

**NEW GUINEA GOLD CORPORATION**

**Audited Consolidated Financial Statements  
Years ended December 31, 2006 and 2005**

**DE VISSER GRAY LLP**  
**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, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows, 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DeVisser Gray"

**CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
April 30, 2007

**NEW GUINEA GOLD CORPORATION**

**Consolidated Balance Sheets**

As at December 31,

	<u>2006</u>	<u>2005</u>
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term deposits	1,455,512	1,700,535
Amounts receivable	593,908	201,008
Prepaid expenses	155,750	11,450
Marketable securities (note 4)	<u>214,200</u>	<u>214,200</u>
	2,419,370	2,127,193
<b>Mining deposits receivable</b> (note 5)	56,521	55,272
<b>Equipment</b> (note 6)	1,452,490	1,210,202
<b>Mineral properties</b> (schedule, note 8)	4,673,977	2,949,794
<b>Mine development</b> (schedule, notes 2e, 8)	7,548,280	1,103,394
	<u>16,150,638</u>	<u>7,445,855</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	932,623	233,341
Due to related parties (note 3)	<u>495,311</u>	<u>445,869</u>
	1,427,934	679,210
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (note 7b)	26,988,402	18,614,693
<b>Contributed surplus</b> (note 7)	3,222,786	2,344,266
<b>Deficit</b>	<u>(15,488,484)</u>	<u>(14,192,314)</u>
	14,722,704	6,766,645
	<u>16,150,638</u>	<u>7,445,855</u>

**Continuing operations** (note 1)

Approved by the Board of Directors:

"Robert D. McNeil"

Director

"Judith O'Quinn"

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,

	<b>2006</b>	<b>2005</b>
	\$	\$
<b>Expenses</b>		
Amortization	323,880	258,442
Bank charges and interest	6,927	2,540
Exploration expenditure written off	30,311	-
Foreign exchange (gain)/loss	(60,738)	151,582
Gain on disposal of equipment	(53,425)	-
Insurance	11,551	23,097
Interest income*	(239,007)	(90,309)
Office	33,598	49,962
Professional fees	104,694	89,305
Repairs and maintenance	249,566	151,763
Rent	15,662	13,711
Shareholder communications	150,524	177,580
Stock-based compensation (note 7c)	385,800	1,147,248
Transfer agent and regulatory	35,441	17,339
Wages and benefits	301,386	442,207
<b>Net loss for the year</b>	(1,296,170)	(2,434,467)
<b>Deficit, beginning of year</b>	(14,192,314)	(11,757,847)
<b>Deficit, end of year</b>	(15,488,484)	(14,192,314)
<b>Loss per share</b>	\$ (0.01)	\$ (0.04)
<b>Weighted average number of common shares outstanding</b>	97,729,650	64,913,496

\*Includes \$60,774 operator's fee income (2005: \$21,929)

*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,

<b>Cash provided by (used for):</b>	<b>2006</b>	<b>2005</b>
	\$	\$
<b>Operating Activities</b>		
Net loss for the year	(1,296,170)	(2,434,467)
Adjustment for items not involving cash		
Amortization	323,880	258,442
Stock-based compensation	385,800	1,147,248
Gain on sale of equipment	(53,425)	-
Foreign exchange adjustment for opening cash balance	(10,602)	(10,743)
	(650,517)	(1,039,520)
Changes in non-cash working capital items:		
Amounts receivable	(392,900)	78,247
Prepaid expenses	(144,300)	(10,000)
Accounts payable and accrued liabilities	(24,008)	8,029
	(1,211,725)	(963,244)
<b>Investing Activities</b>		
Purchase of equipment	(643,424)	(673,466)
Sale of equipment	130,681	-
Mineral property exploration expenditures	(2,465,929)	(1,629,202)
Mine development expenditures	(4,930,408)	-
Mining deposits	(1,249)	(24,589)
	(7,910,329)	(2,327,257)
<b>Financing Activities</b>		
Common shares issued for cash	9,439,449	-
Share issue costs	(573,020)	-
	8,866,429	-
<b>Decrease in cash during the year</b>	(255,625)	(3,290,501)
<b>Foreign exchange adjustment to opening balance cash</b>	10,602	10,743
<b>Cash - beginning of year</b>	1,700,535	4,980,293
<b>Cash - end of year</b>	1,455,512	1,700,535

**Supplemental Disclosure of Non-Cash Investing and Financing Activities:**

During 2006, the Company:

- Issued 315,440 units comprising of one common share and one share purchase warrant valued at \$63,088 in respect of share issue costs.
- Issued 3,300,000 Agent's Warrants with a fair value of \$532,950 in respect of share issue costs.

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.

*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, 2004 \$	Expenditures (Recoveries) \$	Balance December 31, 2005 \$	Expenditures (Recoveries) \$	Balance December 31, 2006 \$
<b>Normanby</b>					
Acquisition costs	11,577	4,078	15,655	10,589	26,244
Exploration costs:					
Drilling	175,423	212,616	388,039	180,654	588,693
Salaries, wages & fees	85,191	116,099	201,290	320,030	521,320
Travel & accommodation	25,822	27,439	53,261	55,337	108,598
Geological services & investigations	62,522	36,153	98,675	85,159	183,834
Field supplies & services	265,760	205,782	471,542	337,457	808,999
Community compensation	6,275	7,350	13,625	(2,391)	11,234
Field office	36,683	51,780	88,463	110,414	198,877
	<u>669,253</u>	<u>661,297</u>	<u>1,330,550</u>	<u>1,097,249</u>	<u>2,427,799</u>
<b>Sehuela</b>					
Acquisition costs	38,376	1,999	40,375	4,504	44,879
Exploration costs:					
Drilling	28,672	14,453	43,125	1,813	44,938
Salaries, wages & fees	30,375	48,122	78,497	24,835	103,332
Travel & accommodation	3,966	6,082	10,048	10,791	20,839
Geological services & investigations	14,355	6,539	20,894	16,054	36,948
Field supplies & services	30,701	56,007	86,708	45,506	132,214
Community compensation	4,163	2,301	6,464	193	6,657
Field office	5,807	15,524	21,331	10,173	31,504
Write down of mineral right costs	(8,264)	-	(8,264)	-	(8,264)
	<u>148,151</u>	<u>151,027</u>	<u>299,178</u>	<u>113,869</u>	<u>413,047</u>
<b>Feni</b>					
Exploration costs:					
Salaries, wages & fees	19,745	-	19,745	-	19,744
Travel & accommodation	20,461	-	20,461	-	20,461
Geological services & investigations	409	-	409	-	409
Field supplies & services	47,461	-	47,461	-	47,462
Community compensation	460	-	460	-	460
Field office	20,822	-	20,822	-	20,822
Option payments received	(147,600)	(66,600)	(214,200)	-	(214,200)
	<u>(38,242)</u>	<u>(66,600)</u>	<u>(104,842)</u>	<u>-</u>	<u>(104,842)</u>
<b>Mt. Nakru</b>					
Acquisition costs	2,630	2,193	4,823	1,849	6,672
Exploration costs:					
Drilling	-	-	-	3,562	3,562
Salaries, wages & fees	26,928	33,295	60,223	29,700	89,923
Travel & accommodation	10,998	12,883	23,881	8,457	32,338
Geological services & investigations	1,324	3,281	4,605	49,385	53,990
Field supplies & services	49,567	132,604	182,171	50,647	232,818
Community compensation	25	32	57	8,369	8,426
Field office	5,982	13,935	19,917	13,133	33,050
Write down of mineral right costs	(32,307)	-	(32,307)	-	(32,307)
	<u>65,147</u>	<u>198,223</u>	<u>263,370</u>	<u>165,102</u>	<u>428,472</u>

**NEW GUINEA GOLD CORPORATION**  
**Consolidated Schedule of Deferred Mineral Property Costs**

	Balance, December 31, 2004	Expenditures (Recoveries)	Balance, December 31 2005	Expenditures (Recoveries)	Balance, December 31, 2006
	\$	\$	\$	\$	\$
<b>Mt. Simuku</b>					
Acquisition costs	60,370	2,171	62,541	6,204	68,745
Exploration costs:					
Drilling	-	-	-	1,962	1,962
Salaries, wages & fees	60,224	81,691	141,915	44,707	186,622
Travel & accommodation	20,106	45,070	65,176	8,323	73,499
Geological services & investigations	39,091	95,843	134,934	50,992	185,926
Field supplies & services	77,654	198,445	276,099	59,415	335,514
Community compensation	2,575	3,258	5,833	198	6,031
Field office	13,178	31,592	44,770	13,056	57,826
Write down of mineral right costs	(34,288)	-	(34,288)	-	(34,288)
	<u>238,910</u>	<u>458,070</u>	<u>696,980</u>	<u>184,857</u>	<u>881,837</u>
<b>Mt. Penck</b>					
Acquisition costs	15,692	9,793	25,485	1,359	26,844
Exploration costs:					
Drilling	130,008	5,472	135,480	76,187	211,667
Salaries, wages & fees	38,370	33,562	71,932	158,672	230,604
Travel & accommodation	12,552	10,449	23,001	28,397	51,398
Geological services & investigations	26,332	8,690	35,022	74,352	109,374
Field supplies & services	98,459	42,895	141,354	184,244	325,598
Community compensation	2,883	112	2,995	12,195	15,190
Field office	24,601	-	24,601	47,146	71,747
	<u>348,897</u>	<u>110,973</u>	<u>459,870</u>	<u>582,552</u>	<u>1,042,422</u>
<b>Mt. Allemata</b>					
Acquisition costs	15,761	3,186	18,947	-	18,947
Exploration costs:					
Drilling	1,836	72,086	73,922	-	73,922
Salaries, wages & fees	19,193	34,513	53,706	2,033	55,739
Travel & accommodation	3,933	9,011	12,944	304	13,248
Geological services & investigations	17,097	15,058	32,155	7,130	39,285
Field supplies & services	25,458	37,772	63,230	846	64,076
Community compensation	435	1,921	2,356	-	2,356
Field office	7,288	-	7,288	1,478	8,766
	<u>91,001</u>	<u>173,547</u>	<u>264,548</u>	<u>11,791</u>	<u>276,339</u>
<b>Other</b>					
Acquisition costs	61,313	15,030	76,343	6,602	82,945
Exploration costs:					
Drilling	-	-	-	421	421
Salaries, wages & fees	41,406	499	41,905	20,913	62,818
Travel & accommodation	23,403	12,008	35,411	1,791	37,202
Geological services & investigations	32,918	23,918	56,836	21,885	78,721
Field supplies & services	28,810	35,327	64,137	5,971	70,108
Community compensation	5,004	2,859	7,863	(2,513)	5,350
Field office	14,725	3,478	18,203	3,869	22,072
Joint venture recoveries	-	(35,339)	(35,339)	-	(35,339)
Write down of mineral right costs	(5,051)	-	(5,051)	(21,434)	(26,485)
	<u>202,528</u>	<u>57,780</u>	<u>260,308</u>	<u>37,505</u>	<u>297,813</u>
<b>Total deferred mineral property costs</b>	<u>1,725,645</u>	<u>1,774,317</u>	<u>3,469,962</u>	<u>2,192,925</u>	<u>5,662,887</u>

**NEW GUINEA GOLD CORPORATION**  
**Consolidated Schedule of Mine Development Costs**

	Balance, December 31, 2004*	Expenditures (Recoveries)*	Balance, December 31 2005*	Expenditures (Recoveries)	Balance, December 31, 2006
	\$	\$	\$	\$	\$
<b>Mt. Sinivit</b>					
Acquisition costs	194,026	8,310	202,336	560	202,896
Exploration costs:					
Drilling	-	-	-	88,377	88,377
Salaries, wages & fees	98,393	96,248	194,641	208,663	403,304
Travel & accommodation	32,636	56,605	89,241	40,590	129,831
Geological services & investigations	55,841	87,919	143,760	98,835	242,595
Field supplies & services	73,707	277,983	351,690	415,420	767,110
Community compensation	17,483	19,548	37,031	5,205	42,236
Field office	30,687	54,008	84,695	382,489	467,184
Mine development costs	-	-	-	5,328,628	5,328,628
	<u>502,773</u>	<u>600,621</u>	<u>1,103,394</u>	<u>6,568,767</u>	<u>7,672,161</u>
Operating fees and other recoveries	-	-	-	(123,881)	(123,881)
<b>Total mine development costs</b>	<u>502,773</u>	<u>600,621</u>	<u>1,103,394</u>	<u>6,444,886</u>	<u>7,548,280</u>

\* Comparative figures – refer to note 2o

**NEW GUINEA GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
Years Ended December 31, 2006 and 2005

**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. The carrying amount of deferred mineral exploration costs on all its other properties 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, New Guinea Gold Ltd ("NGGL") (formerly Macmin (PNG) Ltd), 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, NGGL 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) Mine Development (Mt Sinivit)**

The Mt Sinivit property costs, where mine development is in progress, have been separated from other mineral properties. The mine development amount includes equipment on site, which will be transferred to equipment when the development is completed. Amortization on these assets will be charged upon the commencement of commercial production.

**f) 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.

**g) 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%.

**h) 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.

**i) 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.

**j) Marketable Securities**

The Company's marketable securities are carried at cost, unless there is a loss in value that is other than temporary, at which time the investments will be written down to their estimated market value.

**k) 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.

**l) 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)**

### **m) 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, 2006 the Company does not have any asset retirement obligations.

### **n) 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.

### **o) Comparative Figures**

Certain 2005 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2006.

### **p) Joint Ventures**

The Company accounts for its interest in its mineral properties using the proportionate consolidation method.

## **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, 2006, the Company owed Macmin \$495,311 for exploration expenditures paid for by Macmin (2005 - \$445,869).

## **4. MARKETABLE SECURITIES**

The Company's marketable securities at December 31, 2006 consist of 540,000 shares of Vangold Resources Ltd. with a fair market value of \$216,000 and a book value of \$214,200.

## **5. MINING DEPOSITS RECEIVABLE**

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

## **6. EQUIPMENT**

Comprises the Sinivit mine development.

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Equipment	2,124,523	676,923	1,447,600	1,206,332
Furniture and fixtures	13,479	8,589	4,890	3,870
	<u>2,138,002</u>	<u>685,512</u>	<u>1,452,490</u>	<u>1,210,202</u>

## 7. SHARE CAPITAL AND RELATED INFORMATION

a) **Authorized:** Unlimited common shares without par value

b) **Issued and outstanding:**

	Number of Shares	Amount \$	Contributed Surplus \$
Balance, January 1, 2004	64,913,496	18,614,693	1,197,018
Stock-based compensation	-	-	1,147,248
Balance, December 31, 2005	64,913,496	18,614,693	2,344,266
Issued for:			
Private placements	35,615,438	<sup>(1)</sup> 5,940,082	-
Exercise of warrants	7,924,500	<sup>(1)</sup> 2,331,297	-
Exercise of options	270,000	62,100	-
Stock based compensation on exercises	-	40,230	(40,230)
Stock-based compensation	-	-	918,750
Balance, December 31, 2006	108,723,434	26,988,402	3,222,786

(1) Net of issue costs of \$1,169,058, of which \$573,020 was paid in cash, \$63,088 was paid by the issuance of 315,440 Units at \$0.20 per Unit and the issuance of 3,300,000 Agent's Warrants with a fair value of \$532,950. Each Unit consisted of one common share and one share purchase warrant, exercisable into an additional common share for a period of two years at an exercise price of \$0.30. The Agent's Warrants have the same terms as the warrants included in the Units above.

c) **Stock options**

Stock option activity for 2006 and 2005:

	2006		2005	
	Number of Options	Weighted average exercise price \$	Number of Options	Weighted average exercise price \$
Balance – beginning of year	5,185,000	0.39	3,615,000	0.45
Granted	1,500,000	0.28	1,570,000	0.23
Exercised	(270,000)	0.23	-	-
Cancelled / expired	(660,000)	0.36	-	-
Balance – end of year	5,755,000	0.36	5,185,000	0.39

At December 31, 2006, the weighted average remaining life of options outstanding was 3.0 years.

The fair value of stock options and warrants granted during 2005 and 2006 are estimated using the Black-Scholes option pricing model using the following assumptions:

	2006	2005
Risk-free interest rate	3.83% - 4.26%	3.6%
Estimated volatility	109% - 112%	91%
Expected lives	2 years	3 years

The weighted average fair value of options granted for the year ended December 31, 2006 was \$0.26 (2005 - \$0.15)

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 values of grants of the Company's stock options.

d) **Warrants**

Warrants outstanding at December 31, 2006:

Number of warrants	Exercise Price	Expiry Date
30,989,938	\$0.30	20 February 2008

## 8. MINERAL PROPERTIES

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

The Company has various interests in twelve exploration projects in Papua New Guinea through its wholly-owned subsidiary New Guinea Gold Ltd (formerly Macmin PNG) and its 50% owned subsidiary Kanon Resources Ltd. The Company has a 100% interest in five of the projects, a 90% interest in two, a 60% interest in one, and 50% interest in 4 of the projects.

The Company is conducting operations on the Sinivit, Normanby, Sehulea, Simuku, and Mt. Penck Projects:

### **Sinivit**

The Sinivit Property on, which the Company is currently constructing a Vat Processor, is held under three titles in which New Guinea Gold 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 kilometres.

### **Mt. Penck**

The Company earned a 20% interest in the Mt. Penck property from Kanon Resources Ltd. 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 license covers 102.6 square kilometers in area and is 55 kilometers west of Kimbe in the West New Britain Province.

### **The Company has optioned out the following projects:**

#### **Crater Mountain**

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

#### **Feni**

- Vangold Resources Ltd. (Vangold), 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 by 30 June 2008, and by issuing to the Company 800,000 shares in stages prior to June 30, 2008 (600,000 shares received at December, 31, 2006). 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 issuing 5% of its then issued share capital to the Company. Funding for exploration is now contributed equally by the Company and Kanon.

### **NSR and production bonus in respect of certain Mineral Properties**

Seven of the twelve projects, Sinivit, Normanby, Sehulea, Simuku, Mt Nakru, Feni, and Crater Mountain are each subject to a 1% Net Smelter Royalty (NSR) payable to Macmin Silver Ltd. In addition, if any mine is developed on these properties and production is achieved in excess of 50,000 ounces of gold or equivalent in any year, then a once-only issue of 9% of the Company's issued share capital to Macmin Silver Ltd is to be made.

## 9. SEGMENTED INFORMATION

Assets by geographic segment, at cost:

	December 31, 2006			
	Papua New Guinea	Canada	Australia	Total
	\$	\$	\$	\$
Current assets	1,458,806	956,748	3,816	2,419,370
Equipment	1,447,196	5,294	-	1,452,490
Mineral Properties	12,222,257	-	-	12,222,257
Other	56,521	-	-	56,521
	<u>15,184,780</u>	<u>962,042</u>	<u>3,816</u>	<u>16,150,638</u>

  

	December 31, 2005			
	Papua New Guinea	Canada	Australia	Total
	\$	\$	\$	\$
Current assets	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>

## 10. INCOME TAXES

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

	2006	2005
Net loss	\$ 1,296,170	\$ 2,434,467
Effective statutory rate	31.67 %	32.28 %
Expected taxes payable	\$ 410,497	\$ 785,846
Net effect of non-deductible amounts	(122,179)	(370,346)
Valuation allowance	(288,318)	(415,500)
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, 2006 are as follows:

	December 31, 2006	December 31, 2005
Potential future income tax assets:		
Canadian non capital loss carry-forwards	\$ 967,302	\$ 953,518
Canadian resource pools	2,285,699	2,251,048
Papua New Guinea future tax assets	1,113,600	1,057,800
Total	\$ 4,366,601	\$ 4,262,366
Valuation allowance	(4,366,601)	(4,262,366)
Carrying value	<u>\$ -</u>	<u>\$ -</u>

## 10. INCOME TAXES *(continued)*

At December 31, 2006, non-capital losses are available to reduce taxable income in Canada and expire in stages to 2026 as follows:

<u>Expiry Date</u>	<u>Amount \$</u>
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	1,606,000
31-Dec-26	139,000
	<u>2,835,000</u>

## 11. SUBSEQUENT EVENTS

In addition to items mentioned elsewhere in these notes the following occurred during the period subsequent to December 31, 2006:

- The Company issued 12,000,000 Units for net proceeds of \$5,040,000 pursuant to a private placement. Each Unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable to purchase one common share at a price of \$0.55 for two years. The company paid commissions in cash and Units totalling \$378,000 and issued 187,000 agents warrants with the same terms as the Unit Warrants in connection with the private placement.
- The Company received \$369,666 and issued 1,126,600 shares pursuant to the exercise of 379,400 options and 747,200 warrants.