turingopo Prospect

Mineralisation at the Turingopo prospect consists of clasts of massive chalcopyrite bound within a fault breccia with sediments, volcanic sources and diorite stocks all evident within the fault matrix. Pacific Niugini believes that the style of mineralisation indicates that the prospect is reasonably close to the source of mineralisation.

A short 6 hole, 640m exploration diamond drilling program was undertaken at the Turingopo Prospect in August and September 2010. The objective was to test lateral and down-dip continuity of the fault breccia hosted copper and base metal mineralisation discovered in creek outcrop.

The best result from five holes drilled by Pacific Niugini into this prospect returned a best result of 4m @ 0.43% Cu, 0.05g/t Au and 0.03% Zn within an overall mineralised breccia intercept of 41m @ 0.10% Cu. Random clasts of massive chalcopyrite (copper sulphide mineralisation) sat within the overall brecciated zone.

While results did not reflect the high copper values reported in creek out crop sampling, clasts of massive chalcopyrite exist throughout the structure. Pacific Niugini believes that the style of mineralisation indicates that the prospect is reasonably close to the source of mineralisation.

Gabana Copper and Gold Prospect

The Gabana copper – gold prospect is located 1.4 kilometres southwest of the Turingopo Prospect. The prospect is defined by consistent elevated copper and gold results along strike in outcrop. Copper and gold mineralisation appears restricted to hydrothermal breccia. The breccia ranges in width from 1m up to 5m wide (pinches and swells) and dips steeply to the northwest. Mapped strike length is 350m and the prospect is open at both ends.

Copper and gold mineralization occurs as disseminated or as very narrow veins of quartz + pyrite + bornite + chalcopyrite in the breccia matrix and as stock work quartz – sulphides.

Detailed geological sampling and trenching was undertaken in order to define the Gabana Prospect. Best grab sample results from the area include;

- 13.6% Cu & 1.56 g/t Au
- 4.22% Cu & 3.70 g/t Au
- 0.74 % Cu & 3.35 g/t Au
- 6m @ 0.38 % Cu
- 4m @ 0.28% Cu & 0.40 g/t Au

Best trench sample results from Gabana include:

- 2m @ 2.84% Cu & 0.90 g/t Au in trench TGTC19
- 8m @ 0.21% Cu & 0.07 g/t Au in Trench TGTC08
- 2m @ 0.13% Cu & 0.90 g/t Au in Trench TGTC04:
- 5m @ 0.15% Cu & 0.09g/t Au in trench TGTC15

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

Munambe Copper and Gold Prospect

Regional sampling in the middle section of the Gusap River (Munambe Target) returned highly anomalous copper and gold results in creek float. Float rock samples consisting of quartz + pyrite veins, and containing intense sericite + pyrite + quartz alteration returned elevated copper and gold results.

Best float sample results to date include:

- 9.36 % Cu
- 6.54 % Cu & 0.19 g/t Au
- 0.69 % Cu & 0.13 g/t Au

Yanganon Copper Gold Prospect

First pass work near the north-western area of the tenement was successful in the discovery of copper, gold and associated elevated base metal mineralisation in outcrop. The Yanganon Copper prospect was discovered with initial samples up to 4.80% copper, 1.99 g/t gold, 0.87% Zinc, 13.9 g/t silver, 104 g/t molybdenum, 16 g/t antimony and 165 g/t tin.

Mineralisation is hosted in a 20m wide shear fault with visible malachite and chalcocite mineralisation in outcrop. Several coincidental intrusive stocks, dykes and sills were mapped which appear to be emplaced into the fault zone. It is thought that these intrusives may be responsible for copper and gold mineralisation within the area.

Gusap Regional Strategy

The reconnaissance exploration carried out at Gusap during the past year has confirmed the huge potential of the area. Pacific Niugini remains focussed on discovery of a large porphyry body within the tenement, and is of the view that the existing regional geophysical signatures, combined with exploration results to date support this geological model.

Pacific Niugini has commenced a 2,500 line kilometre airborne magnetic and radiometric survey over prospective zones of the tenement. The survey aims to better define the location of target areas for the discovery of the magnetic body existent in the area. Following the survey, it is intended to complete focussed reconnaissance mapping and exploration with a view to developing new drilling targets over the ensuing 12 months. Drilling will be undertaken as soon as sufficient confidence in targets is established.

Western Highlands Province

EL 1613 – Mt Hagen

The Mt Hagen EL1613 is located near Papua New Guinea's third largest city, Mt Hagen City, in the Western Highlands Province.

An excellent road network exists with infrastructures and others services easily accessible from Mt Hagen. The EL covers prospective areas of the northwest-southeast striking mineralised Bismarck Fault Zone corridor which hosts numerous copper gold and other base-metal occurrences including the copper molybdenum Yandera deposit (127MT @0.7% copper) which is being progressed to Prefeasibility Study and Simbai gold deposits are located on the Bismarck and the Bundi Fault Zones. The Kuta epithermal gold and base metal prospect is located immediately south of EL1613.

PNM was previously farming out a 60% interest in the Mt Hagen tenement to Eldore Mining Corporation (EDM). Subsequent to the end of the reporting period, PNM announced that it had acquired back its full interest in the Mt Hagen tenement. EDM has no further rights in relation to the tenement. EDM contributed a non-refundable total of \$418,700 towards exploration on the tenement prior to cancellation of the agreement.

During the year several field programs were completed focussed on the definition of the Paglum and Kotna prospects.

Kotna Prospect

Kotna is underlain by volcanic units consisting of tuff, volcanic breccias, volcanolithic sediments and calcareous sediments. Both the volcanic and sedimentary units are later intruded by multiple phased porphyritic diorites. Copper and gold occurrences are known to be spatially related to the diorite intrusions in the Bismarck Fault Zone. Field mapping at Kotna

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

discovered extensive hydrothermal alteration and copper – gold – molybdenum mineralisation.

The following are discernible hydrothermal alterations in diorites;

- Prophyllitic alteration (chlorite + epidote +/- hematite + quartz + pyrite) assemblage. Epidote is widespread and dominant.
- Phyllic alteration (sericite + quartz + pyrite assemblage).
- Potassic alteration (K-feldspar and biotite) restricted to structures
- Argillic (clay - kaolinite +/- pyrite +/- silica) restricted to major structures.

Copper Mineralisation styles noted include;

- Disseminated pyrite + chalcocite +/- covellite (supergene) and chalcopyrite+/-bornite.
- Discrete quartz + pyrite + chalcopyrite +/- chalcocite +/- covellite +/- bornite veins. Vein thickness ranged from 2cm to 20cm wide.
- Stock-work quartz + pyrite + chalcopyrite + bornite veins ranged in outcrop from 1m to 40m wide zones.

Several significant copper mineralised structures were mapped at surface trending northwest and northeast, with discrete massive quartz – copper + sulphide veins being common.

Best continuous chip in outcrop copper results included;

- 21m @ 0.90% Cu, incl 3m @ 2.60% Cu in trench KNCT 07.
- 2m @ 1.27% Cu, 0.03g/t Au, & 10 ppm Mo in Trench KNTC54
- 6m @ 0.34% Cu, incl 2m @ 0.81% Cu in trench KNCT 036
- 2m @ 0.35 % Cu, 0.1g/t Au, & 130 ppm Mo in Trench KNTC59
- 8m @ 0.21% Cu, incl 3m @ 0.46% Cu in trench KNCT 029
- 9m @ 0.24 % Cu, incl 2m @ 0.56% Cu in trench KNCT 029

Best grab outcrop samples included:

- 3.1% cu in sample 734705
- 0.76% Cu in sample 633581
- 0.61% Cu and 0.13 g/t Au in sample 354015
- 0.24 % Cu in sample 633460
- 0.20 % Cu and 4.83 g/t Au in sample 734605

Two core holes (KNDD001 & 2) were completed for a total of 485.1m. The objective of the drilling was to test subsurface continuity of copper and base metal mineralisation in costeans which is seen to be hosted in sediments, volcanic units and in dacitic porphyritic intrusives.

Hole_ID	Total_Depth (m)	Angle	Collar_Azimuth (mag)	Collar_Azimuth (True)	East_WGS84 (m)	North_WGS84 (m)	RL_WGS84 (m)
KNDD001	236.50	-70	083	89.7	212725.0	9375264.0	1906
KNDD002	248.60	-90	000	6.7	212725.0	9375264.0	1906

Mt Hagen Drilling Collar Details

Drillhole_ID	Sample_ID	Sample Width (m)	From Depth (m)	To Depth (m)	Intercepts
KNDD001	4476	1.00	77	78	1m @ 0.38 % Cu
KNDD001	4480	1.00	81	82	1m @ 0.19 % Cu
KNDD001	4516	1.10	119	120.1	1m @ 0.10 g/t Au, 5.7 g/t Ag, 0.26 % Cu
KNDD002	4651	1.00	20	21	1m @ 0.25 % Cu, 0.14 % Zn
KNDD002	4689-90	2.00	58	60	2m @ 0.27 % Cu
KNDD002	4696	1.00	65	66	1m @ 0.11 % Cu, 0.18 % Zn
KNDD002	4698	1.00	67	68	1m @ 0.24 % Cu, 0.28 % Zn

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

Mt Hagen Drilling Best Intercepts

Drilling intersected weak porphyry style mineralisation showing moderate to locally intense pervasive hydrothermal alteration, hosted by variably altered volcanic tuff. Drilling confirmed surface geological observations of porphyry style mineralisation. While the target porphyry mineralisation has not been intersected by these holes, important mineralisation and alteration patterns were logged.

Strong epidote and increasing sulphide materials were intersected in the deeper parts of KNDD002. Intense propylitic alteration with minor zones of advanced argillic alteration was seen in the majority of hole KNDD001. Widely spaced narrow veinlets with quartz + pyrite + chalcopyrite + /- base metal were intersected in both holes. PNM believes that the results demonstrate that the porphyry source is reasonably close, either below or to the side of the initial target area.

Detailed surface creek mapping and sampling, and a programme of ridge and spur soil sampling to cover areas to east and north of the Kotna prospect have commenced. PNM will continue reconnaissance exploration in the area over the ensuing year with the aim of identifying a drill program to identify the source of mineralization in the area.

Paglum Prospect

The Paglum prospect is underlain mostly by rocks of volcanic and sedimentary origin which have been intruded by Miocene granodiorite and by Pliocene diorites. A number of structures are evident trending northwest to southeast, appear tensional to Bismarck Fault Zone a major tectonic structure within the area. Gold, copper and base metal mineralisation are closely associated with northeast – southwest structures.

Mineralisation occurs as widely spaced quartz – sulphide veins, in mineralised structures and at the contact between intrusive and country rock. Two mapping teams completed a grid based soil sampling program, along with detailed outcrop mapping and sampling covering an area of 1.5km by 1.5km.

A total of 444 samples and 37 rock chip samples were collected. Consistent elevated copper and gold was encountered to the north and north-west corner of the soil grid, coinciding with known magnetic high anomaly. Several mineralised diorite and monzodiorite units were mapped.

Geochemical sampling results displaying coincident copper and gold anomalies

Programs of creek traversing, outcrop geological mapping, trenching and sampling were carried out over a 5 km² area, returning encouraging copper results including:

- 2.84% Cu and 0.29g/t Au in outcrop grab sample 86326
- 2.60% Cu and 0.20g/t Au in outcrop grab sample 85718

<p>The information in this report that relates to the Exploration Results for Pacific Niugini Minerals Ltd is based upon information compiled by Mr David M Osikore (BSc Geology), M.AusIMM. Mr Osikore is a full time employee of Pacific Niugini Limited Mine and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to duly qualify as a Competent Person as defined in the 2004 Edition of Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Osikore consents to the inclusion in the report of the matters based upon their information in the form and context to which it appears.</p>

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS REPORT

Your directors present their report on the company and its controlled entity for the financial year ended 30 June 2011.

DIRECTORS

The names of the directors in office and at any time during or since the end of the year are as follows. Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Mr Peter Cook BSc Applied Geol, MSc (Min Econ), MAusIMM

Mr Cook is a Geologist and Mineral Economist and is the current Non-Executive Chairman and former Managing Director of Metals X Ltd. In the past decade he has been the Managing Director of Hill 50 Ltd, Harmony Gold Australia Pty Ltd, Abelle Ltd and Bluestone Tin Ltd.

He is currently a non-executive director of Westgold Resources Ltd, Kingrose Mining Ltd and Metals X Ltd

Mr Cook is the non-executive Chairman of Pacific Niugini Limited.

Mr David Osikore BSc, MAusIMM

Mr Osikore BSc is a Geologist and has extensive exploration experience working for groups such as Bougainville Copper Limited, Placer Dome, Ingold (a subsidiary of INCO) and Renison Goldfields. In recent times he has been a Senior Geologist with Aurora Gold Limited, the Exploration Manager for Abelle Ltd responsible for their Wafi and Hidden Valley Projects and he was appointed the PNG Exploration Manager for Harmony Gold after their take-over of Abelle Ltd. David has considerable experience in dealing with all levels of PNG business, government, landowner communities and government agencies.

Mr Osikore has not held any other public company directorships in the past three years.

Mr Osikore is the Managing Director of the wholly owned PNG subsidiary, Pacific Niugini Minerals (PNG) Limited and is an executive director of Pacific Niugini Limited.

Mr Paul Cmrlec BEng (Mining), Honours

Mr Cmrlec holds a Bachelor of Mining Engineering degree from the University of South Australia. He has extensive experience in feasibility studies and project development and has held a number of operational and planning roles, including the position of Underground Manager at several Western Australian gold Mines. He was previously the Group Underground Mining Engineer for Harmony Gold Australia, and the Group Mining Engineer for Metals X Limited.

In addition to operational mining roles, Mr Cmrlec's recent experience includes the general management of major feasibility studies for the Wafi Copper-Gold deposit in Papua New Guinea, and the Wingellina Nickel-Cobalt deposit in the Central Musgraves region of Western Australia. Direct liaison with Traditional Landowners, their representatives, and government stakeholders has been a key requirement in both of these roles.

Mr Cmrlec was a non-executive director of Pacific Niugini Ltd until 1st April 2011 when he commenced working as the Managing Director of Pacific Niugini Limited.

He was also a non-executive director of Westgold Resources Limited until his resignation on 1 June 2011.

Mr Sam Akoitai (Appointed 23 May 2011)

Mr Akoitai was a member of the national parliament of PNG from 1997 until mid 2007, serving firstly as Minister for Bougainville Affairs (1997-2000) and subsequently as Minister for Mining from 2002 until 2007. Mr Akoitai was responsible for establishment of PNG's Mineral Resources Authority, the statutory authority which now regulates the mining industry in that country, and has held numerous roles within the PNG resources industry.

Mr Akoitai is also a non-executive director of Marengo Mining (PNG) Limited the PNG operating subsidiary of Marengo Mining Limited (ASX & POMSoX Code: MGO).

Mr Akoitai is a non-executive director of Pacific Niugini Limited.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' REPORT (cont)

Mr Andrew Waller (Resigned 1 April 2011)

Mr Andrew Waller has extensive public company experience, particularly in the area of capital raising and business development with a background in technology development/manufacturing, property development and resources.

He is a director of Arturus Capital Ltd and Modena Resources Ltd.

In the past three years he has also been a director of Eldore Mining Corporation Ltd, Nuenco NL and Acclaim Exploration NL.

Mr Waller was a non-executive director of Pacific Niugini Limited.

COMPANY SECRETARY AND CFO

Mr Dennis Lovell CA

Mr Lovell is a Chartered Accountant with more than 40 years experience in corporate financial management in a range of industries including mineral exploration, mining, manufacturing and wholesale and retail operations in Australia and overseas. He has consulted to a number of ASX listing and capital raising projects and has acted as company secretary and financial director to a number of public listed companies.

PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the financial year consisted of:

- Exploration for minerals in Papua New Guinea.

OPERATING RESULTS

The consolidated profit of the economic entity for the financial year after providing for income tax amounted to \$1,742,194 (2010: profit of \$1,236,994).

DIVIDENDS PAID OR RECOMMENDED

The directors recommend that no dividend be paid for the year ended 30 June 2011, nor have any amounts been paid or declared by way of dividend since the end of the previous financial year.

REVIEW OF OPERATIONS

A full review of the operations of the consolidated entity during the year ended 30 June 2011 is included in this report.

FINANCIAL POSITION

The net assets of the economic entity have increased by \$9.6 million during the financial year (from \$14.5 million at 30 June 2010 to \$24.1 million at 30 June 2011). This increase has resulted mainly from the sale of the Ruighoek Chrome Project in South Africa and the share capital issues.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year other than as disclosed in this report or the consolidated financial statements.

AFTER BALANCE DATE EVENTS

There is no other matter or circumstance that has arisen since the end of the financial year to the date of this report, which has significantly affected, or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years, other than:

3,500,000 \$0.30 30 September 2011 options have been exercised since the end of the reporting period.

Subsequent to year end the US\$ deposit carried in the accounts at 30 June 2011 at AU\$11,064,637 was converted into Australian Dollars to realise an amount of AU\$11,917,690 resulting in a realised foreign exchange gain of AU\$853,000.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' REPORT (cont)

FUTURE DEVELOPMENTS AND EXPECTED RESULTS

Further information on likely developments and the expected results are not included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

ENVIRONMENTAL ISSUES

The economic entity's operations are subject to significant environmental regulations under the laws of Papua New Guinea. These issues are dealt with by the Managing Director of Pacific Niugini Minerals (PNG) Ltd, the operating entity in PNG, and the economic entity is not aware of any matter that requires disclosure with respect to any significant environmental regulation in respect of its activities.

REMUNERATION REPORT (Audited)

This report details the nature and amount of remuneration for each director and executive of Pacific Niugini Limited.

(A) Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of the Company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives via the issue of options and performance rights. The Board of the Company believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

During the year ended 30 June 2011, the economic entity did not have a separately established nomination or remuneration committee. Considering the size of the economic entity, the number of directors and the economic entity's stage of its development, the Board are of the view that these functions can be efficiently performed with full Board participation.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed and approved by the board. The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and currently stands at \$250,000 pa. Fees for non-executive directors are not linked to the performance of the economic entity. The Directors are not required to hold any shares in the Company under the Constitution of the Company, however to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Managing Director and Executive Remuneration Structure

Based on the current stage in the Company's development, its size, structure and strategies, the Board considers that the key performance indicator in assessing the performance of Executives and their contribution towards increasing shareholder value is share price performance over the review period. At present, remuneration is not impacted solely by the Company's share price performance but also other mitigating factors such as exploration progress and results.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' REPORT (cont)

Individual and Company operating targets associated with traditional financial and non-financial measures are difficult to set given the small number of Executives and the need to be flexible and multi-tasked, as the Company responds to a continually changing business environment. Consequently, a formal process of defining Key Performance Indicators (KPI's) and setting targets against the KPI's has not been adopted at the present time.

Remuneration consists of the following key elements:
Fixed remuneration; and
Variable remuneration Long term incentives (LTI).

The proportion of fixed remuneration and variable remuneration is established for each executive by the Board.

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board having regard to the Company and individual performance, relevant comparable remuneration in the mining exploration industry and external advice. Executives receive their fixed remuneration in cash.

Executive directors can be employed by the Company on a consultancy basis, on board approval, with remuneration and terms stipulated in individual consultancy agreements.

Variable Remuneration – Long Term Incentive (LTI)

The objective of the LTI plan is to reward Executives in a manner which aligns the element of remuneration with the creation of shareholder wealth. As such LTI's are made to Executives who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance.

The level of LTI granted is, in turn, dependent on the seniority of the Executive and the responsibilities the Executive assumes in the Company and is granted at the discretion of the Board.

LTI grants to Executives are delivered in the form of share options and performance rights. These options and rights are issued on terms determined by the Board at the time of issue. They are issued to align the directors interests with that of the shareholders. The Company does have a formal employee Long Term Incentive Plan.

(B) Remuneration of Directors, other Key Management Personnel and Executives

Details of the remuneration of directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) and other executives of the Company and the Group are set out in the following tables. There are no executives of the group other than those included in the following tables.

The key management personnel of the Company and the Group include the directors and the following executive officers who have or did have authority and responsibility for planning, directing and controlling the activities of the entity:

- Dennis Lovell - Company Secretary and Chief Financial Officer

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' REPORT (cont)

Remuneration of Directors, other Key Management Personnel and Executives (cont)

2011	Cash Salary & Fees	Short Term			Consultancy Agreement	Post Employment Superannuation Contribution	Share-Based Payments Options/Performance Rights	Total	% Performance Related
		Cash Bonus	Non-Cash Benefits						
Directors	\$	\$	\$	\$	\$	\$	\$	\$	
Peter Cook	60,000	-	-	30,800	-	-	90,800	-	
David Osikore	166,667	-	-	-	14,000	-	180,667	-	
Andrew Waller-resigned 1/4/11	30,000	-	-	-	-	-	30,000	-	
Paul Cmrlec	30,000	-	-	65,420	-	306,234	401,654	-	
Sam Akoitai – appointed 23/5/11	4,200	-	-	-	-	-	4,200	-	
Total	290,867	-	-	96,220	14,000	306,234	707,321	-	
Other Key Management Personnel									
Dennis Lovell	-	-	-	126,062	-	-	126,062	-	
Total	-	-	-	126,062	-	-	126,062	-	

2010	Cash Salary & Fees	Short Term			Consultancy Agreement	Post Employment Superannuation Contribution	Share-Based Payments Options	Total	% Performance Related
		Cash Bonus	Non-Cash Benefits						
Directors	\$	\$	\$	\$	\$	\$	\$	\$	
Peter Cook appointed 31/8/09	50,000	-	-	17,400	-	-	67,400	-	
David Osikore appointed 31/8/09	140,870	-	-	-	12,710	121,500	275,080	-	
Andrew Waller	30,000	-	-	40,814	-	-	70,814	-	
Paul Cmrlec appointed 3/6/10	3,333	-	-	5,100	-	72,000	80,433	-	
Richard Linnell resigned 1/9/09	25,000	-	-	-	-	-	25,000	-	
Brian Thomas resigned 2/11/09	160,000	-	-	-	9,000	-	169,000	-	
Total	409,203	-	-	63,314	21,710	193,500	687,727	-	
Other Key Management Personnel									
Dennis Lovell appointed 31/8/09	-	-	-	97,630	-	-	97,630	-	
Other executives									
Trevor Gillard resigned 30/9/09	-	-	-	22,500	-	-	22,500	-	
Andrew Chapman resigned 30/11/09	40,000	-	-	-	-	-	40,000	-	
Total	40,000	-	-	120,130	-	-	160,130	-	

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' REPORT (cont)

(C) Compensation options to Directors – Granted and vested during the year

During the 2010/11 financial year unlisted options and performance rights (Rights) were granted as equity compensation benefits to the Directors as disclosed below. The options and rights were issued free of charge. Details of the terms of the options and rights are given in (E) below. The options and performance rights vested as indicated below and were issued to encourage directors to generate future shareholder wealth. The options and performance rights issued to P Cmrlec were issued in terms of the employee Long Term Incentive Plan and were approved by shareholders at a meeting held on 23 June 2011.

2011	Granted Number	Grant Date	Terms and Conditions of Each Grant			
			Value per Option/right at Grant Date \$	Exercise Price \$	Vesting Date	Expiry Date
Directors						
P Cmrlec-Options	2,000,000	23.06.2011	0.152	0.38	23.06.2011	23.06.2014
P Cmrlec- Rights	500,000	23.06.2011	0.34	Nil	(a)	23.06.2014
P Cmrlec- Rights	500,000	23.06.2011	0.34	Nil	(a)	23.06.2014
P Cmrlec- Rights	500,000	23.06.2011	0.34	Nil	(a)	23.06.2014
P Cmrlec- Rights	500,000	23.06.2011	0.34	Nil	(a)	23.06.2014
TOTAL	4,000,000					

(a) Details of vesting conditions are given in (F) below

(D) Values of Options and Performance Rights Granted as Part of Remuneration

2011	Value of options/rights granted during the year	Value of options/rights exercised during the year	Value of options/rights lapsed during the year
Directors			
P Cmrlec-options and rights total	984,000	-	-

There were no alterations to terms and conditions of options granted as remuneration since their grant date.

Values of Options Granted as Part of Remuneration (continued)

- (a) The value of options and performance rights granted in the year is determined by an independent valuer using the Black-Scholes pricing model that takes into account the share price at grant date, exercise price, expected volatility, option/rights life, expected dividends, the risk-free rate, and the fact that the options/rights are not tradeable. The total value of the options/rights granted is included in the table above. This differs from the expense recognised as the calculation of the expense also takes into account the probability of satisfying the vesting criteria. The expense is recognised over the vesting period.
- (b) The value of options/rights exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option. No options or rights were exercised in the year.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' REPORT (cont)

(E) Employment Contracts of Directors and Senior Executives

Mr Paul Cmrlec, Managing Director and CEO

Mr Cmrlec was a non-executive director until his appointment as Managing Director on 4th April 2011.

Prior to that date Mr Cmrlec had no formal agreement between himself and the Company and was paid a non-executive directors' fee of \$40,000 per annum. He also carried out consulting services for the Company at commercial rates through a company of which he is a director.

With effect from 1 April 2011 a three year contract was entered into between Berrimil Services Pty Ltd (a company associated with Mr Cmrlec) and Pacific Niugini Ltd (PNR).

Under the contract Berrimil will provide the services of Mr Cmrlec as Managing Director of PNR for a daily consulting fee capped to a maximum daily amount of \$1,600 per day. The fee is all inclusive, with no additional on-costs to be charged by Berrimil.

Mr Cmrlec's remuneration package includes the following incentives:-

- (a) Two million options to acquire fully paid ordinary shares in PNR at an exercise price of \$0.38 expiring 23 June 2014.
- (b) Two million performance rights to be allotted fully paid ordinary shares in PNR with the following terms and performance hurdles:
 - 500,000 shares when PNR records its first commercially viable gold production.
 - 500,000 shares when PNR surpasses 50,000 oz of gold production or equivalent production in the case of another metal or commodity in value.
 - 500,000 shares when PNR surpasses 100,000 oz of gold production or equivalent production in the case of another metal or commodity in value.
 - 500,000 shares if and when the market capitalisation of PNR surpasses AU\$200 million for a minimum continuous period of 20 trading days.

The options and performance rights were issued under the terms of the Pacific Niugini Ltd's Long Term Incentive Plan and were approved by shareholders at a meeting held on 23 June 2011. The performance rights were issued on 23 June 2011 and expire three years from the date of issue. To exercise the performance rights, it is a requirement that Mr Cmrlec remains an employee of the company until the vesting conditions are met.

Mr David Osikore, Managing Director PNG and Executive Director

Mr D Osikore has a four year service contract with Pacific Niugini Minerals (PNG) Ltd which commenced 1 July 2009 at a current remuneration paid in PNG being the equivalent of AU\$175,000 per annum plus superannuation. Termination is 3 months notice under normal circumstances and 12 months in the case of termination without notice or fundamental change.

Mr Andrew Waller, Non-Executive Director (resigned 1 April 2011)

Mr Waller had no formal agreement between himself and the Company. He was paid a non-executive directors' fee of \$40,000 per annum.

Mr Peter Cook, Non-Executive Chairman

Mr Cook has no formal agreement between himself and the Company. He is paid a non-executive directors' fee of \$60,000 per annum and a consulting fee for any additional time spent on Company business over and above the normal hours covered by the fixed directors' fee.

Mr Sam Akoitai, Non-Executive Director (appointed 23 May 2011)

Mr Akoitai has no formal agreement between himself and the Company. He is paid a non-executive directors' fee of \$40,000 per annum and a consulting fee for any additional time spent on Company business over and above the normal hours covered by the fixed directors' fee.

THIS IS THE END OF THE AUDITED REMUNERATION REPORT

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' REPORT (cont)

Directors' Interests in Shares and Options of the Company

2011	Ordinary Shares	Options Over Ordinary Shares			Performance Rights 23/06/14
		\$0.20 30/06/14	\$0.17 23/02/2012	\$0.20 26/11/12	
Peter Cook	14,713,838	5,000,000	-	-	-
David Osikore	6,000,000	3,000,000	-	1,500,000	-
Sam Akoitai	-	-	-	-	-
Paul Cmrlec	408,500	200,000	1,000,000	-	2,000,000

2010	Ordinary Shares	Options Over Ordinary Shares		
		\$0.20 30/06/14	\$0.17 23/02/2012	\$0.20 26/11/12
Peter Cook	14,713,838	5,000,000	-	-
David Osikore	6,000,000	3,000,000	-	1,500,000
Andrew Waller	5,467,070	-	-	-
Paul Cmrlec	408,500	200,000	1,000,000	-

Details of Directors' interests during the financial year and up to the date of this Report are also disclosed in Note 7 of the financial statements and elsewhere in the Group's 2011 Financial Statements.

MEETINGS OF DIRECTORS

During the financial year details of meetings of directors held and attendances by each director (while a director of the Company) during the year were as follows:

Director	Board Meetings	
	Attended	Held
P Cook	2	2
D Osikore	2	2
A Waller-resigned 01-04-2011	1	1
P Cmrlec	2	2
S Akoitai	1	1

INDEMNIFYING OFFICERS OR AUDITOR

During the financial year the Company has paid premiums to insure the Directors against certain liabilities arising out of their conduct while acting as an officer of the Company. The company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. Under the terms and conditions of the insurance contract the premium paid cannot be disclosed.

OPTIONS

At the date of this report, the unissued ordinary shares of the Company under option or performance rights are as follows:

Date of options/rights granted	Expiry Date	Exercise Price	Number of unlisted Options	Number of unlisted Performance Rights
01/09/2009	30/09/2011	\$0.30	15,585,001	
01/09/2009	30/06/2014	\$0.20	17,950,100	
26/11/2009	26/11/2012	\$0.20	1,500,000	
23/02/2010	23/02/2013	\$0.17	440,000	
09/03/2010	23/02/2013	\$0.17	1,000,000	
06/09/2010	31/03/2013	\$0.28	2,000,000	
21/12/2010	21/12/2013	\$0.47	1,100,000	
23/06/2011	23/06/2014	\$0.38	2,000,000	
23/06/2011	23/06/2014	Nil		2,000,000
			41,575,101	2,000,000

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' REPORT (cont)

The following ordinary shares were issue during or since the end of the financial year as a result of the exercise of options granted:

Date of options granted	Issue price of shares	No. of shares issued
1/09/2009	\$0.30	8,134,744
23/02/2010	\$0.17	800,000
		<hr/>
		8,934,744

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is party for the purpose of taking responsibility on behalf of the company for all or any part of these proceedings.

The Company was not a party to any such proceedings during the year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is contained in the Corporate Governance section of the Financial Report.

NON-AUDIT SERVICES

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the APES 110 Code of Ethics for Professional Accountants.

The following fees for non-audit services were paid/payable to related entities of the external auditors BDO Audit (Qld) Pty Ltd during the year ended 30 June 2011:

Taxation Services:	\$11,397
--------------------	----------

The auditor's independence declaration for the year ended 30 June 2011 is on the following page and the declaration forms part of this directors' report.

Signed in accordance with a resolution of the Board of Directors.



Peter Cook
Chairman

Dated 26 September 2011

DECLARATION OF INDEPENDENCE BY A J WHYTE TO THE DIRECTORS OF PACIFIC NIUGINI LIMITED

As lead auditor of Pacific Niugini Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pacific Niugini Limited and the entities it controlled during the period.



A J Whyte

Director

BDO Audit (QLD) Pty Ltd

Brisbane: 26 September 2011

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	Group 2010
		\$	\$
Continuing Operations			
Revenue	4(a)	373,296	132,792
Other income	4(b)	988,061	992,811
Depreciation		(85,253)	(43,472)
Director and Employee benefits expense		(1,047,639)	(710,226)
Other expenses	5	(6,910,069)	(793,204)
Profit (Loss) from continuing operations before income tax		(6,681,604)	(421,299)
Income tax expense	6	-	-
Profit/(Loss) from continuing operations for the year after income tax		(6,681,604)	(421,299)
Profit/(Loss) from discontinued operations before income tax	14,25	9,310,368	1,658,293
Income tax expense	6(a)	(886,569)	-
Profit/(Loss) from discontinued operations after income tax		8,423,798	1,658,293
Profit/(Loss) for the year		1,742,194	1,236,994
Other comprehensive income			
Exchange differences on the translation of foreign operations		(18,924)	27,990
Other comprehensive income for the year net of tax		(18,924)	27,990
Total comprehensive income for the year		1,723,270	1,264,984
Earnings per Share from continuing operations			
Basic profit/(loss) per share (cents per share)	9	(2.90)	(0.21)
Diluted profit/(loss) per share (cents per share)	9	(2.90)	(0.21)
Earnings per share from Discontinued Operations			
Basic profit/(loss) per share (cents per share)	9	3.66	0.83
Diluted profit/(loss) per share (cents per share)	9	3.66	0.83
Earnings per Share for profit/(loss) for the year			
Basic profit/(loss) per share (cents per share)	9	0.76	0.62
Diluted profit/(loss) per share (cents per share)	9	0.76	0.62

The accompanying notes form part of these financial statements.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	2011 \$	Group 2010 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	17,185,823	2,923,690
Trade and other receivables	11	1,038,869	2,267,943
Financial assets at fair value through profit or loss	12	458,369	1,021,231
Assets classified as held for sale	13	-	4,269,092
TOTAL CURRENT ASSETS		18,683,061	10,481,956
NON-CURRENT ASSETS			
Property, plant and equipment	16	1,159,510	246,112
Exploration & evaluation assets	17	6,098,966	5,218,721
TOTAL NON-CURRENT ASSETS		7,258,476	5,464,833
TOTAL ASSETS		25,941,537	15,946,789
CURRENT LIABILITIES			
Trade and other payables	18	585,880	209,530
Provisions	19	51,095	18,986
TOTAL CURRENT LIABILITIES		636,975	228,516
NON-CURRENT LIABILITIES			
Deferred tax liability	20	1,240,810	1,240,810
TOTAL NON-CURRENT LIABILITIES		1,240,810	1,240,810
TOTAL LIABILITIES		1,877,785	1,469,326
NET ASSETS		24,063,752	14,477,463
EQUITY			
Issued capital	21	129,083,287	121,979,494
Reserves	22	3,113,684	2,373,382
Accumulated losses		(108,133,219)	(109,875,413)
TOTAL EQUITY		24,063,752	14,477,463

The accompanying notes form part of these financial statements.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital	Accumulated Losses	Option Reserve	Foreign Currency Translation Reserve	Share Based Payment Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2009	119,394,679	(111,112,407)	647,040	-	550,908	9,480,220
Profit (Loss) for the year		1,236,994				1,236,994
Exchange differences on translation of foreign operations	-	-	-	27,990	-	27,990
Total comprehensive income for the year	-	1,236,994	-	27,990	-	1,264,984
Transactions with owners in their capacity as owners:						
Shares issued during the year	2,584,815	-	-	-	-	2,584,815
Options issued during the year	-	-	915,455	-	-	915,455
Share based payments	-	-	-	-	231,989	231,989
Balance at 30 June 2010	121,979,494	(109,875,413)	1,562,495	27,990	782,897	14,477,463
Balance at 1 July 2010	121,979,494	(109,875,413)	1,562,495	27,990	782,897	14,477,463
Profit (Loss) for the year		1,742,194				1,742,194
Exchange differences on translation of foreign operations	-	-	-	(18,924)	-	(18,924)
Total comprehensive income for the year	-	1,742,194	-	(18,924)	-	1,723,270
Transactions with owners in their capacity as owners:						
Shares issued during the year	7,616,423	-	-	-	-	7,616,423
Options issued as consideration for capital raising	(241,130)	-	241,130	-	-	-
Other share issue costs	(271,500)	-	-	-	-	(271,500)
Share based payments	-	-	-	-	518,096	518,096
Balance at 30 June 2011	129,083,287	(108,133,219)	1,803,625	9,066	1,300,993	24,063,752

The accompanying notes form part of these financial statements

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Group 2011 \$	Group 2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		48,867	14,304
Payments to suppliers and employees		(1,476,890)	(1,344,636)
Interest received		294,533	97,708
Income tax paid		(886,569)	-
Net cash provided by/ (used in) operating activities	26	<u>(2,020,059)</u>	<u>(1,232,624)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(938,887)	(232,292)
Proceeds from sale of investments		-	149,076
Exploration expenditure		(3,018,316)	(673,366)
Proceeds from sale of held for sale assets	13	13,243,674	-
Bad debt recovery		400,000	243,736
Bonmerci option fees		335,785	1,348,489
Deposits		-	(89,164)
Loans to other parties		177,000	-
Net cash acquired on acquisition of subsidiary	29	<u>-</u>	<u>337,791</u>
Net cash (used in)/ provided by investing activities		<u>10,199,256</u>	<u>1,084,270</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from capital raising		7,616,423	-
Cost of capital raising		<u>(271,500)</u>	<u>-</u>
Net cash provided by financing activities		<u>7,344,923</u>	<u>-</u>
Net (decrease)/ increase in cash and cash equivalents held		15,524,120	(148,354)
Effect of exchange rate changes on cash and cash equivalents		(1,261,987)	-
Cash and cash equivalents at beginning of financial year		<u>2,923,690</u>	<u>3,072,044</u>
Cash and cash equivalents at end of financial year	10	<u>17,185,823</u>	<u>2,923,690</u>

The accompanying notes form part of these financial statements.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Reporting Entity

Pacific Niugini Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as "the Group").

Separate financial statements for Pacific Niugini Limited as an individual entity are no longer presented as a result of a change in the Corporations Act 2001. Financial information for Pacific Niugini Ltd as an individual entity is included in note 30.

Note 2: Basis of Preparation

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASB's) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures the financial report also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 26 September 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for held-for-trading financial assets at fair value through profit or loss which are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars which is the Company's functional currency. The functional currency of the Group's Papua New Guinea subsidiary is the PNG Kina.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 14 – fair value of put/call options over equity accounted investment
- Note 14 – significant influence regarding equity accounted investment at cost
- Note 17 – recoverable amount of exploration assets
- Note 27 – share based payments

Note 3: Significant Accounting Policies

The financial report comprises financial statements for the consolidated entity consisting of the Company and its subsidiaries. The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements, unless otherwise stated and have been applied consistently across the Group, except as set out below:

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 3: Significant Accounting Policies (cont)

(a) Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2011 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, 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 or convertible 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. They are de-consolidated from the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries are consistent with the parent.

(iii) Investment in Associate

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that investment (including any long term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(b) Business combinations

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed when incurred.

Where the group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or jointly controlled entity, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the group had disposed directly of the previously held interest.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 3: Significant Accounting Policies (cont)

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

Contingent consideration is classified as equity or financial liabilities. Amounts classified as financial liabilities are subsequently remeasured to fair value at the end of each reporting period, with changes in fair value recognised in profit or loss.

Assets and liabilities from business combinations involving entities or businesses under common control are accounted for at the carrying amounts recognised in the group's controlling shareholder's consolidated financial statements.

(c) Financial Assets

Recognition

The group recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows such that substantially all the risks and rewards of ownership of the financial asset are transferred.

The group has the following financial assets:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are those that are intended to be sold in the near term.

Financial assets at fair value through profit or loss are measured initially at fair value. They are measured subsequently at fair value with movements in fair value being recognised in profit or loss.

Dividends from equity investments are included in profit or loss.

(d) Foreign Currency Transactions and Balances

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Pacific Niugini Ltd's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies have been converted at rates of exchange ruling on the date of those transactions. At balance date, amounts receivable and payable in foreign currencies are translated at rates of exchange current at that date. Realised and unrealised gains and losses are brought to account in determining the profit or loss for the financial year.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- Income and expenses for each statement of comprehensive income presented are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- All resulting exchange differences are recognised in other comprehensive income.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 3: Significant Accounting Policies (cont)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue Recognition

Revenue from the sale of goods and disposal of other assets is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is recognised on a time proportion basis using the effective interest method.

(f) Income Tax

Income tax expense comprises current and deferred tax. Current tax for the period is the expected tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and unused tax losses.

Deferred tax is recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates, which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure deferred tax. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income and directly in equity are also recognised in other comprehensive income and directly in equity respectively.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 3: Significant Accounting Policies (cont)

(g) Impairment of Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Cash and Cash Equivalents

For statement of cash flow purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(i) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Financial instruments traded in active markets

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Financial instruments not traded in active markets

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

Share-based payment transactions

The fair value of employee share options is measured using an options pricing model. Measurement inputs include share price on a measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(j) Property, Plant and Equipment

Recognition and measurement

Each class of property, plant and equipment is stated at historical cost less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 3: Significant Accounting Policies (cont)

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

Depreciation is calculated using the straight line method to allocate the assets cost, net of their residual values, over their estimated useful lives, as follows:

Furniture, fittings and equipment:	3-5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

(k) Mineral Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development or sale of the area, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

(l) Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(m) Earnings Per Share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 3: Significant Accounting Policies (cont)

(n) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from, or payable to the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefits assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss.

Non-current assets (or disposal groups) are presented separately from other assets or liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income.

(p) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(ii) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay when the liabilities are settled, including related on-costs, such as workers compensation insurance and payroll tax.

(iii) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

(q) Accounting Standards Not Yet Effective

No new or revised Australian Accounting Standards that have been issued but are not yet effective have been applied in the preparation of these financial statements. Such standards are not expected to have a material impact on the Group's financial report on the initial application.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 4: Revenue and Income	Note	Group	
		2011 \$	2010 \$
(a) Revenue from continuing operations			
Interest received other persons		345,209	97,708
Other revenue		28,087	35,084
		373,296	132,792
(b) Other income from continuing operations			
Bad debt recoveries		400,000	943,736
Profit on disposal-mineral tenement		588,061	-
Profit on sale of investments		-	49,075
		988,061	992,811
Other income from discontinued operations			
Option fee income		335,785	1,348,489
Gain on sale of investment	13	8,974,583	-
		9,310,368	1,348,489

Note 5: Other Expenses

Loss before income tax includes the following specific expenses:

Other Expenses (net of expenses from discontinued operations)

Rental expense on operating leases		87,528	69,471
Professional and consultants fees		134,256	-
Allowance for doubtful debts	11	1,000,000	-
Fair value changes in financial assets at fair value through profit or loss		1,322,862	(7,373)
Exploration expenditure impairment		2,314,709	-
Unrealised exchange loss on cash and cash equivalents		1,261,987	-
Loss on sale of non-current assets		-	8,744
Administration expenses		788,727	722,362
		6,910,069	793,204

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 6: Income Tax Expense

	Group	
	2011	2010
	\$	\$
(a) Income Tax Expense		
Current tax	(749,213)	(176,661)
Deferred tax	(999,105)	633,661
Tax loss not previously recognised	-	(457,000)
Withholding tax paid	886,569	-
Tax loss not recognised	1,748,318	-
	<u>886,569</u>	<u>-</u>
(b) The prima facie tax on profit/(loss) before income tax is reconciled to the income tax as follows:	<u>2,628,763</u>	<u>1,236,994</u>
Prime facie tax payable on profit/(loss) before income tax at 30% (2010: 30%)	788,629	371,098
Add:		
Tax effect of:		
- other non-allowable items	-	85,902
- share based payment	155,429	-
Less:		
Tax effect of:		
- non-taxable foreign income	(2,692,375)	-
Withholding tax paid	886,569	-
Tax loss not recognised	1,748,318	-
Tax loss not previously recognised	-	(457,000)
Income tax (tax benefit) attributable to entity	<u>886,569</u>	<u>-</u>
The applicable weighted average effective tax rates are:	34%	-

Deferred Tax Asset

Unused tax losses and other temporary differences not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 3(h) occur

-temporary differences	1,225,469	138,242
-tax losses:		
- Domestic/foreign operating losses	4,664,089	3,880,075
- capital losses	181,883	181,883
	<u>6,071,441</u>	<u>4,200,200</u>

Deferred Tax Liability

The balance comprises temporary differences attributable to:

Exploration & Evaluation	1,240,810	1,240,810
Total deferred tax liabilities	<u>1,240,810</u>	<u>1,240,810</u>
Movements		
Opening balance at 1 July	1,240,810	-
Fair value adjustment for exploration and evaluation expenditure	-	1,240,810
Closing balance at 30 June	<u>1,240,810</u>	<u>1,240,810</u>

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 7: Key Management Personnel

Directors	Group	
	2011 \$	2010 \$
Short-term employee benefits	387,087	472,517
Post-employment benefits	14,000	21,710
Share-based payments	306,234	193,500
	<u>707,321</u>	<u>687,727</u>
Other Key Management Personnel		
Short-term employee benefits	126,062	97,630
Post-employment benefits	-	-
Share-based payments	-	-
	<u>126,062</u>	<u>97,630</u>

(i) Option and performance right holdings

The numbers of options and performance rights over ordinary shares in the company held during the financial year by directors and other key management personnel, including their personally related parties, are set out below.

2011	Balance at start of year or on appointment	Granted during the year as Compensation	Expired during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Options					
Directors					
Peter Cook	5,000,000	-	-	5,000,000	5,000,000
David Osikore	4,500,000	-	-	4,500,000	4,500,000
Sam Akoitai appointed 23/5/11	-	-	-	-	-
Paul Cmrlec	1,200,000	4,000,000***	-	5,200,000	3,200,000
Andrew Waller resigned 1/4/2011	-	-	-	-	-
Dennis Lovell	1,700,100	-	-	1,700,100	1,700,100
	<u>12,400,100</u>	<u>4,000,000</u>	<u>-</u>	<u>16,400,100</u>	<u>14,400,100</u>

*** Comprises 2,000,000 options and 2,000,000 performance rights-see Remuneration Report section of Directors Report for details

2010	Balance at start of year or on appointment	Granted during the year as Compensation	Expired during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Options					
Directors					
Richard Linnell resigned 1/9/09	5,000,000	-	(5,000,000)	-	-
Brian Thomas resigned 2/11/09	5,000,000	-	(5,000,000)	-	-
Andrew Waller	6,640,000	-	(6,640,000)	-	-
Peter Cook appointed 31/8/09	5,000,000*	-	-	5,000,000	5,000,000
David Osikore appointed 31/8/09	3,000,000*	1,500,000	-	4,500,000	4,500,000
Paul Cmrlec appointed 3/6/10	1,200,000**	1,000,000	-	1,200,000	1,200,000
Dennis Lovell appointed 31/8/09	1,700,100*	-	-	1,700,100	1,700,100
	<u>27,540,100</u>	<u>2,500,000</u>	<u>(16,640,000)</u>	<u>12,400,100</u>	<u>12,400,100</u>

* On appointment of director/officer on 31/08/2009

**On appointment of director on 03/06/2010

All options are vested and exercisable at the end of the year.

Performance rights are subject to hurdle conditions-see Remuneration Report section of Directors Report for details

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 7: Key Management Personnel (continued)

(ii) Share holdings

The numbers of shares in the company held during the financial year by each director and other key management personnel of the Company, including their personally related parties, are set out below. No shares were granted as remuneration or issued on exercise of options.

2011	Balance at start of year	Acquired during the year	Other changes during the year	Balance at the end of the year
Shares				
Andrew Waller resigned 1/4/11	5,467,070	-	(5,467,070)*	-
Peter Cook	14,713,838	-	-	14,713,838
David Osikore	6,000,000	-	-	6,000,000
Sam Akoitai appointed 23/5/11	-	-	-	-
Paul Cmrlec	408,500	-	-	408,500
Dennis Lovell	3,400,200	-	-	3,400,200
Total	29,989,608	-	(5,467,070)	24,522,538

2010	Balance at start of year	Balance held on appointment	Acquired during the year	Other changes during the year	Balance at the end of the year
Shares					
Richard Linnell resigned 1/9/09	-	-	-	-	-
Brian Thomas resigned 2/11/09	250,000	-	100,000	(350,000)*	-
Andrew Waller	5,322,070	-	145,000	-	5,467,070
Peter Cook appointed 31/8/09	-	14,713,838	-	-	14,713,838
David Osikore appointed 31/8/09	-	6,000,000	-	-	6,000,000
Paul Cmrlec appointed 3/6/10	-	408,500	-	-	408,500
Dennis Lovell appointed 31/8/09	-	3,400,200	-	-	3,400,200
Total	5,572,070	24,522,538	245,000	(350,000)	29,989,608

(iii) Other transactions and balances

During the year a director related entity of Mr Andrew Waller (non-executive director resigned 1/4/11) issued a convertible note to Pacific Niugini Ltd in settlement of a \$2,000,000 loan due to Pacific Niugini Ltd from an unrelated entity. During the year \$177,000 of the convertible note was settled and an impairment loss of \$1,000,000 was recognised in respect of the convertible note. The carrying value of the convertible note at 30 June 2011 is \$823,000.

Note 8: Auditors' Remuneration

	Group	
	2011	2010
	\$	\$
Audit services:		
Amounts paid or payable for audit or review of the financial statements for the company or an entity in the Group.		
- BDO Audit (WA) Pty Ltd	34,286	57,544
- BDO Audit (QLD) Pty Ltd .	16,000	-
- Sinton Spence Chartered Accountants (PNG)	7,359	4,247
	<u>57,645</u>	<u>61,791</u>
Taxation services:		
Amounts paid or payable for taxation services performed for the company or any entity in the Group.		
- BDO Corporate Tax (WA) Pty Ltd	8,131	15,842
- BDO Corporate Tax (QLD) Pty Ltd	3,266	-
- Sinton Spence Chartered Accountants (PNG)	4,645	-
	<u>16,042</u>	<u>15,842</u>

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 9: Earnings per Share

	Group	
	2011	2010
	\$	\$
(a) Basic earnings per share		
From continuing operations (cents per share)	(2.90)	(0.21)
From discontinued operations (cents per share)	3.66	0.83
Total basic earnings per share	0.76	0.62
(b) Reconciliation of earnings used in calculating earnings per share		
Basic		
Profit/(Loss) from continued operations	(6,681,604)	(421,299)
Profit/(Loss) from discontinued operations	8,423,798	1,658,293
Profit/(Loss) for the year	1,742,194	1,236,994
Earnings used to calculate basic EPS	1,742,194	1,236,994
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	230,689,088	198,070,373

At 30 June 2011 45,075,101 (2010: 45,409,845) options and 2,000,000 performance rights (2010: nil) were outstanding which could potentially dilute basic earnings per share in the future. Because there is a loss from continuing operations, these would have an antidilutive effect and therefore diluted earnings per share is the same as basic earnings per share.

Note 10: Cash and Cash Equivalents

	Group	
	2011	2010
	\$	\$
Cash at bank and on hand	17,185,823	2,923,690
	17,185,823	2,923,690

Note 11: Trade and Other Receivables

	Group	
CURRENT	2011	2010
	\$	\$
Other Receivables	2,038,869	2,267,943
Allowance for doubtful debts	(1,000,000)	-
	1,038,869	2,267,943

All loans that are past due have been impaired.

	Group	
	2011	2010
	\$	\$
Movement in allowance for doubtful debts:		
Balance at 1 July	-	(1,371,522)
Decrease (Increase) in Provision for doubtful receivables	(1,000,000)	-
Receivables written off during the year	-	1,371,522
Balance at 30 June	(1,000,000)	-

Included in other receivables is a convertible note for \$1,823,000 (2010: nil). A provision for doubtful receivables of \$1,000,000 (2010: nil) has been recognised in relation to this. The recovery of the carrying value of the convertible note, \$823,000 (2010: nil) is supported by the market value of the underlying shares which are quoted on the ASX.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 12: Financial Assets at fair value through profit or loss

	Group	
	2011	2010
	\$	\$
Financial assets as at 30 June at fair value (current)	458,369	1,021,231

The financial assets at fair value comprise only equity investments quoted on ASX and have been valued at market prices ruling on 30 June 2011 (AASB 7- level 1).

Note 13: Assets classified as held for sale

Held for sale financial assets (current)

Investments in associated entities	-	2,524,872
Amounts receivable from associated entity:		
Bonmerci Investments 103 (Pty) Ltd	-	513,454
Batlhako Mining Ltd	-	1,230,766
	-	4,269,092

As a result of the final settlement of the remaining 47% of the Ruighoek Chrome Project taking place in September 2010, the investments in and receivables from Ruighoek (Bonmerci and Batlhako) were treated as held for sale financial assets at 30 June 2010.

The held for sale financial assets were not fair valued at 30 June 2010 as it was not considered possible to determine a reliable fair value due to uncertainty surrounding the settlement at that date.

Details of the remaining 47% Ruighoek sale to AMCOL are as follows:	
Sale proceeds	13,243,674
Less: Carrying value held for sale financial assets	4,269,092
Gain on sale of discontinued operation before income tax (note 4)	8,974,582

Note 14. Investment in Equity Accounted Investee

At 30 June 2009 the Company held a 47% interest in the Ruighoek Chrome Project and the investment was treated as an equity accounted investee for accounting purposes at that date.

From 1 January 2010 it was considered that the Company no longer had significant influence over the financial and operating policies of Ruighoek and consequently results for the period 1 January 2010 to 30 June 2010 were not equity accounted.

As a result of the settlement by AMCOL of the remaining 47% of the Ruighoek Chrome Project which took place in September 2010, this investment was treated as a current held for sale financial asset in the financial statements at 30 June 2010 (see Note 13 above).

Investment in equity accounted investee

	Group	
	2011	2010
	\$	\$
Movement in carrying amounts:		
Balance at 1 July	-	2,215,068
Disposal of interest in investee		
Share of profit (loss) after income tax from 1 July 2009 to 31 Dec 2009	-	309,804
Transfer to held for sale assets	-	(2,524,872)
Balance at 30 June	-	-

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 15: Controlled Entities

(a) **Controlled Entities Consolidated**

Parent Entity	Country of Incorporation	Percentage Owned (%)	
		2011	2010
Pacific Niugini Ltd	Australia		
Subsidiaries and Associates of Pacific Niugini Ltd			
Pacific Niugini Minerals Pty Ltd	Australia	100	100
Pacific Niugini Minerals (PNG) Ltd	PNG	100	100
Chrome Holdings SA Pty Ltd	Australia	100	100
ACN 134 911 345 Pty Ltd(i)	Australia	-	100

(i) Company was deregistered on 10 November 2010.

Note 16: Plant and Equipment

	Group	
	2011 \$	2010 \$
(a) At cost		
Plant and equipment	262,119	132,337
Accumulated depreciation	(72,183)	(16,152)
Total plant and equipment	189,936	116,185
Motor vehicles	182,662	142,284
Accumulated depreciation	(42,386)	(13,769)
Total motor vehicles	140,276	128,515
Leasehold improvements	1,816	1,816
Accumulated depreciation	(1,009)	(403)
Total leasehold improvements	807	1,413
Capital work in progress-plant and equipment	828,491	-
Total cost	1,275,088	276,437
Total accumulated depreciation	(115,578)	(30,324)
Total net book value	1,159,510	246,113
(b) Reconciliation		
As at 1 July	246,113	38,430
Additions	998,650	310,929
Disposals	-	(59,775)
Depreciation expense	(85,253)	(43,471)
Net carrying value	1,159,510	246,113

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 17: Exploration and Evaluation Expenditure

	Group	
	2011	2010
	\$	\$
Capitalised exploration and evaluation expenditure:		
Carrying amount in respect of areas of interest in exploration and evaluation phase	6,098,966	5,218,721

Reconciliation

A reconciliation of the carrying amounts of exploration and evaluation expenditure is set out below:

	Group	
	2011	2010
	\$	\$
Exploration and/or evaluation expenditure		
Carrying amount at beginning of year	5,218,721	171,939
Acquired on acquisition of subsidiary (note 29)	-	4,136,034
Additions	3,366,893	910,748
Disposals (note 26(b))	(171,939)	-
Exploration impairment write off	(2,314,709)	-
Carrying amount at end of year	<u>6,098,966</u>	<u>5,218,721</u>

Pacific Niugini Minerals (PNG) Ltd (PNM) at 30 June 2011 is the holder of Papua New Guinea Exploration Licences EL1589, EL1613, EL1614, EL1615 and EL1616. These licences were all issued on 7 July 2008 for a two year term expiring on 6 July 2010.

Two year renewals for EL1589, EL1613 and EL 1616 have been granted and expire on 6 July 2012.

At the date of these financial statements the two year renewal process in respect of EL1614 and EL1615 was still in progress. The Company has received written confirmation from the Mineral Resources Authority in PNG that these tenements are in the renewal process and that they are in good standing. The company is of the view that the renewal of these tenements will take place in the normal course of business.

Recovery of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Note 18: Trade and Other Payables

Unsecured liabilities

Trade payables	496,571	97,020
Sundry payables and accrued expenses	89,309	112,511
	<u>585,880</u>	<u>209,531</u>

Note 19: Provisions

	Group	
	2011	2010
	\$	\$
Current		
Employee benefits	51,095	18,986

Note 20: Deferred tax liability

	Group	
	2011	2010
NON-CURRENT		
Deferred tax liability arising on the fair value adjustment of the PNG exploration and evaluation assets acquired (Note 29)	1,240,810	1,240,810

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 21: Issued Capital

(a) Issued and paid up capital

	Group	
	2011 \$	2010 \$
239,069,666 (2010: 203,184,922) fully paid ordinary shares	129,083,287	121,979,494

(i) The company's shares have no par value and there is no limit to the amount of authorised capital.

(b) Movement in shares on issue

	2011		2010	
	Number of shares	\$	Number of shares	\$
Beginning of the year	203,184,922	121,979,494	167,284,722	119,394,679
Issued during the year				
• placements (ii)	30,450,000	6,090,000	-	-
• issue of shares for acquisition of Pacific Niugini Minerals Ltd (i)	-	-	35,900,200	2,584,815
• less transaction costs (ii)	-	(512,630)	-	-
• Options exercised (iii)	4,634,744	1,390,423	-	-
• Options exercised (iii)	800,000	136,000	-	-
End of the year	239,069,666	129,083,287	203,184,922	121,979,494

- i. Following completion of due diligence and receiving shareholder approval on 31 August 2009, the Company issued 35,900,200 fully paid ordinary shares and 17,950,100 unlisted options at an exercise price of \$0.20 each expiring on 30 June 2014 in respect of the acquisition of Pacific Niugini Minerals Ltd.
- ii. The Company made a share placement during the year ended 30 June 2011 of 30,450,000 shares at an issue price of \$0.20 each. Costs of the placement amounted to \$512,630. Included in the cost of the placement is \$241,130 for 2,000,000 options issued to an adviser that assisted with the placement. The fair value of these options at grant date was determined by an independent valuer using a Black-Scholes option pricing model.
- iii. During the current financial year 4,634,744 \$0.30 30 Sept 2011 options and 800,000 \$0.17 23 February 2013 employee options were exercised. There were no options exercised in the previous financial year.
- iv. Terms and conditions

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(c) Options and Performance Rights outstanding

At balance date there were unissued ordinary shares of the company under option and performance rights as follows:

	2011 Number	2010 Number
Unlisted 30 September 2011 options at an exercise price of \$0.30 each	19,085,001	23,719,745
Unlisted 26 November 2012 employee options at an exercise price of \$0.20 each	1,500,000	1,500,000
Unlisted 30 June 2014 options at an exercise price of \$0.20 each	17,950,100	17,950,100
Unlisted 23 February 2013 employee options at an exercise price of \$0.17 each	1,440,000	2,240,000
Unlisted 31 March 2013 options at an exercise price of \$0.28 each	2,000,000	-
Unlisted 21 December 2013 employee options at an exercise price of \$0.47 each	1,100,000	-
Unlisted 23 June 2014 director options at an exercise price of \$0.38 each	2,000,000	-
Unlisted 23 June 2014 director performance rights – nil exercise price	2,000,000	-
	47,075,101	45,409,845

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 21: Issued Capital (Cont)

**(d) Unlisted Options and Performance Rights Issued
2011**

Date granted	Expiry Date	Exercise Price	Number of unlisted Options	Number of unlisted Performance rights
06/09/2010	31/03/2013	\$0.28	2,000,000	-
20/12/2010	21/12/2013	\$0.47	1,100,000	-
23/06/2011	23/06/2014	\$0.38	2,000,000	-
23/06/2011	23/06/2014	Nil	-	2,000,000
			5,100,000	2,000,000

2010

Date granted	Expiry Date	Exercise Price	Number of unlisted Options	Number of unlisted Performance rights
01/09/2009	30/09/2011	\$0.30	23,719,744	-
01/09/2009	30/06/2014	\$0.20	17,950,100	-
26/11/2009	26/11/2012	\$0.20	1,500,000	-
23/02/2010	23/02/2013	\$0.17	1,240,000	-
09/03/2010	23/02/2013	\$0.17	1,000,000	-
			45,409,844	-

Note 22: Reserves

	Group	
	2011	2010
	\$	\$
Option Reserve	1,803,626	1,562,495
Share Based Payments Reserve	1,300,992	782,897
Foreign currency translation reserve	9,066	27,990
	3,113,684	2,373,382

(a) Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign subsidiaries.

(b) Option Reserve

The option reserve records items recognised as expenses on valuation of share options issued to third parties.

(c) Share Based Payment Reserve

The share based payment reserve records items recognised as expenses on valuation of the options issued to directors and employees.

Note 23: Contingent Liabilities and Contingent Assets

There are no contingent liabilities or contingent assets at balance date.

Note 24: Segment Reporting

(a) Description of segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the CEO and the rest of the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the Board which is at the consolidated entity level. Accordingly, the consolidated entity is treated as one operating segment.

Therefore, management identifies the Group as having only one reportable segment. The financial results from this reportable segment are equivalent to the financial statements of the consolidated entity as a whole

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 24: Segment Reporting (cont)

(b) Entity-wide disclosures

The Group's geographical information is as follows:

		Australia \$	Papua New Guinea \$
Non-current assets	2011	14,405	7,244,071
	2010	17,061	5,447,772

The Group operates primarily in mineral exploration located in Papua New Guinea. The Group's headquarters office is in Australia.

The Group does not have any products/services that it derives revenue from except interest.

Note 25: Discontinued Operation

In March 2008 the Group announced it had entered into an agreement with AMCOL International Corporation ("AMCOL") to purchase, subject to shareholder approval and South African regulatory approvals, the Group's 74% interest in the Ruighoek Chrome Project in South Africa for US\$26.4 million. The transaction involved the sale of the Group's South African 100% owned subsidiary Bonmerci Pty Ltd. Settlement of this transaction occurred on 26 February 2009 for 53% of the Group's interest in the Ruighoek project for the amount of US\$14 million (Stage 1). The sale and settlement of the remaining 47% for the amount of US\$12.4 million occurred in September 2010 (Stage 2).

The Group showed all amounts related to the Ruighoek project operations, including the gain on disposal, as a discontinued operation and the remaining 47% investment in the Ruighoek project was shown as an investment in equity accounted investee in the financial statements at 30 June 2009.

As a result of the settlement of the remaining 47% of Ruighoek in September 2010, the investment in Ruighoek and the loan accounts to the Ruighoek entities, which were assigned to AMCOL on settlement, were disclosed as assets held for sale at 30 June 2010.

In the 31 December 2009 half-year financial statements the Company equity accounted for its 47% share of profits in the Ruighoek project for an amount of \$309,804. On 1 January 2010 the Company concluded that due to the put and call option arrangements that were part of the agreement to sell the remaining 47% of Ruighoek to AMCOL, the fact that AMCOL had full management control over the Ruighoek mine operations and the fact that the Company took no active role in the management of Ruighoek, that the company no longer had any significant influence over the Ruighoek operations. It was therefore decided that equity accounting for the Ruighoek project investment was no longer appropriate. The equity accounting entry for a share of profits of \$309,804 reflected in the 31 December 2009 accounts is reflected in the 30 June 2010 financial statements as a result from discontinued operations due to the corresponding investment being classified as held for sale in the 30 June 2010 statement of financial position.

	2011 \$	Group 2010 \$
Results of discontinued operation		
Share of profit/(loss) of equity accounted investee to 31 Dec 2009	-	309,804
	-	309,804
Option fee income	335,785	1,348,489
Gain on sale of discontinued operation before income tax	8,974,582	-
Income tax expense	(886,569)	-
Gain on sale of discontinued operation after income tax	8,088,013	-
Profit/(loss) for the year from discontinued operations	8,423,798	1,658,293
Holding cost of 47% investment in the Ruighoek Chrome Project (see note 13)		
Investment in Ruighoek Chrome project (i)	-	2,524,872
Other receivables-(i)	-	1,744,220
	-	4,269,092

(i) Classified as held for sale assets at 30 June 2010.

Note: Upon settlement of the sale of the remaining 47% of the Ruighoek Chrome Project, the other receivables amount above are assigned to the purchaser, AMCOL.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 26: Cash Flow Information

	Note	Group	
		2011	2010
		\$	\$
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax			
Profit/(Loss) after income tax		1,742,194	1,236,994
Depreciation		85,253	43,472
Share based payments		518,096	231,989
Non-cash debt recovery		-	(700,000)
Gain on sale of investment		-	(49,075)
Gain on sale of Ruighoek Chrome project		(8,974,583)	-
Bonmerci option fees		(335,785)	(1,348,489)
Exploration impairment		2,314,709	-
(Gain)/Loss on disposal of non-current assets		(588,061)	8,744
Bad debt provision		1,000,000	-
Bad debt recovery		(400,000)	(243,736)
Unrealised exchange loss		1,243,063	27,990
Fair value adjustment		1,322,862	(7,373)
Changes in assets and liabilities, net of the effects of purchase and disposal subsidiaries			
Increase/(decrease) in payables and borrowings		316,584	(46,753)
Increase/(decrease) in provisions		32,109	(47,996)
(Increase)/decrease in other operating assets		(355,871)	(330,425)
(Increase)/decrease in receivables		59,371	(7,966)
Net cash provided by/(used in) operating activities		<u>(2,020,059)</u>	<u>(1,232,624)</u>

(b) Non-cash investing activities

The company sold certain mineral tenements with a book value of \$171,939 in consideration for ASX listed shares to the value of \$760,000.

Note 27: Share-based Payments

	2011	2010
	\$	\$
Share-based payment expenses recognised during the financial year		
Equity settled options issued to directors	333,862	165,471
Equity settled options issued to employees	184,234	66,518
	<u>518,096</u>	<u>231,989</u>

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.38 years (2010: 2.56 years)

The weighted average exercise price of share options outstanding at the end of the financial year was \$0.227 (2010: \$0.182)

Details of Share-based payments made during the 2011 financial year:

- (a) On 21st December 2010 1,100,000 share options were issued to a number of employees and a consultant in terms of the Company employee share option plan with an exercise price of \$0.47 each and an expiry date of 21 December 2013.
- (b) On 23rd June 2011 shareholders approved the issue of 2,000,000 share options to a director Mr Paul Cmrlec. The options were granted and vested on that date. The exercise price was \$0.38 each and the expiry date 23rd June 2014.
- (c) On 23rd June 2011 shareholders approved the issue of 2,000,000 performance rights to a director Mr Paul Cmrlec. The rights were granted on that date. The exercise price was nil and the expiry date 23rd June 2014. The rights were issued subject to a number of performance hurdles which are set out in the table below.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 27: Share-based Payments (cont)

Details of Share-based payments made during the 2010 financial year:

- (a) On 26th November 2009 Shareholders approved the issue of 1,500,000 share options to a director Mr D Osikore. The options were granted and vested on that date. The exercise price of these options is \$0.20 each and the expiry date is 26 November 2012.
- (b) On 23rd February 2010, 1,240,000 share options were issued to a number of employees in terms of the Company Employee Share Option Plan with an exercise price of \$0.17 each and an expiry date of 23rd February 2013. These options vested during the year ended 30 June 2011.
- (c) On 9th March 2010, 1,000,000 share options were issued to a consultant in terms of the Company Employee Share Option Plan with an exercise price of \$0.17 each and an expiry date of 23rd February 2013. The consultant, Mr P Cmrlec, was appointed to the board of the Company on 3 June 2010. These options vested during the year ended 30 June 2011.

Fair Value of Options and Rights Granted

The weighted average fair value of options and rights granted during the year was 22.2 cents (2010: 7.9 cents). The fair value at grant date was determined by an independent valuer using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected volatility, option or right life, expected dividends, the risk free rate, and the fact that the options and rights are not tradeable. The inputs used for the Black-Scholes pricing model for options and rights granted during the year ended 30 June 2011 are set out in the table below:

Details	Employee Options	Director Options	Director Performance Rights
Number of options/rights	1,100,000	2,000,000	2,000,000
Consideration	nil	nil	nil
Option/Performance Right life	3 years	3 years	3 years
Exercise price	\$0.47	\$0.38	nil
Grant date	21-12-2010	23-06-2011	23-06-2011
Vesting date	21-12-2010	23-06-2011	See note (ii) below
Expiry date	21-12-2013	23-06-2014	23-06-2014
Share price at grant date	\$0.35	\$0.34	\$0.34
Fair value of options/rights granted	13.6 cents	15.2 cents	34.0 cents
Expected volatility %	65.31%	67.35%	67.35%
Expected dividend yield %	nil	nil	nil
Risk free rate %	5.25%	4.67%	4.67%

- (i) Volatility has been determined based on Pacific Niugini's share price over the 12 months immediately preceding the options issue. Due to the company's historical share price movements, and the relative percentage of each movement against the share price, it is expected that this volatility will not change significantly over the life of the options and therefore the volatility as set out above has been used as the expected future share price volatility over the life of the options.

(ii)

Performance rights hurdles		
No. Rights	Performance hurdle type	Probability*
500,000	Commercially viable gold production	75%
500,000	50,000 oz gold production	15%
500,000	100,000 oz gold production	nil
500,000	Market capitalisation \$200 Million	nil

* This is the probability applied to determine the number of performance rights to be included in the measurement of their issue over the expected vesting period.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 27: Share-based Payments (cont)

Summary of share-based payment options issued

The following table illustrates the number and weighted average exercise prices (WAEP) of share-based payment options and rights issued during the financial year.

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding at the beginning of the year	3,740,000	0.18	15,000,000	0.40
Expired during the year	-	-	(15,000,000)	(0.40)
Granted during the year	5,100,000	0.25	3,740,000	0.18
Forfeited during the year	-	-	-	-
Exercised during the year	(800,000)	0.17	-	-
Outstanding at the end of the year	8,040,000	0.23	3,740,000	0.18

Note 28: Subsequent Events

3,500,000 \$0.30 30 September 2011 options have been exercised since the end of the reporting period.

Subsequent to year end the US\$ deposit carried in the accounts at 30 June 2011 at AU\$11,064,637 was converted into Australian Dollars to realise an amount of AU\$11,917,690 resulting in a realised foreign exchange gain of AU\$853,000.

Note 29: Business Combinations

Following the sale of its investment in the Ruighoek Chrome Project in South Africa, the company resolved to move its future focus to gold and copper exploration in Papua New Guinea.

On 31 August 2009 the company acquired 100% of the issued shares in Pacific Niugini Minerals Ltd, a company that owns 100% of Pacific Niugini Minerals (PNG) Ltd, a gold and copper explorer incorporated in PNG.

Details of the net assets acquired are as follows:

Purchase consideration:

Issue of 35,900,200 fully paid shares at fair value 7.2 cents per share	\$ 2,584,815
Issue of 17,950,100 20 cent 30 June 2014 options at fair value	915,455
Total purchase consideration	<u>3,500,270</u>

The assets and liabilities arising from the acquisition are as follows:

	Fair Value
	\$
Cash	337,791
Receivables	280
Property plant and equipment	26,885
Exploration and evaluation assets	4,382,563
Other financial assets	14,462
Payables	(13,241)
Provisions	(7,660)
Deferred tax liability	(1,240,810)
Net identifiable assets acquired	<u>3,500,270</u>

The fair value of the exploration assets was determined by an independent valuation specialist.

Revenue and loss details of the Pacific Niugini Minerals Group since acquisition date included in the consolidated statement of comprehensive income for the year ended 30 June 2010:

Revenue	550
Loss	(154,070)

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 30: Parent Entity Information

The following information relates to the parent entity, Pacific Niugini Ltd, at 30 June 2011. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	2011	2010
	\$	\$
Current Assets	18,482,539	5,900,061
Non-current assets	12,710,527	9,435,705
Total assets	31,193,066	15,335,766
Current liabilities	168,980	66,705
Non-current liabilities	11,150,705	-
Total liabilities	11,319,685	66,705
Net Assets	19,873,381	15,269,061
Issued capital	129,083,287	121,979,494
Accumulated losses	(112,314,524)	(109,055,825)
Option reserve	1,803,625	1,562,495
Share-based payments reserve	1,300,993	782,897
Total equity	19,873,381	15,269,061
Profit (Loss) for the year	(3,258,699)	1,312,273
Other comprehensive income for the year	-	-
Total comprehensive income for the year	(3,258,699)	1,312,273

The company had no commitments, guarantees or contingent liabilities as at 30 June 2011 and 2010.

Note 31: Financial Risk Management

Overview

This note presents information about the Group's exposure to credit, liquidity and market risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and cash held at financial institutions.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

		Group	
		Carrying amount	
	Note	2011	2010
Cash and cash equivalents	10	17,185,823	2,923,690
Trade and other receivables	11&13	1,038,869	4,012,165

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 31: Financial Risk Management (cont)

Cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

Trade and other receivables

As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

Included in other receivables is a convertible note for \$1,823,000 (2010: nil). Refer to note 11 for further information regarding the Groups exposure to credit risk on this convertible note.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group does not have any external borrowings.

The following are the contractual maturities of financial liabilities:

Group 30 June 2011		Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
	Carrying amount					
Trade and other payables	(585,880)	(585,880)	(585,880)	-	-	-

Group 30 June 2010		Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
	Carrying amount					
Trade and other payables	(209,530)	(209,530)	(209,530)	-	-	-

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's net income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on investments, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, which is primarily the Australian dollar (AUD). The currency in which these transactions primarily are denominated is the Papua New Guinea Kina.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 31: Financial Risk Management (cont)

The Group has not entered into any derivative financial instruments to hedge such transactions.

At 30 June 2011 the Group held US\$11,839,162. Subsequent to year end this has been converted to Australian Dollars for a realised foreign exchange gain of \$853,000. The US dollars were received as part of the sale of the Ruighoek Chrome Project.

Based on the Group's operations in Papua New Guinea (PNG) during the financial year, had the Australian Dollar weakened/strengthened by 10% against the PNG Kina with all other variables held constant, the Group's pre-tax operating loss in PNG would have been \$308,700 higher/lower.

Interest rate risk

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value or future cash flows will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Group does not use derivatives to mitigate these exposures. The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in short term deposits with reputable financial institutions at interest rates maturing over 90-180 day rolling periods or less.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Weighted Average Interest Rate	Carrying Amount \$ 2011	Weighted Average Interest Rate	Carrying Amount \$ 2010
Consolidated				
Cash and cash equivalents	4.0-5.7%	17,185,823	3.25-5.85%	2,923,690
Trade and other receivables	10%	1,038,864	nil	4,012,165
		<u>18,224,687</u>		<u>6,935,855</u>

Sensitivity analysis

The Board has estimated that given market conditions a change of 100 basis points in interest rates is appropriate to assess the Group's sensitivity to variable rate instruments. A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

Group

	Profit or loss/Equity	
	100bp increase	100bp decrease
	\$	\$
30 June 2011		
Variable rate instruments	<u>171,858</u>	<u>(171,858)</u>
30 June 2010		
Variable rate instruments	<u>29,237</u>	<u>(29,237)</u>

Equity Price Risk

Equity price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Group is exposed to equity price risk arising from its financial assets at fair value through profit or loss. With respect to the equity price risk arising from these financial assets, the maximum exposure is equal to the carrying amount of the financial assets at fair value through profit or loss which at balance date is \$458,369 (2010- \$1,021,231).

Based on the equity investments held at the end of the financial year, had the Australian Stock Exchange strengthened/weakened by 10% with all other variables held constant, the Group's pre-tax profit and equity would have been \$45,837 higher/lower (2010: \$102,123)

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Note 31: Financial Risk Management (cont)

Commodity Price Risk

The Group operates primarily in the exploration and evaluation phase and accordingly the Group's financial assets and liabilities are subject to no commodity price risk.

Fair values

The carrying amounts of financial assets and liabilities approximate fair value. The basis for determining fair values is disclosed in note 12.

Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities. The Group monitors capital on the basis of the gearing ratio, however there are no external borrowings as at balance date or at 30 June 2010.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Capital comprises equity as disclosed in the statement of financial position.

Note 32: Capital and other commitments

(a) Operating lease commitments

	Group	
	2011	2010
	\$	\$
Future operating lease rentals of office space not provided for in the financial statements and payable:		
- not later than one year	44,514	27,300
- later than one year but not later than five years	14,838	36,400
	59,352	63,700

(b) Exploration commitments

	Group	
	2011	2010
	\$	\$
In order to maintain current rights of tenure to exploration permits, the consolidated entity has certain obligations to expend minimum amounts of money. The following exploration expenditure requirements have not been provided for in the financial report and are payable:		
- not later than one year	517,391	386,957
- later than one year but not later than five years	-	517,391
	517,391	904,348

Note 33: Related Party Transactions

Ultimate parent

Pacific Niugini Limited is the ultimate parent entity.

Identification of Related parties

Ownership interests in wholly owned entities are set out in Note 15.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the *Corporations Act 2001* and :
 - (i) comply with Accounting Standards and the *Corporations Regulations 2001* and;
 - (ii) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the consolidated entity.
- (b) the consolidated entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (d) the remuneration disclosures set out in the Directors' Report (as part of the audited Remuneration Report) for the year ended 30 June 2011 comply with section 300A of the *Corporations Act 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors.



Mr P Cook
Chairman

Dated this 26 September 2011

INDEPENDENT AUDITOR'S REPORT

To the members of Pacific Niugini Limited

Report on the Financial Report

We have audited the accompanying financial report of Pacific Niugini Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pacific Niugini Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Pacific Niugini Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 17 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Pacific Niugini Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (QLD) Pty Ltd

BDO



A J Whyte

Director

Brisbane: 26 September 2011

CORPORATE GOVERNANCE STATEMENT

All ASX listed entities are required to disclose against the recommendations and disclosure obligations contained in the revised ASX Corporate Governance Council Corporate Governance Principles and Recommendations in the annual report and in initial public offer documents. The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable, the Company has adopted the second edition of the Corporate Governance Principles and Recommendations ("Recommendations") as published by the ASX Corporate Governance Council. Copies of the Company's corporate governance policies are set out in the "Corporate Governance Policies" available on the Company's website at www.niugini.com.au. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be given further consideration. In view of the size of the Company and the nature of its activities, the Board considers that the current board is a cost effective and practical method of directing and managing the Company. The Company reports the following departures from the ASX Principles and Recommendations:

RECOMMENDATION PRINCIPAL 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1: A majority of the board should be independent directors.

Explanation for Departure: The Board comprises four directors, one of which is independent. The remaining directors are not independent because two are employed in an executive capacity and the Chairman, whilst a non-executive, holds a substantial interest in the Company. The Board considers that the merits of appointing additional directors in order to achieve majority independent status are outweighed by the Board's wish to maintain a relatively small board with relevant experience, which the Board believes is adequate having regard to the operations of the Company.

Recommendation 2.2: The Chairman should be an independent director.

Notification of Departure: The Chair is not Independent.

The Chairman, Mr Cook does not meet the requirement for Independence (as set out in the recommendations) due to his substantial shareholding in the Company.

Mr Cook's experience and knowledge of the industry in which the Company operates make his contribution to the Board such that it is appropriate for him to remain as Chairman of the Board.

Given the size of the industry in which it operates, the current Board structure is considered to best serve the Company in meeting its objectives, given its small capitalization, limited resources and existing operations. The composition of the Board will be reviewed on an annual basis to ensure that the board has the appropriate mix of expertise and experience.

Recommendation 2.4: The Company should establish a nomination committee consisting of a majority of independent directors.

Notification of Departure: There is no separate nomination committee.

Due to the size and nature of the Company, the full Board considers the matters and issues that would fall to the nomination committee. The Company has adopted a Nomination Charter setting out the Board processes to raise issues that would otherwise be considered by the nomination committee. The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing a separate nomination committee.

The Board intends to reconsider the requirement for and benefits of a separate nomination committee as the Company's operations grow and evolve.

CORPORATE GOVERNANCE STATEMENT (Cont)

RECOMMENDATION PRINCIPAL 4: SAFEGUARD INTEGRITY AND FINANCIAL REPORTING

Recommendation 4.1: The Company should establish an audit committee.

Recommendation 4.2: The audit committee should be structured so that it consists of non-executive directors who are a majority of independent directors.

Notification of Departure: There is no separate audit committee.

Due to the size and nature of the Company, the Board has not established an audit committee rather the full Board forms the audit committee. The Company has adopted an Audit Charter setting out the Board processes that would otherwise be considered by the audit committee. The Board considers that it is sufficient for the Board to assume the responsibilities that are ordinarily assigned to an audit committee.

The Board intends to reconsider the requirement for and benefits of a separate audit committee as the Company's operations grow and evolve.

RECOMMENDATION PRINCIPAL 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1: The Company should establish a remuneration committee.

Recommendation 8.2: The remuneration committee should be structured so that it consists of non-executive directors who are a majority of independent directors.

Notification of Departure: There is no separate remuneration committee.

Due to the size and nature of the Company, a separate remuneration committee is not considered to add any efficiency to the process of determining the levels of remuneration for the Directors and key executives. The Board considers that it is more appropriate that it set aside time at Board meetings to address matters that would normally fall to the remuneration committee. The Company has adopted a Remuneration Charter setting out the Board processes that would otherwise be considered by the remuneration committee.

In addition all matters of remuneration will continue to be determined in accordance with the Corporations Act requirements, especially in relation to related party transactions. That is, no Director will participate in deliberations regarding their own remuneration or related issues.

Recommendation 8.3: The structure of non-executive directors' remuneration from that of executive director and senior management remuneration should be clearly distinguished.

Notification of Departure: Guidelines for non-executive director remuneration state that non-executive directors should not normally participate in schemes designed for the remuneration of executives and non-executive directors should not receive options or bonus payments. The Company's non-executive directors are eligible to participate in the Company's long term incentive plan. The Board considers that this is a necessary motivation to attract the highest calibre candidates to the Board at this stage in the Company's operations. The Company currently has two non-executive directors.

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

CORPORATE GOVERNANCE STATEMENT (Cont)

The table below summarises the Company's compliance with the ASX Corporate Governance Council's Recommendations:

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 1	Lay solid foundations for management and oversight		
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Board Charter	Yes
1.2	Disclose the process for evaluating the performance of senior executives.	Board Charter, Board Performance Evaluation Policy, Remuneration Report	Yes
1.3	Provide the information indicated in the Guide to reporting on principle 1.	Board Charter Remuneration Report	Yes
Principle 2	Structure the Board to add value		
2.1	A majority of the Board should be independent directors.	Board Charter	No
2.2	The chair should be an independent director.	Board Charter	No
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Board Charter	Yes
2.4	The Board should establish a nomination committee.	Nomination charter	No
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	Board Performance Evaluation Policy	Yes
2.6	Provide the information indicated in the Guide to reporting on principle 2.		Yes
Principle 3	Promote ethical and responsible decision-making		
3.1	Establish a code of conduct and disclose the code or a summary as to:	Directors and executive officers code of conduct Employee code of conduct	Yes
	<ul style="list-style-type: none"> the practices necessary to maintain confidence in the company's integrity; 		
	<ul style="list-style-type: none"> the practices necessary to take into account the company's legal obligations and the reasonable expectations of its stakeholders; and 		
	<ul style="list-style-type: none"> the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 		
3.2	Establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary.	Securities trading policy	Yes
3.3	Provide the information indicated in the Guide to reporting on principle 3.	Codes of conduct	Yes
Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 4	Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee.	Audit charter	Yes
4.2	The audit committee should be structured so that it:		No
	<ul style="list-style-type: none"> consists only of non-executive directors; 		
	<ul style="list-style-type: none"> consists of a majority of independent directors; 		
	<ul style="list-style-type: none"> is chaired by an independent chair, who is not chair of the Board; and 		
	<ul style="list-style-type: none"> has at least three members. 		
4.3	The audit committee should have a formal charter	Audit charter	Yes

PACIFIC NIUGINI LIMITED AND CONTROLLED ENTITIES

ABN 30 003 207 467

4.4	Provide the information indicated in the Guide to reporting on principle 4.	Audit charter	Yes
Principle 5 Make timely and balanced disclosure			
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	ASX Disclosure policy Shareholder communication policy	Yes
5.2	Provide the information indicated in the Guide to reporting on principle 5.	ASX Disclosure policy Shareholder communication policy	Yes
Principle 6 Respect the rights of shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	ASX Disclosure policy Shareholder communication policy	Yes
6.2	Provide the information indicated in the Guide to reporting on principle 6.	ASX Disclosure policy Shareholder communication policy	Yes
Principle 7 Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Risk management policy Audit charter	Yes
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Risk management policy Audit charter	Yes
7.3	The Board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Risk management policy Audit charter	Yes
7.4	Provide the information indicated in the Guide to reporting on principle 7.	Risk management policy Audit charter	Yes
Principle 8 Remunerate fairly and responsibly			
8.1	The Board should establish a remuneration committee.	Remuneration charter	No
8.2	Clearly distinguish the structure on non-executive directors' remuneration from that of executive directors and senior executives.	Remuneration charter Remuneration Report	Yes
8.3	Provide the information indicated in the Guide to reporting on principle 8.	Remuneration charter	Yes