

NEW GUINEA GOLD CORPORATION

**Audited Consolidated Financial Statements
Years ended December 31, 2005 and 2004**

DE VISSER GRAY

CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of New Guinea Gold Corporation

We have audited the consolidated balance sheets of New Guinea Gold Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit, cash flows, and the schedule of deferred mineral property costs for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DeVisser Gray"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
April 27, 2006

NEW GUINEA GOLD CORPORATION

Consolidated Balance Sheets

As at December 31,

| | 2005 | 2004 |
|---|---|------------------|
| | \$ | \$ |
| ASSETS | | |
| Current assets | | |
| Cash and short-term deposits | 1,700,535 | 4,980,293 |
| Amounts receivable | 201,008 | 279,255 |
| Prepaid expenses | 11,450 | 1,450 |
| Marketable securities (note 4) | 214,200 | 147,600 |
| | 2,127,193 | 5,408,598 |
| Mining deposits receivable (note 5) | 55,272 | 30,683 |
| Equipment (note 6) | 1,210,202 | 795,178 |
| Mineral properties (schedule, note 9) | 4,053,188 | 2,081,433 |
| | 7,445,855 | 8,315,892 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 233,341 | 225,312 |
| Due to related parties (note 3) | 445,869 | 36,716 |
| | 679,210 | 262,028 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (note 7b) | 18,614,693 | 18,614,693 |
| Contributed surplus (note 12) | 2,344,266 | 1,197,018 |
| Deficit | (14,192,314) | (11,757,847) |
| | 6,766,645 | 8,053,864 |
| | 7,445,855 | 8,315,892 |
| Continuing operations (note 1) | | |
| Approved by the Board of Directors: | | |
| <i>“Robert D. McNeil”</i> <hr style="width: 20%; margin: 0 auto;"/> Director | <i>“Judith O’Quinn”</i> <hr style="width: 20%; margin: 0 auto;"/> Director | |

The accompanying notes are an integral part of these consolidated financial statements.

NEW GUINEA GOLD CORPORATION
Consolidated Statements of Operations and Deficit
For the Years Ended December 31,

| | 2005 | 2004 |
|---|--------------|--------------|
| | \$ | \$ |
| Expenses | | |
| Amortization | 258,442 | 110,819 |
| Bank charges and interest | 2,540 | 46,033 |
| Foreign exchange (gain)/loss | 151,582 | (32,110) |
| General exploration | - | 4,895 |
| Insurance | 23,097 | 9,133 |
| Interest income | (90,309) | (67,311) |
| Office | 49,962 | 19,424 |
| Professional fees | 89,305 | 60,511 |
| Repairs and maintenance | 151,763 | 61,539 |
| Rent | 13,711 | 16,604 |
| Shareholder communications | 177,580 | 144,414 |
| Stock-based compensation (note 7c) | 1,147,248 | 309,396 |
| Transfer agent and regulatory | 17,339 | 33,829 |
| Wages and benefits | 442,207 | 138,664 |
| Net loss for the year | (2,434,467) | (855,840) |
| Deficit, beginning of year | (11,757,847) | (10,902,007) |
| Deficit, end of year | (14,192,314) | (11,757,847) |
| Loss per share | \$ (0.04) | \$ (0.02) |
| Weighted average number of common shares outstanding | 64,913,496 | 51,514,703 |

The accompanying notes are an integral part of these consolidated financial statements.

NEW GUINEA GOLD CORPORATION

Consolidated Statements of Cash Flows

For the Years Ended December 31,

| Cash provided by (used for): | 2005 | 2004 |
|---|-------------|-------------|
| | \$ | \$ |
| Operating Activities | | |
| Net loss for the year | (2,434,467) | (855,840) |
| Adjustment for items not involving cash | | |
| Amortization | 258,442 | 110,819 |
| Amortization of loan bonus | - | 17,500 |
| Stock-based compensation | 1,147,248 | 309,396 |
| | (1,028,777) | (418,125) |
| Changes in non-cash working capital items: | | |
| Amounts receivable | 78,247 | (254,391) |
| Prepaid expenses | (10,000) | 2,223 |
| Accounts payable and accrued liabilities | 8,029 | 147,170 |
| Due to related parties | 409,153 | (454,106) |
| | (543,348) | (977,229) |
| Investing Activities | | |
| Purchase of equipment | (673,466) | (804,104) |
| Mineral property expenditures | (2,038,355) | (1,760,910) |
| Mining deposits | (24,589) | (4,345) |
| | (2,736,410) | (2,569,359) |
| Financing Activities | | |
| Common shares issued for cash | - | 6,074,889 |
| Share issue costs | - | (386,449) |
| | - | 5,688,440 |
| Cash acquired in business combinations (notes 8 and 9) | - | 211 |
| Increase / (decrease) in cash during the year | (3,279,758) | 2,142,063 |
| Cash - beginning of year | 4,980,293 | 2,838,230 |
| Cash - end of year | 1,700,535 | 4,980,293 |

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

During 2005, the Company:

- Received 200,000 common shares of another company valued at \$74,000 as an option payment for a mineral property, of which 20,000 shares (\$7,400) were assigned to a third party as a finder's fee.

During 2004, the Company:

- Issued 1,400,000 common shares valued at \$7,475 for the acquisition of 50% of Kanon (refer to note 8).
- Received 200,000 common shares of another company valued at \$104,000 as an option payment for a mineral property, of which 20,000 shares (\$10,400) were assigned to a third party as a finder's fee.
- Issued 150,000 common shares valued at \$67,500 for financing fees.

The accompanying notes are an integral part of these consolidated financial statements

NEW GUINEA GOLD CORPORATION
Consolidated Schedule of Deferred Mineral Property Costs

| | Balance, December 31 2003 \$ | Expenditures (Recoveries) \$ | Balance December 31, 2004 \$ | Expenditures (Recoveries) \$ | Balance December 31, 2005 \$ |
|--------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|
| Mt. Sinivit | | | | | |
| Acquisition costs | 185,164 | 8,862 | 194,026 | 8,310 | 202,336 |
| Exploration costs: | | | | | |
| Salaries, Wages and Fees | 31,274 | 67,119 | 98,393 | 96,248 | 194,641 |
| Travel & Accommodation | 5,810 | 26,826 | 32,636 | 56,605 | 89,241 |
| Geological Services & Investigations | 4,792 | 51,049 | 55,841 | 87,919 | 143,760 |
| Field Supplies and Services | 8,046 | 65,661 | 73,707 | 277,983 | 351,690 |
| Community compensation | 6,352 | 11,131 | 17,483 | 19,548 | 37,031 |
| Field office | 13,347 | 17,340 | 30,687 | 54,008 | 84,695 |
| | <u>254,785</u> | <u>247,988</u> | <u>502,773</u> | <u>600,621</u> | <u>1,103,394</u> |
| Normanby | | | | | |
| Acquisition costs | 1 | 11,576 | 11,577 | 4,078 | 15,655 |
| Exploration costs: | | | | | |
| Drilling | - | 175,423 | 175,423 | 212,616 | 388,039 |
| Salaries, Wages and Fees | 26,819 | 58,372 | 85,191 | 116,099 | 201,290 |
| Travel & Accommodation | 4,735 | 21,087 | 25,822 | 27,439 | 53,261 |
| Geological Services & Investigations | 3,816 | 58,706 | 62,522 | 36,153 | 98,675 |
| Field Supplies and Services | 21,895 | 243,865 | 265,760 | 205,782 | 471,542 |
| Community compensation | 1,050 | 5,225 | 6,275 | 7,350 | 13,625 |
| Field office | 2,400 | 34,283 | 36,683 | 51,780 | 88,463 |
| | <u>60,716</u> | <u>608,537</u> | <u>669,253</u> | <u>661,297</u> | <u>1,330,550</u> |
| Sehuela | | | | | |
| Acquisition costs | 30,000 | 8,376 | 38,376 | 1,999 | 40,375 |
| Exploration costs: | | | | | |
| Drilling | - | 28,672 | 28,672 | 14,453 | 43,125 |
| Salaries, Wages and Fees | 5,242 | 25,133 | 30,375 | 48,122 | 78,497 |
| Travel & Accommodation | 36 | 3,930 | 3,966 | 6,082 | 10,048 |
| Geological Services & Investigations | 98 | 14,257 | 14,355 | 6,539 | 20,894 |
| Field Supplies and Services | 12,570 | 18,131 | 30,701 | 56,007 | 86,708 |
| Community compensation | - | 4,163 | 4,163 | 2,301 | 6,464 |
| Field office | 129 | 5,678 | 5,807 | 15,524 | 21,331 |
| Write down of mineral right costs | (8,264) | - | (8,264) | - | (8,264) |
| | <u>39,811</u> | <u>108,340</u> | <u>148,151</u> | <u>151,027</u> | <u>299,178</u> |
| Feni | | | | | |
| Exploration costs: | | | | | |
| Salaries, Wages and Fees | 19,745 | - | 19,745 | - | 19,745 |
| Travel & Accommodation | 20,461 | - | 20,461 | - | 20,461 |
| Geological Services & Investigations | 409 | - | 409 | - | 409 |
| Field Supplies and Services | 9,496 | 37,965 | 47,461 | - | 47,461 |
| Community compensation | 460 | - | 460 | - | 460 |
| Field office | 5,201 | 15,621 | 20,822 | - | 20,822 |
| Option payments received | (54,000) | (93,600) | (147,600) | (66,600) | (214,200) |
| | <u>1,772</u> | <u>(40,014)</u> | <u>(38,242)</u> | <u>(66,600)</u> | <u>(104,842)</u> |
| Mt. Nakru | | | | | |
| Acquisition costs | - | 2,630 | 2,630 | 2,193 | 4,823 |
| Exploration costs: | | | | | |
| Salaries, Wages and Fees | 13,081 | 13,847 | 26,928 | 33,295 | 60,223 |
| Travel & Accommodation | 4,843 | 6,155 | 10,998 | 12,883 | 23,881 |
| Geological Services & Investigations | 1,078 | 246 | 1,324 | 3,281 | 4,605 |
| Field Supplies and Services | 14,961 | 34,606 | 49,567 | 132,604 | 182,171 |
| Community compensation | - | 25 | 25 | 32 | 57 |
| Field office | 2,259 | 3,723 | 5,982 | 13,935 | 19,917 |
| Write down of mineral right costs | (32,307) | - | (32,307) | - | (32,307) |
| | <u>3,915</u> | <u>61,232</u> | <u>65,147</u> | <u>198,223</u> | <u>263,370</u> |

NEW GUINEA GOLD CORPORATION
Consolidated Schedule of Deferred Mineral Property Costs

| | Balance, December 31, 2003 | Expenditures (Recoveries) | Balance, December 31 2004 | Expenditures (Recoveries) | Balance, December 31, 2005 |
|--------------------------------------|----------------------------------|------------------------------|---------------------------------|------------------------------|----------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Mt. Simuku | | | | | |
| Acquisition costs | - | 60,370 | 60,370 | 2,171 | 62,541 |
| Exploration costs: | | | | | |
| Salaries, Wages and Fees | 17,848 | 42,376 | 60,224 | 81,691 | 141,915 |
| Travel & Accommodation | 5,519 | 14,587 | 20,106 | 45,070 | 65,176 |
| Geological Services & Investigations | 13,499 | 25,592 | 39,091 | 95,843 | 134,934 |
| Field Supplies and Services | 13,068 | 64,586 | 77,654 | 198,445 | 276,099 |
| Community compensation | - | 2,575 | 2,575 | 3,258 | 5,833 |
| Field office | 2,992 | 10,186 | 13,178 | 31,592 | 44,770 |
| Write down of mineral right costs | (34,288) | - | (34,288) | - | (34,288) |
| | <u>18,638</u> | <u>220,272</u> | <u>238,910</u> | <u>458,070</u> | <u>696,980</u> |
| Mt. Penck | | | | | |
| Acquisition costs | - | 15,692 | 15,692 | 9,793 | 25,485 |
| Exploration costs: | | | | | |
| Drilling | - | 130,008 | 130,008 | 5,472 | 135,480 |
| Salaries, Wages and Fees | - | 38,370 | 38,370 | 33,562 | 71,932 |
| Travel & Accommodation | - | 12,552 | 12,552 | 10,449 | 23,001 |
| Geological Services & Investigations | - | 26,332 | 26,332 | 8,690 | 35,022 |
| Field Supplies and Services | - | 91,790 | 91,790 | 42,895 | 134,685 |
| Community compensation | - | 2,883 | 2,883 | 112 | 2,995 |
| Field office | - | 31,270 | 31,270 | - | 31,270 |
| | <u>-</u> | <u>348,897</u> | <u>348,897</u> | <u>110,973</u> | <u>459,870</u> |
| Mt. Allemata | | | | | |
| Acquisition costs | - | 15,761 | 15,761 | 3,186 | 18,947 |
| Exploration costs: | | | | | |
| Drilling | - | 1,836 | 1,836 | 72,086 | 73,922 |
| Salaries, Wages and Fees | - | 19,193 | 19,193 | 34,513 | 53,706 |
| Travel & Accommodation | - | 3,933 | 3,933 | 9,011 | 12,944 |
| Geological Services & Investigations | - | 17,097 | 17,097 | 15,058 | 32,155 |
| Field Supplies and Services | - | 25,458 | 25,458 | 37,772 | 63,230 |
| Community compensation | - | 435 | 435 | 1,921 | 2,356 |
| Field office | - | 7,288 | 7,288 | - | 7,288 |
| | <u>-</u> | <u>91,001</u> | <u>91,001</u> | <u>173,547</u> | <u>264,548</u> |
| Other | | | | | |
| Acquisition costs | - | 61,313 | 61,313 | 15,030 | 76,343 |
| Exploration costs: | | | | | |
| Salaries, Wages and Fees | 17,303 | 24,103 | 41,406 | 499 | 41,905 |
| Travel & Accommodation | 13,031 | 10,372 | 23,403 | 12,008 | 35,411 |
| Geological Services & Investigations | - | 32,918 | 32,918 | 23,918 | 56,836 |
| Field Supplies and Services | 5,643 | 23,167 | 28,810 | 35,327 | 64,137 |
| Community compensation | 2,444 | 2,560 | 5,004 | 2,859 | 7,863 |
| Field office | 1,116 | 13,609 | 14,725 | 3,478 | 18,203 |
| Joint Venture Recoveries | - | - | - | (35,339) | (35,339) |
| Write down of mineral right costs | (5,051) | - | (5,051) | - | (5,051) |
| | <u>34,486</u> | <u>168,042</u> | <u>202,528</u> | <u>57,780</u> | <u>260,308</u> |
| Operating fees and other recoveries | - | (146,985) | (146,985) | (373,183) | (520,168) |
| Total mineral properties | <u>414,123</u> | <u>1,667,310</u> | <u>2,081,433</u> | <u>1,971,755</u> | <u>4,053,188</u> |

NEW GUINEA GOLD CORPORATION

Notes to Consolidated Financial Statements

Years Ended December 31, 2005 and 2004

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

The Company is incorporated in the Yukon Territory, Canada, and is involved in the acquisition, exploration and development of mineral properties in Papua New Guinea. At the date of these consolidated financial statements the Company has not yet determined whether any of its mineral properties contain economically recoverable mineral reserves. Accordingly, the carrying amount of deferred mineral exploration costs represents expenditures made to date and does not necessarily reflect present or future values. The recovery of these costs is dependent upon the discovery of economically recoverable mineral reserves and the ability of the Company to obtain the necessary financing to complete exploration and development work and to resolve any environmental, regulatory, or other constraints which may hinder the successful exploitation of its mineral properties, or dispose of its interests on an advantageous basis.

The Company has taken steps to verify title to the mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of these properties. However, these procedures do not guarantee the Company's title. Title to these rights may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

The Company does not generate cash flow from operations. In order to pay for future work performed on its mineral properties and administrative costs, the Company will need to raise additional funds through future issuances of securities. Although the Company has been successful in raising funds in the past, there can be no assurance the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts disclosed on the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Macmin (PNG) Ltd. ("Macmin"), and its proportionate 50% interest in the accounts of Kanon Resources Ltd. ("Kanon"). References to the Company included herein are inclusive of the Canadian parent company, Macmin and Kanon.

b) Financial Instruments

The Company's financial instruments consist of current assets and current liabilities whose fair values approximate their carrying values due to their short-term nature. Financial risk is the risk arising from fluctuations in foreign currency exchange rates. The Company does not use any derivative or hedging instruments to reduce its exposure to fluctuations in currency exchange rates.

c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements as well as the reported amounts of expenses incurred during the period. Significant areas requiring the use of management estimates include the determination of potential impairments of asset values, and rates for amortization of equipment, as well as the assumptions used in determining the fair-value of non-cash stock-based compensation. Actual results could differ from those estimates.

d) Mineral Property Costs

Costs incurred to acquire a mineral property and costs of exploration, development and direct field support are deferred until the property to which they relate is placed into production, sold or abandoned. These deferred costs will be amortized over the estimated useful life of a property following commencement of production, or written-off if properties are sold, allowed to lapse or abandoned. Administration costs and other exploration costs that do not relate to a specific property are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Mineral Property Costs *(continued)*

Cost includes the cash consideration and the fair value of shares issued on the acquisition of mineral properties. Properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Proceeds from options granted by the Company are to be netted against the accumulated deferred cost of the related mineral property with any excess being included in earnings.

Management reviews the carrying amounts of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the probability of profitable exploitation of each property or realizable value from disposal of each property. Management's assessment of each property's estimated fair value is also based upon a review of other mineral property transactions that have occurred in the same geographic area as that of the properties under review.

e) Translation of Foreign Currencies

The Company translates the results of from foreign operations as follows: monetary items are translated at the rate of exchange in effect at the balance sheet date, non-monetary items at average rates in effect during the period in which they are incurred and expenses are translated at average rates in effect during the period, except for amortization, which is translated using historical rates. Gains and losses resulting from the fluctuations in foreign exchange rates are included in the determination of income.

f) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is provided over the estimated useful life of each type of equipment using the declining balance method at annual rates varying from 20% to 30%.

g) Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the shares on the TSX Venture Exchange on the date of the agreement to issue the shares. Costs incurred to issue shares are deducted from share capital.

h) Income Taxes

Income tax liabilities and assets are recognized for their tax consequences attributable to differences between the amounts reported on the financial statements and their tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period in which the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

i) Marketable securities

Marketable securities are carried at the lower of cost and market value.

j) Stock-based Compensation

The Company records compensation associated with stock options granted using a fair value measurement basis and records the expense when the options vest with the recipients. The adoption of this accounting policy for stock-based compensation has been applied prospectively to all stock options granted subsequent to January 1, 2003.

k) Loss Per Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Loss per share is calculated using the weighted-average number of common shares outstanding during the year and diluted loss per share is not shown as it is anti-dilutive.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

l) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of its fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at December 31, 2005 the Company does not have any asset retirement obligations.

m) Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

3. RELATED PARTY TRANSACTIONS

The amounts paid to related parties were in the normal course of operations and were valued at fair value as determined by management. Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

Prior to 2003, Macmin Silver Ltd. ("Macmin"), a company with two directors in common with the Company, was the Company's joint venture partner in certain properties through Macmin's wholly-owned subsidiary, Macmin PNG Ltd, which the Company acquired from Macmin in 2003. Macmin is currently a major shareholder in the Company.

At December 31, 2005, the Company owed Macmin \$445,869 for exploration expenditures paid for by Macmin (2004 - \$36,716).

4. MARKETABLE SECURITIES

The Company's marketable securities at December 31, 2005 consist of 540,000 shares of Vangold Resources Ltd. with a fair market value of \$191,700 and a book value of \$214,200. The shares subsequently regained their value and no write-down was considered necessary.

5. MINING DEPOSITS RECEIVABLE

These amounts are comprised of refundable deposits pledged with the Papua New Guinea Mining Department for the Company's mineral tenements.

6. EQUIPMENT

| | 2005 | | 2004 | |
|------------------------|------------------|--------------------------|------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| | \$ | \$ | \$ | \$ |
| Equipment | 1,582,347 | 376,015 | 1,206,332 | 790,803 |
| Furniture and fixtures | 11,965 | 8,095 | 3,870 | 4,375 |
| | <u>1,594,312</u> | <u>384,110</u> | <u>1,210,202</u> | <u>795,178</u> |

7. SHARE CAPITAL AND RELATED INFORMATION

a) **Authorized:** 100,000,000 common shares without par value

b) **Issued and outstanding:**

| | Number of Shares | Amount \$ |
|-------------------------------------|---------------------|--------------------------|
| Balance, January 1, 2004 | 44,649,509 | 12,940,207 |
| Issued for: | | |
| Private placements | 10,830,000 | 4,046,251 ⁽¹⁾ |
| Acquisition of subsidiary | 1,400,000 | 7,475 ⁽²⁾ |
| Exercise of warrants | 6,845,578 | 1,031,128 |
| Exercise of options | 1,188,409 | 237,761 |
| Stock-based compensation | - | 351,871 ⁽³⁾ |
| Balance, December 31, 2004 and 2005 | <u>64,913,496</u> | <u>18,614,693</u> |

(1) Net of share issue costs of \$827,249, of which \$386,449 was paid in cash and \$67,500 was paid by the issuance of 150,000 shares of the Company. The remaining \$373,300 represents the fair value of 1,669,500 agents' share purchase warrants exercisable at a price of \$0.55 for 2 years. Refer to note 7(c).

(2) Refer to note 8.

(3) Portion of stock based-compensation previously recorded attributed to options and agents' warrants exercised in the year.

c) **Stock options**

Stock option activity for 2005 and 2004:

| | 2005 | | 2004 | |
|-----------------------------|----------------------|--|----------------------|--|
| | Number of Options | Weighted average exercise price \$ | Number of Options | Weighted average exercise price \$ |
| Balance – beginning of year | 3,615,000 | 0.45 | 3,288,409 | 0.36 |
| Granted | 1,570,000 | 0.23 | 1,770,000 | 0.41 |
| Exercised | - | - | (1,188,409) | 0.20 |
| Cancelled / expired | - | - | (255,000) | 0.15 |
| Balance – end of year | <u>5,185,000</u> | <u>0.39</u> | <u>3,615,000</u> | <u>0.45</u> |

At December 31, 2005, the weighted average remaining life of options outstanding was 3.5 years.

The fair value of stock options and warrants granted during 2004 and 2005 are estimated on the date of their grant using the Black-Scholes option pricing model using the following assumptions:

| | 2005 | 2004 |
|-------------------------|---------|--------------|
| Risk-free interest rate | 3.6% | 3.4% |
| Estimated volatility | 91% | 95% |
| Expected lives | 3 years | 2 to 5 years |

The weighted average fair value of options on the grant date for the year ended December 31, 2005 was \$0.15 (2004 - \$0.38)

Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide a reliable measure of the fair value of the grant of the Company's stock options.

Amounts expensed as stock-based compensation are credited to contributed surplus. On exercise, the amounts originally credited to contributed surplus are credited to share capital.

7. SHARE CAPITAL AND RELATED INFORMATION *(continued)*

d) Warrants

Warrants outstanding at December 31, 2005:

| Number of warrants | Exercise Price | Expiry Date |
|--------------------|----------------|-------------------|
| 6,909,500 | \$ 0.55 | October 29, 2006 |
| 100,000 | 0.55 | November 18, 2006 |

8. ACQUISITION OF 50% INTEREST IN KANON RESOURCES LTD.

On February 25, 2004, the Company acquired a 50% interest in Kanon Resources Ltd. (Kanon), a private Papua New Guinea company which owns five exploration projects in New Guinea, by the issue of 1,400,000 shares valued at \$7,475, cash payments of \$70,000, and the granting of an 8% carried interest in any mine developed in the future by Kanon, subject to the Company retaining the option to acquire 50% of the carried interest (4%) for \$1,000,000.

Kanon was controlled by parties related to management of the Company. The purchase consideration of \$77,475 was allocated based on the carrying amounts of that company's identifiable assets at February 25, 2004, as follows:

| | |
|--|------------------|
| Cash | \$ 211 |
| Equipment | 2,293 |
| Mining deposits | 4,971 |
| Carrying value of net assets acquired | <u>7,475</u> |
| Excess consideration allocated to mineral properties | 70,000 |
| | <u>\$ 77,475</u> |

9. MINERAL PROPERTIES

The Company's mineral properties are all located in Papua New Guinea.

The Company has a 100% interest in five, a 90% interest in two, a 60% interest in one, and a 50% interest in 4 exploration projects in Papua New Guinea through its wholly-owned subsidiary Macmin PNG and its 50% owned subsidiary Kanon Resources Ltd. (refer to note 8). The Company is conducting operations on the Sinivit, Normanby, Sehulea, Simuku, and Mt. Penck Projects.

These projects are subject to a 1% Net Smelter Royalty (NSR) payable, and the issue of 9% of the Company's issued share capital to Macmin Silver Ltd. at the time that any mine is developed on these properties and production is achieved in excess of 50,000 ounces of gold or equivalent in any year.

Sinivit

The Sinivit property is held under three titles in which Macmin PNG, acquired by the Company, has a direct 90% equity interest and a further 2.5% indirect equity interest.

Normanby

The Normanby Licence covers approximately 68 square kilometres on Normanby Island, Milne Bay Province.

Sehulea

The Sehulea Project covers approximately 30 square kilometres in the eastern part of Normanby Island, in Milne Bay Province, adjacent to the Normanby Project.

Simuku

The West New Britain Porphyry Copper/Gold Project covers four exploration licenses totaling 3,093 square kilometers.

9. MINERAL PROPERTIES (continued)

Mt Penck

The Company has elected to earn a direct 20% interest in the Mt. Penck property by funding the first CDN\$300,000 worth of exploration. The Company has completed its earn-in and has an effective 60% interest in the property. The Mt. Penck exploration licence covers 102.6 square kilometres in area and is 55 kilometres west of Kimbe in the West New Britain Province.

The Company has optioned out the following projects:

Crater Mountain

- Optioned by agreement dated January 6, 2004 to Celtic Minerals Ltd., a TSX Venture-listed company, which can acquire a 51% interest by expending \$2,000,000 on exploration prior to March 1, 2006, and a further 25% interest can be acquired upon completion of a further \$2,000,000 exploration program prior to March 1, 2009.

Feni

- Vangold Resources Ltd., a TSX Venture company has earned a 50% interest and been granted the right to earn an additional 25% interest by performing \$2,500,000 in exploration prior to December 31, 2006, of which \$500,000 must be spent by September 26, 2004, (completed) and by issuing to the Company 200,000 shares upon receipt of regulatory consent to the agreement (issued) and a further 600,000 shares in stages prior to June 30, 2006 (400,000 shares received at December, 31, 2005). The Company must pay a finder's fee of 10% on all share consideration received (60,000 Vangold shares paid).

Mt. Nakru

- Optioned to Kanon, whereby Kanon acquired a 50% interest by spending \$250,000 on exploration and issued the Company 5% of its issued share capital. Funding of exploration is now provided equally by the Company and Kanon.

10. SEGMENTED INFORMATION

Assets by geographic segment, at cost:

| | December 31, 2005 | | | |
|--------------------|-------------------|----------------|----------------|------------------|
| | Papua New Guinea | Canada | Australia | Total |
| | \$ | \$ | \$ | \$ |
| Current | 462,350 | 858,173 | 806,670 | 2,147,193 |
| Equipment | 1,206,998 | 3,204 | - | 1,210,202 |
| Mineral Properties | 4,053,188 | - | - | 4,053,188 |
| Other | 55,272 | - | - | 55,272 |
| | <u>5,777,808</u> | <u>861,377</u> | <u>806,670</u> | <u>7,445,855</u> |

| | December 31, 2004 | | | |
|--------------------|-------------------|------------------|------------------|------------------|
| | Papua New Guinea | Canada | Australia | Total |
| | \$ | \$ | \$ | \$ |
| Current | 312,938 | 1,213,319 | 3,882,341 | 5,408,598 |
| Equipment | 791,173 | 4,005 | - | 795,178 |
| Mineral Properties | 2,081,433 | - | - | 2,081,433 |
| Other | 30,683 | - | - | 30,683 |
| | <u>3,216,227</u> | <u>1,217,324</u> | <u>3,882,341</u> | <u>8,315,892</u> |

11. INCOME TAXES

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

| | 2005 | 2004 |
|--|--------------|-------------|
| Net loss | \$ 2,434,467 | \$ 855,840 |
| Effective statutory rate | 32.28 % | 33.17 % |
| Expected taxes payable | \$ 785,877 | \$ 283,876 |
| Net effect of non-deductible amounts | (370,346) | (102,625) |
| Unrecognized benefit of non-capital losses | (415,531) | (181,252) |
| Current income tax expense | <u>\$ -</u> | <u>\$ -</u> |

Future income tax assets reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future tax assets as at December 31, 2005 are as follows:

| | December 31, 2005 | December 31, 2004 |
|------------------------------------|----------------------|----------------------|
| Non capital loss carry-forwards | \$ 13,768,836 | \$ 12,204,446 |
| Deferred costs | 6,316,816 | 6,706,586 |
| Total | \$ 20,085,652 | \$ 18,911,032 |
| Statutory rate | 32.28% | 33.17% |
| Potential future income tax assets | \$ 6,483,907 | \$ 6,272,663 |
| Valuation allowance | (6,483,907) | (6,483,907) |
| Carrying value | <u>\$ -</u> | <u>\$ -</u> |

At December 31, 2005, non-capital losses are available to reduce taxable income in Canada and expire in stages to 2015 as follows:

| Expiry Date | Amount \$ |
|-------------|------------------|
| 31-Dec-05 | 234,000 |
| 31-Dec-06 | 169,000 |
| 31-Dec-07 | 197,000 |
| 31-Dec-08 | 184,000 |
| 31-Dec-09 | 210,000 |
| 31-Dec-10 | 252,000 |
| 31-Dec-14 | 247,000 |
| 31-Dec-15 | 551,000 |
| | <u>2,044,000</u> |

The Company has an additional \$11.7 million dollars in tax losses in Papua New Guinea. The potential future tax benefits relating to these amounts have not been reflected in the financial statements, as their utilisation is not considered likely.

12. CONTRIBUTED SURPLUS

| | December 31, 2005 | December 31, 2004 |
|--|----------------------|----------------------|
| Balance, beginning of year | \$ 1,197,018 | \$ 866,193 |
| Stock-based compensation for options and agents' warrants granted in year | 1,147,248 | 682,696 |
| Stock-based compensation related to stock options and agents' warrants exercised during 2004 | - | (351,871) |
| Balance, end of year | <u>\$ 2,344,266</u> | <u>\$ 1,197,018</u> |

13. SUBSEQUENT EVENTS

In addition to items mentioned elsewhere in these notes the following occurred during the period subsequent to December 31, 2005:

- The Company completed a private placement issuing 32,850,000 Units at \$0.20 per unit, each Unit consisted of one common share and one share purchase warrant, exercisable into an additional share for a period of two years from closing at an exercise price of \$0.30. Cash commissions of \$429,662, 615,438 Units at a price of \$0.20 per Unit, and 3,285,000 Agent's Warrants were paid in connection with the financing.
- The Company completed a private placement of 2,150,000 Units at \$0.20 per Unit, each Unit with the same terms as those in the previous private placement. Finder's fees of \$2,500 and 15,000 Agent's Warrants were paid in connection with the financing.
- The Company granted 550,000 stock options to employees and consultants exercisable at a price of \$0.23 for a five-year period.
- The Company issued 150,000 common shares for proceeds of \$34,500 on the exercise of stock options.