

NEW GUINEA GOLD CORPORATION

**Audited Consolidated Financial Statements
Years ended December 31, 2007 and 2006**

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, 2007 and 2006 and the consolidated statements of operations and deficit, comprehensive loss 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, 2007 and 2006 and the results of its operations, comprehensive loss and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DeVisser Gray"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
April 29, 2008

NEW GUINEA GOLD CORPORATION
Consolidated Balance Sheets
As at December 31,

	2007	2006
	\$	\$
ASSETS		
Current assets		
Cash and short-term deposits	1,680,345	1,455,512
Amounts receivable	1,482,883	593,908
Prepaid expenses	104,211	155,750
Marketable securities (note 5)	254,800	214,200
	3,522,239	2,419,370
Mining deposits receivable (note 6)	50,334	56,521
Long term receivables (note 7)	1,345,197	-
Investments (note 8)	2,376,543	-
Equipment (note 9)	3,361,157	1,452,490
Mineral properties (schedule, note 12)	3,918,970	4,673,977
Mine development (schedule, notes 2e, 12)	9,507,700	7,548,280
	24,082,140	16,150,638
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2,412,714	932,623
Due to related parties (note 3)	661,659	495,311
	3,074,373	1,427,934
SHAREHOLDERS' EQUITY		
Share capital (note 11b)	34,295,465	26,988,402
Contributed surplus (note 11b)	4,160,340	3,222,786
Accumulated other comprehensive income (notes 5 and 10)	29,934	-
Deficit	(17,477,972)	(15,488,484)
	21,007,767	14,722,704
	24,082,140	16,150,638
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,

	2007	2006
	\$	\$
Expenses		
Amortization	322,772	323,880
Bank charges and interest	209,841	6,927
Exploration expenditures written off	10,191	30,311
Foreign exchange (gain)	(230,595)	(60,738)
Gain on sale of investments	(27,923)	-
Insurance	68,816	11,551
Interest and other income*	(534,990)	(239,007)
Loss on de-consolidation of a subsidiary	216,827	-
Loss/(gain) on disposal of equipment	23,431	(53,425)
Office	26,940	33,598
Option payments received	(194,842)	-
Professional fees	76,305	104,694
Repairs and maintenance	305,947	249,566
Rent	19,969	15,662
Share of equity accounted associates	177,197	-
Shareholder communications	175,312	150,524
Stock-based compensation (note 11c)	877,473	385,800
Transfer agent and regulatory	18,398	35,441
Wages and benefits	448,419	301,386
Net loss for the year	(1,989,488)	(1,296,170)
Deficit, beginning of year	(15,488,484)	(14,192,314)
Deficit, end of year	(17,477,972)	(15,488,484)
Loss per share	(0.02)	(0.01)
Weighted average number of common shares outstanding	120,887,224	97,729,650

*Includes \$36,218 operator's fee income (2006: \$60,774)

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

NEW GUINEA GOLD CORPORATION
Consolidated Statement of Comprehensive Loss
For the Years Ended December 31,

	2007
	\$
Net loss for the year	(1,989,488)
Other comprehensive income in the year	<u>28,134</u>
Comprehensive loss for the year	<u>(1,961,354)</u>

* *Standard adopted prospectively at the outset of the current fiscal year*

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,

	<u>2007</u>	<u>2006</u>
	\$	\$
Cash provided by (used for):		
Operating Activities		
Net loss for the year	(2,184,330)	(1,296,170)
Adjustment for items not involving cash		
Amortization	322,772	323,880
Stock-based compensation	877,473	385,800
Loss/(gain) on sale of equipment	23,431	(53,425)
Gain on sale of investments	(27,923)	-
Exploration expenditure written off	10,191	-
Increase/(Decrease) in diminution provision	(76,304)	-
Loss attributable to equity accounting of associates	177,197	-
Loss/(gain) on transfer exploration properties	(74,188)	-
Loss on de-consolidation of former 50% owned subsidiary	216,827	-
Foreign exchange adjustments for prior year amounts	3,291	-
Foreign exchange adjustment for opening cash balance	85,487	(10,602)
	<u>(646,076)</u>	<u>(650,517)</u>
Changes in non-cash working capital items:		
Amounts receivable	(833,608)	(392,900)
Prepaid expenses	51,539	(144,300)
Accounts payable and accrued liabilities	176,527	(24,008)
	<u>(1,251,618)</u>	<u>(1,211,725)</u>
Investing Activities		
Purchase of equipment	(723,345)	(643,424)
Sale of equipment	-	130,681
Sale of investments	107,257	-
Mineral property exploration expenditures	(1,576,292)	(2,465,929)
Mine development expenditures	(3,600,454)	(4,930,408)
Mining deposits	-	(1,249)
	<u>(5,792,834)</u>	<u>(7,910,329)</u>
Financing Activities		
Common shares issued for cash	7,856,316	9,439,449
Share issue costs	(489,172)	(573,020)
	<u>7,367,144</u>	<u>8,866,429</u>
Increase/(decrease) in cash during the year	322,692	(255,625)
Foreign exchange adjustment to opening cash balance	(85,487)	10,602
Adjustment to opening cash balance for share of de-consolidated subsidiary's prior year cash balance	(12,372)	-
Cash - beginning of year	<u>1,455,512</u>	<u>1,700,535</u>
Cash - end of year	<u><u>1,680,345</u></u>	<u><u>1,455,512</u></u>

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

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

During 2007, the Company:

- Issued 188,708 units comprising of one common share and one share purchase warrant valued at \$79,258 in respect of share issue costs.
- Issued 1,373,250 Agent's Warrants with a fair value of \$293,906 in respect of share issue costs.
- Exchanged 22,500,000 shares, with a fair value of \$1,527,428, in Pacific Kanon Gold Corporation for its interest in Kanon Resources Limited (see note 4).
- Exchanged 29,473,683 shares, with a fair value of \$953,462, in Coppermoly Limited for its interest in the Mt Nakru and Simuku mineral properties (see note 4).
- Received 200,000 shares valued at \$100,000 in Vangold Limited as part of the agreement for Vangold to increase its interest in the Feni mineral property by a further 25%, 20,000 of these shares (\$10,000) were assigned to a third party as a finder's fee.

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.

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, 2005 \$	Expenditures (Re- allocations) \$	Balance December 31, 2006 \$	Expenditures (Re- allocations) \$	Balance December 31, 2007 \$
Normanby					
Acquisition costs	15,655	10,589	26,244	28,896	55,140
Exploration costs:					
Drilling	388,039	180,654	568,693	127,396	696,089
Salaries, wages & fees	201,290	320,030	521,320	254,394	775,714
Travel & accommodation	53,261	55,337	108,598	53,790	162,388
Geological services & investigations	98,675	85,159	183,834	237,709	421,543
Field supplies & services	471,542	337,457	808,999	224,366	1,033,365
Community compensation	13,625	(2,391)	11,234	3,721	14,955
Field office	88,463	110,414	198,877	184,135	383,012
	<u>1,330,550</u>	<u>1,097,249</u>	<u>2,427,799</u>	<u>1,114,407</u>	<u>3,542,206</u>
Shulea					
Acquisition costs	40,375	4,504	44,879	(8,920)	35,959
Exploration costs:					
Drilling	43,125	1,813	44,938	38,128	83,066
Salaries, wages & fees	78,497	24,835	103,332	1,143	104,475
Travel & accommodation	10,048	10,791	20,839	13,835	34,674
Geological services & investigations	20,894	16,054	36,948	57,692	94,640
Field supplies & services	86,708	45,506	132,214	73,260	205,474
Community compensation	6,464	193	6,657	2,464	9,121
Field office	21,331	10,173	31,504	74,113	105,617
Write down of mineral right costs	(8,264)	-	(8,264)	(127,908)	(136,172)
	<u>299,178</u>	<u>113,869</u>	<u>413,047</u>	<u>123,807</u>	<u>536,854</u>
Feni					
Exploration costs:					
Salaries, wages & fees	19,745	-	19,745	(19,745)	-
Travel & accommodation	20,461	-	20,461	(20,461)	-
Geological services & investigations	409	-	409	(409)	-
Field supplies & services	47,461	-	47,461	(47,461)	-
Community compensation	460	-	460	(460)	-
Field office	20,822	-	20,822	(20,822)	-
Option payments received	(214,200)	-	(214,200)	214,200	-
	<u>(104,842)</u>	<u>-</u>	<u>(104,842)</u>	<u>104,842</u>	<u>-</u>
Mt. Nakru					
Acquisition costs	4,823	1,849	6,672	(6,672)	-
Exploration costs:					
Drilling	-	3,562	3,562	(3,562)	-
Salaries, wages & fees	60,223	29,700	89,923	(89,923)	-
Travel & accommodation	23,881	8,457	32,338	(32,338)	-
Geological services & investigations	4,605	49,385	53,990	(53,990)	-
Field supplies & services	182,171	50,647	232,818	(232,818)	-
Community compensation	57	8,369	8,426	(8,426)	-
Field office	19,917	13,133	33,050	(33,050)	-
Write down of mineral right costs	(32,307)	-	(32,307)	32,307	-
	<u>263,370</u>	<u>165,102</u>	<u>428,472</u>	<u>(428,472)</u>	<u>-</u>

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NEW GUINEA GOLD CORPORATION
Consolidated Schedule of Deferred Mineral Property Costs

	Balance, December 31 2005	Expenditures (Re- allocations)	Balance, December 31, 2006	Expenditures (Re- allocations)	Balance, December 31, 2007
	\$	\$	\$	\$	\$
Mt. Simuku					
Acquisition costs	62,541	6,204	68,745	(68,745)	-
Exploration costs:					
Drilling	-	1,962	1,962	(1,962)	-
Salaries, wages & fees	141,915	44,707	186,622	(186,622)	-
Travel & accommodation	65,176	8,323	73,499	(73,499)	-
Geological services & investigations	134,934	50,992	185,926	(185,926)	-
Field supplies & services	276,099	59,415	335,514	(335,514)	-
Community compensation	5,833	198	6,031	(6,031)	-
Field office	44,770	13,056	57,826	(57,826)	-
Write down of mineral right costs	(34,288)	-	(34,288)	34,288	-
	<u>696,980</u>	<u>184,857</u>	<u>881,837</u>	<u>(881,837)</u>	<u>-</u>
Mt. Penck					
Acquisition costs	25,485	1,359	26,844	(18,670)	8,174
Exploration costs:					
Drilling	135,480	76,187	211,667	(88,332)	123,335
Salaries, wages & fees	71,932	158,672	230,604	(48,914)	181,690
Travel & accommodation	23,001	28,397	51,398	(9,967)	41,431
Geological services & investigations	35,022	74,352	109,374	1,455	110,829
Field supplies & services	141,354	184,244	325,598	(114,743)	210,855
Community compensation	2,995	12,195	15,190	(6,392)	8,798
Field office	24,601	47,146	71,747	(21,158)	50,589
	<u>459,870</u>	<u>582,552</u>	<u>1,042,422</u>	<u>(306,721)</u>	<u>735,701</u>
Mt. Allenata					
Acquisition costs	18,947	-	18,947	(18,947)	-
Exploration costs:					
Drilling	73,922	-	73,922	(73,922)	-
Salaries, wages & fees	53,706	2,033	55,739	(55,739)	-
Travel & accommodation	12,944	304	13,248	(13,248)	-
Geological services & investigations	32,155	7,130	39,285	(39,285)	-
Field supplies & services	63,230	846	64,076	(64,076)	-
Community compensation	2,356	-	2,356	(2,356)	-
Field office	7,288	1,478	8,766	(8,766)	-
	<u>264,548</u>	<u>11,791</u>	<u>276,339</u>	<u>(276,339)</u>	<u>-</u>

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, 2005	Expenditures (Re- allocations)	Balance, December 31, 2006	Expenditures (Re- allocations)	Balance, December 31, 2007
	\$	\$	\$	\$	\$
Other					
Acquisition costs	76,343	6,602	82,945	(74,415)	8,530
Exploration costs:					
Drilling	-	421	421	178,693	179,114
Salaries, wages & fees	41,905	20,913	62,818	(5,958)	56,860
Travel & accommodation	35,411	1,791	37,202	(32,737)	4,465
Geological services & investigations	56,836	21,885	78,721	(66,355)	12,366
Field supplies & services	64,137	5,971	70,108	(57,658)	12,450
Community compensation	7,863	(2,513)	5,350	(4,375)	975
Field office	18,203	3,869	22,072	(4,502)	17,570
Joint venture recoveries	(35,339)	-	(35,339)	809	(34,530)
Write down of mineral right costs	(5,051)	(21,434)	(26,485)	(945)	(27,430)
	<u>260,308</u>	<u>37,505</u>	<u>297,813</u>	<u>(67,443)</u>	<u>230,370</u>
Reallocation of costs	<u>(520,168)</u>	<u>(468,742)</u>	<u>(988,910)</u>	<u>(137,251)</u>	<u>(1,126,161)</u>
Total deferred mineral property costs	<u><u>2,949,794</u></u>	<u><u>1,724,183</u></u>	<u><u>4,673,977</u></u>	<u><u>(755,007)</u></u>	<u><u>3,918,970</u></u>

Consolidated Schedule of Mine Development Costs

	Balance, December 31, 2005	Expenditures (Re- allocations)	Balance, December 31, 2006	Expenditures (Re- allocations)	Balance, December 31, 2007
	\$	\$	\$	\$	\$
Mt. Sinivit					
Acquisition costs	202,336	560	202,896	105,574	308,470
Exploration costs:					
Drilling	-	88,377	88,377	(16,641)	71,736
Salaries, wages & fees	194,641	208,663	403,304	(285,533)	117,771
Travel & accommodation	89,241	40,590	129,831	(100,880)	28,951
Geological services & investigations	143,760	98,835	242,595	(144,085)	98,510
Field supplies & services	351,690	415,420	767,110	(666,112)	100,998
Community compensation	37,031	5,205	42,236	(29,180)	13,056
Field office	84,695	382,489	467,184	(396,259)	70,925
Mine development costs	-	5,328,628	5,328,628	3,770,725	9,099,353
	<u>1,103,394</u>	<u>6,568,767</u>	<u>7,672,161</u>	<u>2,237,609</u>	<u>9,909,770</u>
Reallocation of costs	<u>-</u>	<u>(123,881)</u>	<u>(123,881)</u>	<u>(278,189)</u>	<u>(402,070)</u>
Total mine development costs	<u><u>1,103,394</u></u>	<u><u>6,444,886</u></u>	<u><u>7,548,280</u></u>	<u><u>1,959,420</u></u>	<u><u>9,507,700</u></u>

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

NEW GUINEA GOLD CORPORATION

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

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 yet generate a cash flow from operations. In order to pay for future work performed on its mineral properties and administrative costs, the Company may 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"). References to the Company included herein are inclusive of the Canadian parent company and NGGL.

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 and the deferred costs related to the mine have been reallocated to the mine development account. The mine development amount from previous years included equipment on site, which has been transferred to equipment during the current year. Amortization on these assets has been capitalised to mine development to 31 December 2007 awaiting commencement of commercial production.

f) Translation of Foreign Currencies

The Company translates the results of 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 the 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

Marketable securities held by the Company are considered to be "available for sale securities" and are reported at fair value with any unrealized holding gains and losses included in current other comprehensive income, a component of shareholders' equity.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Diluted loss per share is not shown as it is anti-dilutive.

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, 2007 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 discounted 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) Joint Ventures

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

p) Change in accounting policy

In 2007 the Company adopted the new provisions prescribed by the Accounting Standards Board, “3855 Financial Instruments – Recognition and Measurement” and “1530 Comprehensive Income”. Under the new standards, all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. Investments classified as available for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other income or loss. Investments subject to significant influence are reported at cost and not adjusted to fair market value. Available-for-sale financial assets, including marketable securities, will be measured at fair value with changes in fair value recognized in other comprehensive income (OCI).

Comprehensive income is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. The amounts recognized in accumulated OCI will be reclassified to net income in the periods in which available-for-sale financial assets are removed from the balance sheet. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net income (loss) until realized.

Transition adjustments to opening balance: the adoption of Sections 3855 and 1530 impacts the opening equity and losses of the Company. The unrealized gains on available-for-sale financial assets from prior periods are reflected in the opening balance of accumulated OCI.

The application of these new standards did not have a significant effect on the Company’s financial position, earnings or cash flows.

Accounting Policies Not Yet Adopted

The following pronouncements recently issued by the Canadian Institute of Chartered Accountants (“CICA”) will likely impact the Company’s future accounting policies:

(i) CICA Handbook Section 1535 - Capital Disclosures

This standard requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Company is currently evaluating the effects of adopting this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) *Financial Instruments - Disclosure (Section 3862) and Presentation (Section 3863)*

These standards replace CICA 3861, *Financial Instruments - Disclosure and Presentation*. They increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. This standard is effective for the Company for interim and annual periods beginning on or after January 1, 2008. The Company expects that its disclosures will be expanded to incorporate the additional requirements.

(iii) *International Financial Reporting Standards ("IFRS")*

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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, 2007, the Company owed Macmin \$661,659 for exploration and mine development expenditures paid for by Macmin (2006 - \$495,311).

4. CORPORATE RESTRUCTURE

On June 1, 2007, the Company transferred its 50% interest in its former subsidiary, Kanon Resources Ltd ("Kanon"), to Pacific Kanon Gold Corporation ("Pacific Kanon"), a Canadian in exchange for 22,500,000 of Pacific Kanon shares with a fair value of \$1,527,428.

Prior to this transaction, the Company considered its interest in Kanon to be joint venture and accordingly consolidated the accounts of Kanon, on a line by line basis, with those of its own. Subsequent to June 1, 2007 the Company accounts for its 45% interest in Pacific Kanon on the equity basis and has recognized a loss of \$216,827 from this adjustment, representing the difference between its 50% interest in Kanon's net assets immediately prior to the transaction and the fair value of its equity investment in Pacific Kanon immediately thereafter.

On October 12, 2007, the Company transferred its interest in mineral properties Simuku (EL 1077) and Mt Nakru (EL 1043) to Copper Quest Limited, a fully owned PNG subsidiary of an Australian public company Coppermoly Limited, in exchange for 29,473,683 shares with a fair value of \$953,462.

5. MARKETABLE SECURITIES

The Company's marketable securities at December 31, 2007 consist of 520,000 shares of Vangold Resources Ltd. with a fair market value of \$254,800 and a book value of \$224,866.

Marketable securities are shown at fair value on the balance sheet with unrealized gains included in accumulated Other Comprehensive Income ("OCI"). Unrealized gains from prior periods are included in the opening balance of accumulated OCI as a transitional adjustment.

6. MINING DEPOSITS RECEIVABLE

This amount is comprised of refundable deposits pledged with the Papua New Guinea Mining Department for reclamation of the Company's mineral tenements.

7. LONG TERM RECEIVABLES

	2007	2006
Goldmines of Niugini Holdings Limited	\$ 1,345,197	\$ -

Goldmines of Niugini Holdings Limited (“GMNH”) is the joint venture partner in the Mt Sinivit mine and holds a 10% interest. The long term receivable is GMNH’s share of mine development costs to 31 December 2007 plus applicable interest charges. This amount is only recoverable from 50% of GMNH share of positive cashflow from mine operations.

8. INVESTMENTS

	2007	2006
Investments carried at Cost	\$	\$
Goldmines of Niugini Holdings Limited	72,850	-
Investments valued using Equity Accounting		
Pacific Kanon Gold Corporation (owns Mt. Penck, Mt. Allemata and other claims) Value of shares issued on transfer of interest in Kanon Resources Ltd	1,527,428	-
Share of net loss for period	(31,984)	-
	1,495,444	-
Coppermoly Limited Value of shares issued on transfer of interest in Mt Nakru and Simuku mineral properties	953,462	-
Share of net loss for period	(145,213)	-
	808,249	-
Investments	2,376,543	-

9. EQUIPMENT

	2007		2006	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Equipment	5,219,800	1,862,576	3,357,224	1,447,600
Furniture and fixtures	13,410	9,477	3,933	4,890
	5,233,210	1,872,053	3,361,157	1,452,490

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (OCI)

	2007
	\$
Accumulated OCI - January 1, 2007	1,800
Total unrealized gains for 2007	28,134
Accumulated OCI - December 31, 2007	29,934

11. SHARE CAPITAL AND RELATED INFORMATION

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

b) **Issued and outstanding:**

	Number of Shares	Amount \$	Contributed Surplus \$
Balance, December 31, 2005	64,913,496	18,614,693	2,344,260
Issued for:			
Private placements	35,615,438	5,940,082	-
Exercise of warrants	7,924,500	2,331,297	-
Exercise of options	270,000	62,100	-
Fair value of options exercised	-	40,230	(40,230)
Stock-based compensation	-	-	918,750
Balance, December 31, 2006	108,723,434	26,988,402	3,222,780
Issued for:			
Private placements	14,688,708	5,506,922 ⁽¹⁾	-
Exercise of warrants	4,482,700	1,344,810 ⁽¹⁾	-
Exercise of options	679,400	221,506	-
Fair value of options exercised	-	233,825	(233,825)
Stock-based compensation	-	-	1,171,379
Balance, December 31, 2007	128,574,242	34,295,465	4,160,340

(1) Net of issue costs of \$862,336, of which \$489,172 was paid in cash, \$79,258 was paid by the issuance of 188,708 Units at \$0.42 per Unit and the issuance of 1,198,250 Agent's Warrants with a fair value of \$260,411. Each Unit consisted of one common share and one half share purchase warrant, exercisable into an additional common share for a period of two years at an exercise price of \$0.55. Those Agent's Warrants have the same terms as the warrants included in the Units above. An additional 175,000 Agent's Warrants were also issued with a fair value of \$33,495. Each of these additional Agent's Warrants are exercisable into an additional common share for a period of two years at an exercise price of \$0.65.

c) **Stock options**

Stock option activity for 2007 and 2006:

	2007		2006	
	Number of Options	Weighted average exercise price \$	Number of Options	Weighted average exercise price \$
Balance – beginning of year	5,755,000	0.36	5,185,000	0.39
Granted	2,430,000	0.33	1,500,000	0.28
Exercised	(679,400)	0.33	(270,000)	0.23
Cancelled / expired	(280,000)	0.33	(660,000)	0.36
Balance – end of year	7,225,600	0.36	5,755,000	0.36

The stock options granted in 2007 had a vesting period that concluded on 11 December 2007.

At December 31, 2007, the weighted average remaining life of options outstanding was 2.5 years.

The fair value of stock options and warrants granted during 2006 and 2007 are estimated using the Black-Scholes option pricing model using the following assumptions:

	2007	2006
Risk-free interest rate	3.86% - 4.36%	3.83% - 4.26%
Estimated volatility	78% - 108%	109% - 112%
Expected lives	2 - 4 years	2 years

The weighted average fair value of options expensed for the year ended December 31, 2007 was \$0.33 (2006 - \$0.26)

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.

11. SHARE CAPITAL AND RELATED INFORMATION (continued)

d) Warrants

Warrants outstanding at December 31, 2007:

Number of warrants	Exercise Price	Expiry Date
26,508,238	\$0.30	17 February 2008
6,139,845	\$0.55	23 March 2009
1,152,759	\$0.55	19 April 2009
1,425,000	\$0.65	11 October 2009

12. MINERAL PROPERTIES

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

The Company has various interests in six exploration projects in Papua New Guinea through its wholly-owned subsidiary New Guinea Gold Ltd and its associated company Pacific Kanon Gold Corporation. The Company has a 100% interest in two of the projects, a 90% interest in one, a 20% interest in one and a 13.75% interest in one.

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

Sinivit

The Sinivit Property, on which the Company is currently commissioning an open-cut vat leach processing mine, is held under three titles in which New Guinea Gold has a direct 90% equity interest and a further 2.5% indirect equity interest. The Company was at a pre-commercial level of production during 2007 and accordingly has recorded all revenue as an offset to deferred mine development costs.

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.

Mt. Penck (owned 80% by Kanon Resources Ltd)

The Company earned a 20% interest in the Mt. Penck property from Kanon Resources Ltd. by funding the first \$300,000 worth of exploration. The Mt. Penck exploration license 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 to Celtic Minerals Ltd., a TSX Venture-listed company, which acquired an 86.25% interest by sole funding \$4,000,000 on exploration prior to August 1, 2007. The Company's 13.75% interest will reduce to a 10% carried interest.

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 June 30, 2008, and by issuing to the Company 800,000 shares in stages prior to June 30, 2008 (800,000 shares received at December 31, 2007). The Company must pay a finder's fee of 10% on all share consideration received (80,000 Vangold shares paid to December 31, 2007).

NSR and production bonus in respect of certain Mineral Properties

Five of the six projects, Sinivit, Normanby, Sehulea, 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.

13. SEGMENTED INFORMATION

Assets by geographic segment, at cost:

	December 31, 2007			
	Papua New Guinea	Canada	Australia	Total
	\$	\$	\$	\$
Current assets	1,974,194	1,290,465	257,580	3,522,239
Equipment	3,355,367	5,790	-	3,361,157
Mineral Properties	13,426,670	-	-	13,426,670
Other	1,468,381	2,303,693	-	3,772,074
	<u>20,224,612</u>	<u>3,599,948</u>	<u>257,580</u>	<u>24,082,140</u>

	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>

14. INCOME TAXES

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

	2007	2006
Net loss	\$ 1,989,488	\$ 1,296,170
Effective statutory rate	32.79%	31.67%
Expected taxes payable	\$ 652,353	\$ 410,497
Net effect of non-deductible amounts	(139,840)	(122,179)
Valuation allowance	(512,513)	(288,318)
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, 2007 are as follows:

	December 31, 2007	December 31, 2006
Potential future income tax assets:		
Canadian non capital loss carry-forwards	\$ 1,845,947	\$ 967,302
Canadian resource pools	1,909,215	2,285,699
Papua New Guinea future tax assets	1,158,000	1,113,600
Total	\$ 4,913,162	\$ 4,366,601
Valuation allowance	(4,913,162)	(4,366,601)
Carrying value	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2007, non-capital losses are available to reduce taxable income in Canada and expire in stages to 2027 as follows:

Expiry Date	Amount
	\$
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	977,000
31-Dec-27	1,563,000
	<u>5,236,000</u>

15. SUBSEQUENT EVENTS

In addition to the items mentioned elsewhere in these notes the following events occurred during the period subsequent to December 31, 2007:

- The Company received \$8,130,971 and issued 27,108,238 shares pursuant to the exercise of 600,000 options and 26,508,238 warrants.
- The Company acquired a further 17% direct investment in Coppermoly Ltd. This was achieved by way of a \$2 million short-term loan from Vangold Resources Ltd (“Vangold”). The loan was subject to a 5% per annum simple interest rate. The Company also issued 400,000 shares of the Company to Vangold plus 400,000 bonus warrants, exercisable at \$0.60 for a period of two years. The sale of these shares and any shares acquired as a result of the exercise of the bonus warrants are subject to a sale restriction of one year. The \$2 million loan, together with \$9,266 in interest and charges, was subsequently repaid on February 18, 2008.
- The Company granted 1,750,000 stock options to employees and consultants exercisable at \$0.43 for a five year period, subject to a one year vesting period.