

# NEW GUINEA GOLD CORPORATION

## Management Discussion & Analysis For the Year Ended December 31, 2008

### INTRODUCTION

The following Management Discussion and Analysis of the Company's financial position is for the year ended December 31, 2008 compared to December 31, 2007. This discussion should be read in conjunction with the attached annual consolidated financial statements and related "Notes to the Consolidated Financial Statements" which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

This discussion includes certain statements that may be deemed "forward-looking statements". Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions.

All amounts are stated in Canadian dollars unless indicated otherwise. Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.newguineagold.ca](http://www.newguineagold.ca).

The information in this part of the report is current to April 22, 2009 unless otherwise indicated, whereas the information in the financial part of the report is current at April 22, 2009.

### OVERALL PERFORMANCE / HIGHLIGHTS IN 2008

- Gold Production from the Sinivit Mine in 2008 was 6,762 ozs. This performance was below expectations due to factors described under "Sinivit Gold Project" below.
- Gold production in the last quarter of 2008 was 3,560ozs, a substantial improvement on earlier quarters. Mine income from gold sales in the last quarter of 2008 exceeded mine operating costs.
- Gold mineralization leaching in vats increased to 92,100 tonnes in early March 2009 from 22,000 tonnes in April 2008. Also in early March 2009 leachable gold still in vats reached 11,000 ozs, with a further 4,700ozs in crushed ore stockpiles, (not all leachable gold is recoverable).
- At the Imwauna Project (Normanby project) a Resource was released in mid 2008 as follows: *Inferred Resource of 1.8Mt at 12.2g/t gold and 20g/t silver for 706,000ozs of gold and 1,160,000ozs silver. The mineralization is "free milling", not refractory, commences at surface and a large proportion of the Resource is likely to be amenable to open cut extraction.*
- A Preliminary Assessment/Feasibility Study of the Imwauna Project commenced with a scheduled completion date in Quarter One, 2010 (with the Independent No 43-101 Report to be lodged on Sedar by the second quarter of 2010).
- Exploration at Sinivit, Imwauna and on Coppermoly Limited ("Coppermoly") projects continued throughout 2008 with 272 drill-holes completed totalling 18,664m.
- Excellent results continued to be encountered at Sinivit with better results such as 14m at 23.5g/t gold, 20m at 17.2g/t gold and 20m at 25.7g/t gold and 2.1% copper.
- Tellurium was identified as a possible credit in future processing at Sinivit with one hole assaying 14m at 36g/t gold, 3.0% copper, 113g/t silver and 1,467g/t tellurium.
- Partial restructuring of New Guinea Gold ("NGG" or "the Company") was achieved by "spinning off" Coppermoly as an IPO listed company on the Australian Securities Exchange on January 31, 2008. NGG retains a direct and indirect interest in Coppermoly of approximately 50%. A prospectus for Pacific Kanon Gold Corporation ("PKG") was completed but at this time we have not proceeded with an IPO.

- Coppermoly drilled 5,074 metres in 22 holes on its projects Mt Nakru and Simuku. Substantial and widespread copper mineralization was defined with better intersections such as 26m at 1.65% copper, 28m at 1.9% copper, 282m at 0.58% copper equivalent (0.45% copper, 64ppm molybdenum, 0.07g/t gold and 2.0g/t silver (including 56m at 0.97% copper equivalent – 0.77% copper, 123ppm molybdenum, 0.11g/t gold and 2.6g/t silver); 11m at 2.84g/t gold (from surface).
- In 2009 drill testing has resumed at three additional projects to those above – Weioko on the Sehulea property (100% NGG), Mt Penck (60% NGG) and Allemata (50% NGG).

## **RESOURCE STATEMENT**

### **1. Imwauna Project**

An Inferred Resource of 1.8 million tonnes at 12.2g/t gold and 20g/t silver for 706,000ozs gold and 1,160,000ozs silver.

### **2. Sinivit Project**

Indicated Resource of 713,000t at 5.7g/t gold for 132,000ozs gold.

Inferred Resource of 340,000t at 3.2g/t gold for 35,000ozs gold.

#### **Note:**

- Approximately 150,000 tonnes of mineralization have been mined at Sinivit to date with 120,000 tonnes on stockpiles or in Vats with leaching continuing.
- Significant gold mineralization has been defined in drill-holes and trenches at the Weioko Project (100% NGG) and Mt Penck Project (60% NGG). Present drilling may lead to resource estimates for both projects by year end 2009.

**Management** considers there are three very significant points in respect to the above resources: their relatively high-grade; they commence at surface; and are largely amenable to open cut extraction.

## **BUSINESS & DEVELOPMENT STRATEGY**

The Company is involved in Mineral Exploration and Mine Development in Papua New Guinea (“PNG”). NGG has direct interests in 5 gold properties and indirect interests in 3 gold properties through PKG, and indirect interests in 2 porphyry copper-gold-molybdenum properties through Coppermoly. In excess of 90,000 metres of drilling has been completed on all properties and this drilling has located extensive gold or copper-gold-molybdenum mineralization at all 10 properties.

NGG’s primary long term objective is to increase gold production to 100,000 ozs/year by the end of 2011 or to be a favourable acquisition target by end of 2010.

To achieve this long term objective NGG’s strategy can be summarised as follows:

- Continue to improve production from the oxide gold mine at Sinivit with a target of 2,500ozs to 3,000ozs gold production/month.

In tandem with the above production, continue to extend the known sulphide mineralization at depth, increase the Resource, and determine if the present Exploration Target of between 640,000ozs gold, (plus 20,000t copper and credits in tellurium and silver), and 1,200,000oz gold, (plus 30,000t copper and credits in tellurium and silver), can be attained (see Sinivit below for further details and cautionary note). In the event sufficient mineralization is defined, mining and processing of this sulphide mineralization could commence within 3 years.

- Complete a Preliminary Assessment/Feasibility Study on the economics of mining the existing high-grade resource at Imwauna.

In conjunction with this study, NGG will continue to extend the Resource and test other parts of the area such as “The Knob”. The present Exploration Target is 1.5 million ozs gold to 3.0 million ozs gold (see Imwauna below for details and cautionary note). Management believes definition of a resource of more than 2 million ozs may place NGG as an attractive acquisition target for a major gold producer.

- In the event a positive economic study for Imwauna is achieved, gold production in the range of 50,000ozs to 100,000ozs/year could commence as early as 2011.

- Continue to evaluate the Weioko, Mt Penck, and PKG properties Allemata and Fergusson gold systems. Further drilling success could elevate one or more of these projects to a priority project for economic evaluation and development.

As part of the business and development strategy in 2008, the Company undertook a corporate restructuring with the objective of obtaining better shareholder value for the ten properties. Management concluded that the market assigns value only to NGG's principal gold properties.

The corporate restructuring was to finance the three PKG properties and the two copper-gold-molybdenum properties through the creation of two new publicly listed companies PKG and Coppermoly. The Company would retain significant equity in each new public company after a prospectus financing or IPO. The first part of the restructure is complete with the successful listing of Coppermoly on the Australian Securities Exchange on January 31, 2008. A prospectus for PKG was completed but the IPO has not proceeded because of market conditions.

The Crater Mountain and Feni properties (see project chart below) are presently joint ventured with expenditures currently funded by the JV partner. The Mt Penck property is owned 80% by PKG and 20% by the Company.

### **NGG PROJECT SUMMARY**

The Company and PKG own and operate for exploration purposes, six diamond core drill rigs, one RC drill rig, and several excavators and D6/D7 bulldozers. The mining at Sinivit is conducted by a "dry hire" arrangement from HBS Machinery of Lae, Papua New Guinea. HBS provide most supervision, operators and machines for the mining operation.

During the year, drilling was carried out at Sinivit and Normanby.

At April 10, 2009 NGG and PKG had two drills at Sinivit, two at Mt Penck, and one each at Imwauna, Weioko and Allemata.

### **New Guinea Gold Project Summary**

| <b>Project</b>                     | <b>Type</b>  | <b>Beneficial Ownership</b> | <b>Plan</b>   |
|------------------------------------|--|-----------------------------|---|
| Sinivit                            | Quartz telluride gold system   | 92% NGG                     | Mine – gold production and further exploration to increase Resource in 2009   |
| Imwauna<br>(Normanby property)     | High-grade vein swarm system in metamorphics; disseminated gold in volcanics | 100% NGG                    | Explore and complete Preliminary Assessment/Feasibility Study early 2010  |
| Weioko<br>(Sehulea property)       | Potential bulk mineable gold   | 100% NGG                    | Explore and produce NI 43-101 resource estimate   |
| Mt. Penck                          | Epithermal gold  | Kanon 80%<br>NGG 20%        | Explore and produce NI 43-101 resource estimate   |
| Allemata<br>(PKG property)         | Quartz gold veins  | Kanon 100%                  | Drill   |
| Fergusson<br>(PKG property)        | Epithermal gold & silver   | Kanon 100%                  | Drill   |
| Mt. Nakru<br>(Coppermoly property) | Porphyry gold/copper   | NGG 50%                     | Under exploration and development by Coppermoly   |
| Simuku<br>(Coppermoly property)    | Porphyry copper/ gold/ molybdenum  | NGG 50%                     | Under exploration and development by Coppermoly   |
| Crater Mountain                    | Porgera style gold mineralization  | 10% NGG                     | Triple Plate Junction/Celtic Minerals, Anomaly Resources funding, NGG 10% free carried interest to bankable feasibility |
| Feni                               | Lihir style gold mineralization  | 50% NGG<br>50% Vangold      | Vangold earning 75%   |

## **SINIVIT GOLD PROJECT (92% NGG BENEFICIAL OWNERSHIP)**

The Sinivit Gold Project is located 50 kilometres south-southwest of Rabaul in the Baining Mountains of the Gazelle Peninsula, East New Britain Province, Papua New Guinea. It can be accessed by road from the town of Kokopo (one hour drive) and the port of Rabaul. A jet airport at Kokopo has several daily flights to Port Moresby and Lae.

NGG is mining the oxide cap of a quartz, tellurium, copper, silver and gold system. Although the initial project has a relatively short life, NGG has an active exploration/development program with the objective of defining additional gold mineralization. The known mineralization is open at depth and there are numerous other, as yet unexplored, targets within the Sinivit properties. The potential to increase mineralization at the project is described in the Independent Technical Report dated January 2006 which can be found on the company's website [www.newguineagold.ca](http://www.newguineagold.ca). The Company cautions, however, that there is no certainty that further mineralization will be defined.

Sinivit can be summarized as follows:

- Resources - Indicated, 713,000 tonnes at 5.7g/t gold for 132,000ozs gold and Inferred, 340,000 tonnes of 3.2g/t gold for 35,000ozs gold.
- The Sinivit Resource has been defined near surface over a one-kilometre length of a ten kilometre long structural zone. This structural zone is known to contain sporadic, largely untested or unexplored gold mineralization over its entire length.
- The primary mineralization is sulphide mineralization (gold/copper/tellurium/silver) but the initial mine will only process the oxide cap of this mineralization. Mineralization is open both along strike and to depth.
- Head grade for the oxide mineralization is projected at 5g/t gold, with open pit mining and vat leach processing.
- Average grade of the unoxidised sulphide mineralization, from drilling completed to date, is expected to average between 10 and 12g/t gold.
- Exploration is underway with two drill rigs on site, both owned and operated by the Company. A third rig may be added mid year.
- Initial Exploration Target for sulphide mineralization at Sinivit is defined within a zone 750 to 1,250m long, averages 3m wide, extends to 300m depth and grades between 10 and 12g/t gold, 1% copper, 400ppm tellurium and 100g/t silver. The initial Exploration Target thus contains between 640,000ozs of gold, plus 20,000t copper, plus 1,200,000ozs gold and 30,000t copper (plus possible credits in tellurium and silver).

As required we include the following continuing statement: *“The Exploration Target is based on extensive surface outcrops, mine open pits, and approximately 20 drill-holes which intersect the mineralization. The potential quantity and grade is conceptual in nature and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource”.*

### **Gold Production in 2008**

|                         |   |  |
|-------------------------|---|--|
| 1 <sup>st</sup> Quarter | - | 302 ozs gold                                   |
| 2 <sup>nd</sup> Quarter | - | 1,730 ozs gold, 242 ozs silver                 |
| 3 <sup>rd</sup> Quarter | - | 1,170 ozs gold. 243 ozs silver                 |
| 4 <sup>th</sup> Quarter | - | 3,560 ozs gold 633 ozs silver                  |
| <b><u>TOTAL</u></b>     | - | <b><u>6,762 ozs gold, 1,118 ozs silver</u></b> |

Forecast gold production of 3,000ozs/month by end of 2008 was not met for the following reasons:

- Crushing capacity and vat construction was inadequate to provide sufficient tonnes of ore leaching in vats at any time to produce 3,000 ozs gold/month.
- The project has been undercapitalised which led to management adopting an “on time” basis for critical stores. Because of the remote location, when critical stores did not arrive on time this lead to delays in processing, crusher maintenance and vat construction.

- Studies prior to mining suggested that 80% of gold would be leached from vats in 2 months and thus we would need 40,000t of mineralization leaching at any time to achieve forecast production. Although each vat appears to have its own leaching characteristics on average we now anticipate that 80% of gold will be leached over a period of 6 to 7 months. In general terms this means we may need to have 120,000 tonnes ore leaching at any one time and an additional 20,000t/month coming on-line (to make up for “spent” vats) to achieve 3,000ozs/month.
- Rectangular vats, less than 6 metres deep appear to have more efficient leaching characteristics and can be easily covered to prevent egress of rainwater. However this means in practice we may need as many as 9 or 10 vats “on line” at any time to achieve production. We have not yet achieved either 120,000t or 10 vats leaching at any one time.
- A further problem was solution volume management. At the end of 2008 we had to reduce solution volume by using new empty vats to contain solution (thus these vats could not be used for processing). As part of this solution management, cyanide levels were allowed to substantially reduce, thus reducing the leaching of gold and increasing (apparently) the leaching of copper to dore. These problems are now under control with cyanide levels increased to appropriate levels.
- The mine location including topography was a much more difficult problem than envisaged.
- During 2007/2008 rainfall was excessive (100% above annual rainfall) which slowed construction. Topography also reduced available areas for easily constructed vats.

Although solutions to all the above problems have been defined, they are slow, and in some cases costly to implement.

By comparison with the MD & A to December 31, 2007, in April 2008, there were 22,000 tonnes leaching in vats. In March 2009 there were 92,000 tonnes in vats. This equates to 11,000ozs of theoretically leachable gold. In addition, at stockpile, we had a further 27,000 tonnes crushed and waiting to be placed in vats which contain 4,700ozs of leachable gold. Details are set out below (from Press Release dated March 23, 2009):

#### Vat Details:

| Vat | Tonnes in Vat | Leachable Grade (g/t gold) | Percent leached at March 10, 2009 | Leachable gold remaining (ozs) | Status   |
|-----|---------------|----------------------------|-----------------------------------|--------------------------------|--|
| 1   | 7,000         | 4.26                       | 77.2                              | -                              | Vat 4 now built over Vat 1. Vat 1 decommissioned   |
| 2   | 21,500        | 3.90                       | 60.6                              | 1,000                          | On line but leaching very slowly. De-commissioning likely to commence soon to allow Vats 5,6 & 7 to be built over Vats 2 & 3 |
| 3   | 24,500        | 2.76                       | 53.6                              | -                              | De-commissioning in progress to allow Vats 5,6 & 7 to be built   |
| 4   | <b>14,000</b> | 6.97                       | 60.2                              | <b>1,300</b>                   | On line  |
| A   | 18,900        | 2.60                       | 66.3                              | 500                            | Off line at present  |
| B   | <b>10,000</b> | 8.73                       | 21.0                              | <b>2,200</b>                   | On line  |
| C   | <b>9,100</b>  | 6.03                       | 17.1                              | <b>1,800</b>                   | On line  |
| D   | <b>10,700</b> | 7.45                       | 0.0                               | <b>2,600</b>                   | On line from 10/3/09   |
| H   | <b>7,900</b>  | 6.27                       | 0.0                               | <b>1,600</b>                   | On line from 19/3/09   |

**The totals from the main on-line vats 4, B, C, D and H at March 19 2009 are: tonnes – 51,700 (92,100 including Vat’s 2 and A), leachable gold remaining – 9,500ozs (11,000ozs with Vat 2 and A). In addition a further 4,700ozs of leachable gold are in crushed ore stockpiles.**

With Vats D and H both containing relatively high gold values, and coming on line in mid March, gold production should increase significantly for April 2009. The stockpiles, which are also relatively high-grade, should allow continued, relatively consistent, production throughout the rest of the Second Quarter 2009.

Vat 2 is still “on-line” but de-commissioning is likely to commence within 4 weeks to allow, together with Vat 3, for Vats 5, 6 and 7 to be built above Vats 2 and 3.

Leachable grade quoted above is the gold which can be leached from the crushed material using cyanide leach, “bottle-roll” tests. The leachable grade is less than the total gold content but is a measure of the extractable gold in the mineralization. Thus leachable gold remaining, as indicated in the table above, is the theoretical total gold which can be obtained from the current processing, but in practise we would expect a recovery of approx. 80% of that figure.

We are continually investigating and implementing procedures to increase the recoveries. The low recoveries for Vat 2 and Vat 3 after six months of leaching were caused by three factors – lower gold grades; early mined surface gold material contained greater amounts of fine material which reduced permeability in vats; and Vat 2 and Vat 3 were large, deep vats which also resulted in lower permeability. Although Vat 3 has only 54% recovery, further recovery was slow, and this vat is being de-commissioned to allow further vats to be built above it.

In 2008 the following drilling was completed:

|                     |   |                                    |
|---------------------|---|------------------------------------|
| Central Oxide Zone  | - | 98 RC holes for 2,764m             |
| Northern Oxide Zone | - | 10 RC holes for 282m               |
| Southern Oxide Zone | - | 78 RC holes for 2,175m             |
| Diamond Core Holes  | - | 19 holes for 2,338m                |
| <b><u>TOTAL</u></b> | - | <b><u>272 holes for 1,866m</u></b> |

All results have been released but some of the better oxide holes were:

- 14m at 23.5g/t gold from surface  
incl. 8m at 36.7g/t gold
- 10m at 11.4g/t gold from surface
- 20m at 17.2g/t gold, between 2 and 22m downhole
- 16m at 15.8g/t gold, between 12 and 28m downhole

Sulphide intersections included:

- 14m at 26g/t gold, 3.09% copper, 113g/t silver and 1,467g/t tellurium
- 20m at 25g/t gold, 2.19% copper incl. 2m at 158g/t gold and 4.32% copper

Exploration trenching totalled 3,586m for 1,793 samples.

## **NORMANBY PROPERTY**

### **Imwauna Gold Project (NGG 100%)**

**An Inferred Resource of 1.8Mt at 12.2g/t gold and 20g/t silver was announced during 2008. This part of the Imwauna Project is a 1.5km long structural zone, up to 100m wide, with numerous, semi-continuous zones of gold mineralization. The Resource lies within a 5 km by 2 km zone with extensive surface gold anomalism in soils and rock chips, most of which remains to be explored in detail.**

The Imwauna project is located within the Normanby Property, south-east Papua New Guinea. The Company owns 100% of this property. Imwauna is a gold project.

The Imwauna project contains defined gold mineralization scattered over approximately 10 square kilometres, and occurs in the same geological zone and is along structural trend from Placer Dome’s former Misima Mine (5 million ounces of gold). It was selected by management for a major evaluation program in 2006 to extend the known mineralization and to build a substantial resource base.

Two drill rigs have been used on the project through much of 2008. Both rigs are owned and operated by the Company. Approximately 200 holes have now been drilled at Imwauna (over 250 on the property), with most results available on NGG’s web site (all except recent drill-holes yet to be announced). Key features of Imwauna are:

- Drilling to increase Resource and upgrade Inferred Resource to Indicated and Measured status is in progress.
- Preliminary Assessment/Feasibility study is in progress to determine economic parameters of Project with an objective of production at 50,000 to 100,000ozs/year by 2011.
- Bonanza grades are common, mineralization commences at surface and a substantial part of the Resource could probably be mined by open cut.

- Best drill results such as 3.7m of 94.4g/t gold and 7.2m of 16.5g/t gold.
- Trial mining completed – had an average grade of 14.1g/t gold over a 2.2m mining width.
- Bulk sampling of 38 excavator trenches over 1,240m strike length averaged 26.4g/t gold over an average of 1m width in central high-grade part of the system with likely open pit mining width defined as 3 to 4 metres.
- The bonanza/high-grade nature of part of the mineralization is indicated by the following drill-holes:

| Hole Number | From (m) | To (m) | Interval (m) | Gold g/t | Silver g/t |
|-------------|----------|--------|--------------|----------|------------|
| IMH 067     | 120.2    | 126.2  | 6.00         | 68       | 68         |
| Including   | 123.2    | 126.2  | 3.00         | 106      | 95         |
| IMH 068     | 39.80    | 42.2   | 2.40         | 13.7     | 65         |
| IMH 069     | 99.10    | 109.10 | 10.00        | 18.1     | 31         |
| Including   | 105.40   | 107.60 | 2.20         | 32.5     | 49         |
| IMH 074     | 63.00    | 69.45  | 6.45         | 20.9     | 49         |
| IMH 082     | 80.8     | 86.4   | 5.6          | 36.16    | 44         |
| IMH 091     | 8.3      | 12.1   | 3.8          | 21.1     | 44         |

The mineralised zone at Imwauna, which has been drilled to date, represents approximately 10% of the potential mineralised area as defined by surface trenching, soil gold geochemistry and geophysical surveys. In 2008, 45 holes for 6,030.6m were completed. At present one drill rig is operating, we expect a second rig to move to Imwauna in May on completion of the Weioko program, and a third rig in July on completion of the Allemata program.

An initial Exploration Target has been estimated for the Imwauna Project. Although most of the mineralization drilled to date has been high-grade, relatively narrow veins in metamorphics, some parts of the project host disseminated lower-grade mineralization in volcanics. As drilling progresses, more lower-grade mineralization may be defined, lowering the overall grade. The uncertainty in the proportion of high and lower-grades that may ultimately be defined, means there is a large range in the Exploration Target.

The initial Exploration Target ranges from a minimum of 4 million tonnes at 12g/t gold for 1.5 million ozs gold to 30 million tonnes at 3g/t gold for 3 million ozs gold. These estimates are based on approximately 200 drill-holes including several historic holes at “The Knob”, soil gold anomalism and several kilometres of excavator trenching.

As required we include the following cautionary statement: *“The potential quantity and grade of the exploration target is conceptual in nature and there has been insufficient exploration to define a further Mineral Resource and it is uncertain if further exploration will result in the determination of a further Mineral Resource”.*

## **SEHULEA PROPERTY**

### **Weioko Gold Project (NGG 100%)**

The Weioko Gold Project is a key NGG gold project and part of the Sehulea Property (100% NGG). The Project has been partly explored to date but the drilled mineralization represents less than 5% of the known gold in soil anomalous area (approximately 12 sq kms in area). For location map, tables of drill and trench results, maps of geochemical soil anomalies and IP anomalies see Press Release dated March 30, 2009.

The Project is situated on Normanby Island, Milne Bay Province of Papua New Guinea and is 10km NE of NGG’s premier project – the Imwauna Gold Project. Any future development of this project would probably occur in association with development of the Imwauna Project.

NGG is nearing completion of a modest 15 diamond core drill program which is required by government to keep the project in good standing and is targeting definition of higher-grade gold zones known in trench; possible extensions of the known mineralization indicated by geochemical and geophysical surveys; and collecting samples for metallurgical testing. Assay results should become available from mid May.

The results of these holes, when included with results from 29 RC holes and 23 diamond core holes already completed, should be sufficient to allow a resource estimation to be completed in accordance with the guidelines of NI 43-101.

Previous surveys have included soil geochemistry, rock chip sampling, side looking radar and Induced Polarisation (IP) geophysical surveys. Geochemical soil anomalism covers an area of 6 kms by 2 kms (12 sq kms) – and only a very small part of this anomalous area has been tested by either drilling or trenching.

IP survey results show a well defined anomaly over the drilled mineralization and further similar IP anomalies along strike and to the north-west.

The geochemistry results and IP surveys coincide in several areas which are regarded as favourable for the occurrence of gold mineralization similar to the drilled mineralization at Weioko. These targets will be scheduled for drill testing later in 2009 or in 2010.

To summarise:

- Gold mineralization has been defined in approximately 50 drill-holes at Weioko over an area of 300m by 120m to a depth of 70m. Mineralization commences at surface and is also defined in trenches.
- This mineralization will be further defined in the current program and the total drill-holes should be sufficient for a resource to be estimated in accordance with the guidelines of NI 43-101 later in 2009.
- Only a small part of the potentially gold mineralised area has been drill tested and, after consideration of soil geochemistry, rock chip and IP results it can be concluded that there is a high probability that additional gold mineralization will be defined within the 12sq km gold anomalous area.
- Drill results include 28m at 2.1 g/t gold, 14m at 4.56g/t gold, 21m at 3.6g/t gold, 1.6m at 14.2g/t gold.
- Diamond saw cut sampled trench results include 164m at 4.0g/t gold and 16m at 20.3g/t gold.
- Excellent access near coast, airstrip at Sehulea and near the key Company gold project at Imwauna.

## **PACIFIC KANON GOLD PROPERTIES**

### **Mt Penck Project (PKG – 80%, NGG – 20%)**

Mt Penck is the principal PKG property and will be subject to a concerted exploration effort to define resources later in 2009.

More than 80 holes totalling 6,000m have been completed with intersections such as 72m at 1.79g/t gold, 2m at 36.7g/t gold and 43m at 2.35g/t gold. Bulldozer trenching has yielded results such as 40m at 8.89g/t gold, 97m at 3.39g/t gold, 5m at 60g/t gold, and 3m at 180g/t gold. All results are available in the NI 43-101 report on Sedar or at [www.newguineagold.ca](http://www.newguineagold.ca).

The Mt Penck property is in West New Britain Province, Papua New Guinea. Access to the property is usually by road from the provincial capital of Kimbe. The property is within a few kilometres of the coast.

Mt Penck is an eroded strata-volcano with gold mineralization associated with an intrusive complex. The Company has identified a 4 square kilometre arsenic/gold geochemical anomaly within the 100 square kilometre license. Most of the licence is yet to be explored.

### **Allemata Property (182.4 sq km - PKG 100%)**

The Allemata property was once known as the Milne Bay Goldfield. From 1899 to 1926, the Goldfield produced 14,320 ounces of gold, mainly from alluvial deposits. In 1931, mining commenced with high-grade hard rock mining. Platinum was discovered and mined from 1933 to 1941, producing a total of 6 kilograms of platinum. 1,000 ounces of gold was produced in 1938 and 1939 from the Louise/ Ulo Ulo, Jumbo/Juno and Rough Ridge Mines. This property has not been mined since World War II.

The Company's exploration program, including trenching and drilling, defined numerous gold zones that will require further drill testing to evaluate their economic potential.

The Allemata property is easily accessible. It is reached by a 20 kilometre all weather road from the port of Alotau and Gurney International Airport. Logging roads provide access throughout the property. Management believes that this project could be developed relatively easily.

Drilling and geochemistry on the Allemata property identified two main gold areas on which the Company is focusing exploration. Other geochemically anomalous zones remain to be explored.

Ulo Ulo Prospect hosts vein style gold mineralization in a 400m by 400m area. Much of the gold is in relatively narrow gold zones, or wide, lower-grade zones. The Company believes the Ulo Ulo target may be a high-grade vein system similar to NGG's Imwauna Property on Normanby Island.

Haluba Prospect hosts disseminated and stockwork gold mineralization greater than 0.5g/t over a 500 metre by 200 metre area. This deposit is believed to be similar to Kavola East deposit at Mt Penck, and based on drill-hole results to date, averages 2 to 4g/t gold.

In total, (including historic holes), 17 holes for 1,120m have been drilled and more than 2 kilometres of trenching completed. Drill results included 1.0m at 17.65g/t gold; 1.55m at 5.87g/t gold; 7.1m at 3.44g/t gold and 20m at 2.2g/t gold. Trenching results include 84m at 1.7g/t gold and 4m at 100g/t gold.

#### **Fergusson Property (254 sq km - PKG 100%)**

Fergusson Property is on Fergusson Island, an island adjacent to NGG's Imwauna property on Normanby Island. Access is by boat or fixed wing aircraft.

Previous explorers completed 86 drill-holes for approximately 6,000 metres of drilling and defined several prospects with significant gold in drill hole. At the Igwageta Prospect a zone some 1,500 metres by 500 metres of anomalous gold was defined with drilling highlights such as 26m at 1.06g/t gold; 10m at 8.14g/t gold; 12m at 5.88g/t gold; 25m at 2.93g/t gold; and 20m at 3.04g/t gold.

In 2008 PKG, using an excavator, cut 12 trenches totalling 2.3km in length, over a 500m long section of the geochemical anomaly. Within a broader alteration zone, two narrower zones, one 6m to 8m wide and the second 2m to 10m wide, of strongly silicified rhyolite and hydrothermal breccia respectively were noted.

Assays are still being compiled and assessed and will be released in the near future.

No results were reported in 2008 and exploration will recommence in the near future with excavator trenching, and drill testing is planned for the above anomalous gold zones.

#### **COPPERMOLY LTD PROJECTS (NGG direct and indirect interest approximately 50%)**

For a complete review of Coppermoly please refer to [www.coppermoly.com.au](http://www.coppermoly.com.au). The main points are described below:

- Coppermoly has exploration title to three large copper/gold/molybdenum systems, **Simuku, Nakru, and Plesumi**, on the island of New Britain – each system or prospect is known to have mineralization over approximately 10sq kms.
- Two of the systems were effectively discovered and first explored by Esso when Chairman, Bob McNeil, was General Manager for Esso Papua New Guinea Inc. in the early 1980's.
- Exploration completed on the projects includes some 76 drill-holes, approximately 50 kms of bulldozer/excavator trenching, several further kilometres of hand-trenching, aeromagnetics and radiometrics, some surface geophysical surveys such as induced polarization, extensive auger soil and other geochemical surveys.
- **The Nakru and Simuku projects have separate gold and/or molybdenum potential** which may be amenable to early development. At Nakru, trench results included 35m at 7.26g/t gold and 42m at 2.70g/t gold including 3.0m at 16.8g/t gold. At Simuku, trench results include 78m at 0.133% molybdenum and drill results 19m at 0.32% molybdenum and 0.10% copper.

In 2008 Coppermoly completed 22 diamond core holes totalling 5,074 at Simuku and Nakru. In addition, a major IP survey at Nakru identified two large anomalies corresponding to copper in drill intersections and trenches. The IP surveys suggested that the mineralization so far defined in drill hole is much more extensive than previously known. At "Nakru One" the IP anomaly has dimensions of 700m by 200m-250m, and at "Nakru Two" 500m by 200m.

At "Nakru One" prospect trenching encountered 90m at 1.08g/t gold and 204ppm molybdenum, and 20m at 1.52g/t gold and 239ppm molybdenum. Hole 14 at "Nakru One" intersected 11m from surface of 2.84g/t gold and hole 17 intersected 63.7m at 0.5% copper from 25.7m depth (including 28.4m at 1.1% copper).

At Nakru Two, two diamond drill cores intersected high-grade copper associated with the IP anomaly. Hole 1 intersected 51m at 1.21% copper, 0.26% zinc, 3.5g/t silver and 0.1g/t gold, including from 30m to 58m downhole, 28m at 1.9% copper, 0.5% zinc, 5.35g/t silver and 0.1g/t gold. Hole 2, from 36m to 109m downhole intersected 73m at 0.96% copper, 0.22% zinc, 3.86g/t silver, including 26m at 1.65% copper, 0.56% zinc, 6.73g/t silver and 0.13g/t gold. The potential to define a substantial body of mineralization at these grades is excellent.

At Simuku, the drilling and trenching have now provided sufficient data for a resource to be estimated over the northern- most one-third of the system. Of particular significance is that Hole 26 intersected substantial widths of primary mineralization at depth suggesting copper grades were increasing with depth. From 240m to 296m depth, Hole 26 intersected 56m at 0.77% copper, 123ppm molybdenum, 0.11g/t gold and 2.6g/t silver. A significant “chalcocite blanket” is also present at Simuku.

Coppermoly have stated that a resource estimated in accordance with the guidelines of the JORC Code (Australian standard) will be released in the near future. As this resource will not be NI 43-101 compliant, NGG will not be able to release it independently, but it will be available in Coppermoly press releases and at [www.coppermoly.com.au](http://www.coppermoly.com.au).

### **CONVERTIBLE DEBENTURES ISSUED**

In December 2008 and January 2009 a total of \$3 million in Debentures was raised (see Press Release dated December 22, 2008). These funds were for working capital, partial repayment of debt to Bank of South Pacific, and for capital to up-grade the Sinivit gold production.

### **WARRANTS EXERCISED**

During 2008 26,508,238 warrants, all exercisable at 30 cents, were exercised for total gross proceeds of \$7,952,471. During 2007 4,482,700 warrants, all exercisable at 30 cents, were exercised for \$1,344,810.

These funds were for capital expenditure and working capital for the Sinivit Mine, and for exploration and other administration expenditure.

## **RESULTS OF OPERATIONS**

The Company's net loss for the year ended December 31, 2008 was \$7,407,150 or \$0.05 per common share compared to \$1,989,488, or \$0.02 per common share, for the same period last year. The Company received \$327,558 in interest payments on cash balances, deposits and long term receivables. Interest revenues fluctuate according to the amount of funds held in deposit and the interest rates attained during the period. The net loss for the year ended December 31, 2008 includes results from mining operations for the first time. Mining operations produced a net operating loss of \$911,929. This net operating loss included metal sales, net of refining and royalty costs, of \$5,685,886 and non-cash deferred mining costs amortization and equipment depreciation charges totalling \$3,081,399, leaving an excess of mining revenue over cash operating costs of \$2,169,470.

The increase in net loss for the year ended December 31, 2008 compared to the same period in 2007 was \$5,417,662 and is mainly attributed to the first time net loss from mining operations mentioned above, increased financing costs due largely to the issue of convertible debentures in December 2008, impairments, caused generally by market conditions, to the Company's investments and related receivables, and increased share of losses from equity accounted associates. These factors were offset by a decrease in employee stock based compensation and a dilution gain attributable to the Coppermoly IPO. The Company also had a foreign exchange gain in the year ended December 31, 2008 of \$353,289 compared to a gain of \$230,595 during the 2007 period because of fluctuations in foreign currency rates.

Significant non-cash items included in the Company's net loss for the year ended December 31, 2008 included non-cash dilution gain of \$2,208,298 (2007: \$nil) and non-cash expenditures including \$4,396,162 in impairments and bad debt expense (2007: \$nil), total amortization and depreciation expenses of \$3,347,860 (2007: \$322,772), share of losses from equity accounted associates of \$2,797,583 (2007: \$177,197), and stock-based compensation expense of \$517,519 (2007: \$877,473). Non-cash income and expenditure does not affect the financial condition of the Company.

During the year ended December 31, 2008 the Company completed \$1,894,356 (2007: \$4,398,344) in exploration and evaluation on its mineral property interests, and \$1,001,615 (2007: \$3,770,725) in development and commissioning expenditures. During the year the Company had \$6,184,185 (2007: \$359,626) of gold sales, of which \$292,803 (2007: \$359,626) were offset against mine development costs when the mine was still in the development/commissioning phase.

### **Summary of Selected Annual Information**

The following is for each of the three fiscal years ended December 31, 2008, 2007 and 2006:

|  | <b>December 31,<br/>2008</b> | <b>December 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|------------------------------|------------------------------|------------------------------|
|  | \$                           | \$                           | \$                           |
| Net metal sales <sup>(1)</sup>         | 6,184,185                    | 359,626                      | -                            |
| Interest and other income              | 539,344                      | 534,990                      | 239,007                      |
| Net loss                               | 7,407,150                    | 1,989,488                    | 1,296,170                    |
| Net loss per share – basic and diluted | 0.05                         | 0.02                         | 0.01                         |
| Total assets                           | 27,805,127                   | 24,082,140                   | 16,150,638                   |
| Long-term liabilities                  | 2,115,863                    | -                            | -                            |
| Dividends                              | -                            | -                            | -                            |

(1) Net metal sales includes amounts that were offset against mine development costs when the mine was still in the development/commissioning phase, \$292,803 in 2008 and \$359,626 in 2007.

### **Summary of Quarterly Results (Unaudited) for the quarters ended March 31, 2007 to December 31, 2008:**

|                              | <b>Year ended December 31,</b> |             |             |           |             |           |           |           |
|------------------------------|--------------------------------|-------------|-------------|-----------|-------------|-----------|-----------|-----------|
|                              | <b>2008</b>                    |             |             |           | <b>2007</b> |           |           |           |
|                              | <b>Q4</b>                      | <b>Q3</b>   | <b>Q2</b>   | <b>Q1</b> | <b>Q4</b>   | <b>Q3</b> | <b>Q2</b> | <b>Q1</b> |
|                              | \$                             | \$          | \$          | \$        | \$          | \$        | \$        | \$        |
| Revenue                      | 3,373,622                      | 975,414     | 1,542,346   | -         | -           | -         | -         | -         |
| Interest & other income      | 207,104                        | 90,748      | 195,168     | 46,324    | 460,183     | 38,944    | 22,027    | 13,836    |
| Net loss                     | (971,121)                      | (3,392,807) | (2,296,050) | (747,172) | (275,728)   | (297,999) | (604,362) | (811,399) |
| Basic/diluted loss per share | (0.01)                         | (0.02)      | (0.01)      | (0.01)    | (0.00)      | (0.00)    | (0.01)    | (0.01)    |

## **FINANCIAL CONDITION**

At December 31, 2008, the Company had working capital of \$6,222,955 (2007: \$447,866). The change in working capital is due to an increase in available cash to \$3,530,818 (2007: \$1,680,345) and an increase in mining inventories to \$5,220,975 (2007: \$nil), while current liabilities stayed relatively static at \$3,033,139 as at December 31, 2008 compared to \$3,074,373 at December 31, 2007. This was primarily owed to the Bank Of South Pacific Ltd, a Papua New Guinea domiciled bank, for a fully drawn advance and trade creditors.

The Company's long-term obligations at December 31, 2008 included \$1,889,183 (2007: \$nil) for the fair value of 2,438,000 outstanding convertible debentures which must be repaid in April 2010 unless converted to shares at the discretion of the debenture holder within 30 days of maturity. Other long-term obligations at December 31, 2008 included asset retirement obligations and the fair value of embedded derivatives (related to the convertible debentures) totalling \$226,680 (2007: \$nil) both realizable in 2010.

The Company is committed to paying approximately \$510,000 at April 22, 2009 for accounts payable.

## **CAPITAL RESOURCES AND LIQUIDITY**

Capital resources of the Company consist primarily of cash and liquid short-term deposits of approximately \$3,500,000 at December 31, 2008 and \$1,800,000 at April 22, 2009.

The Company's cash requirements include funding its ongoing mining and exploration operations, as well as its administration and corporate activities. The Company also needs to be able service its bank debt and convertible debentures over the next 12-24 months. The Company routinely prepares cashflow and expenditure budgets to monitor cash requirements on an ongoing basis. The Company has budgeted for mine operations to fund liquidity requirements for at least the next 12 months. Capital markets may need to be access again to fund the Company's operations. There is however no certainty that the Company will be able to obtain funding by share issuances in the future.

The Company does not anticipate the payment of dividends in the foreseeable future.

## **CASH-FLOWS**

Including costs attributable to mining work in progress and inventory items, the Company has not yet generated positive cash-flow from mining operations. The Company is working towards producing cash flows from gold production to fund ongoing mining and exploration operations, as well as its administration and corporate activities. In the past the Company has also been able to fund its operations by issuing its shares or convertible debt securities either through financings or the exercise of existing share purchase warrants and stock options.

Cash used in operating activities in 2008 decreased to \$318,840 compared to \$1,817,813 in 2007. This decrease in operating cash used was mainly due to the revenue from commercial production at the Mt Sinivit mine, an increased foreign exchange gain, decreased head office employee salaries and benefits, and an increase in accounts payable and accrued liabilities. This decrease in operating cash used was offset by an increase in cash finance costs paid. The start of commercial production meant mine operating revenues, and expenditure, were included in operating cash flows for the first time in 2008.

Cash used in investing activities increased from \$5,987,676 in 2007 to \$7,848,245 in 2008 which was spent mostly in the first quarter finalizing the development of the Mt Sinivit mine and purchasing shares in the Coppermoly float.

Net cash flows from financing activities mostly funded cash used in operating and investing activities. This was mainly from the exercise of the remaining outstanding 30 cent warrant in the first quarter of 2008. The company also received net proceeds of \$2.4 million in December 2008 from the issue of convertible debentures. The proceeds from the issue of the convertible debentures have been used to fund the Company's operations until mining activity can fund its operating and investing activities.

## **SHARE CAPITAL**

The Company's authorized share capital consists of an unlimited number of common shares without par value. Shares issued January 1, to December 31, 2008 and to the date of this report are as follows:

|  | <b>Number of Shares</b> | <b>Share Capital</b> |
|--|-------------------------|----------------------|
|  |                         | <b>\$</b>            |
| Balance, December 31, 2007                     | 128,574,242             | 34,295,465           |
| Issued as part of short term funding agreement | 400,000                 | 188,000              |
| Exercise of warrants                           | 26,508,238              | 7,817,690            |
| Fair value of warrants exercised               | -                       | 532,950              |
| Exercise of stock options                      | 760,000                 | 227,285              |
| Fair value of options exercised                | -                       | 216,077              |
| Total shares issued                            | 27,668,238              | 8,982,002            |
| Balance, December 31, 2008 and April 22, 2009  | 156,242,480             | 43,277,467           |

## **Related Party Transactions**

Transactions with related parties are in the normal course of operations and are unsecured, non-interest bearing and due on demand.

Prior to 2003, 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.

At December 31, 2008, Macmin owed the Company \$56,761 for shared service used by Macmin (2007: \$661,659 owed to Macmin for exploration and mine development expenditures paid for by Macmin).

Coppermoly Ltd ("Coppermoly") was incorporated in 2007 and purchased the Simuku and Mt Nakru properties from the Company in exchange for shares. The Company also purchased shares in the Initial Public Offering of Coppermoly and took up its entitlement to share purchase options during 2008. The Company currently owns 46.7% of the share capital of Coppermoly. As at December 31, 2008 Coppermoly owed the Company \$78,541 (2007: \$420,331) for exploration expenditures paid for by the Company on Coppermoly's behalf. In 2008 Copper Quest Ltd, a wholly owned subsidiary of Coppermoly, also paid the Company \$85,232 for equipment hire which the Company included in interest and other income on the statement of operations and deficit (2007: \$Nil).

Pacific Kanon Gold Corporation ("PKG"), a company currently working towards a public listing, acquired the Company's interest in Kanon Resources Ltd ("Kanon") for shares in 2007. At December 31, 2008, the total owed by PKG to the Company was \$1,036,610 (2007: \$514,470). The amount related to exploration expenditures as well as professional and other fees relating to PKG's IPO paid by the Company on PKG's behalf. Due to market conditions and the uncertainty surrounding the successful listing of PKG at December 31, 2008, the Company has provided for the non-collection of this receivable. In 2008 PKG also paid the Company \$94,779 in operating fees (2007: \$35,780) for managing the exploration programs on PKG's exploration properties and \$27,323 for equipment hire (2007: \$Nil), which the Company included in interest and other income on the statement of operations and deficit.

Goldmines of Niugini Holdings Limited ("GMNH") is the 10% joint venture partner in the Mt Sinivit mine. At December 31, 2008 GMNH owed the Company \$1,879,325 (2007: \$1,345,197).

## **Off-Balance Sheet Arrangement**

The Company has no off-balance sheet arrangements or transactions and none are contemplated.

## **Financial and Other Instruments**

The Company's financial instruments consist of cash and equivalents, amounts receivable, marketable securities, investments, long term receivables, accounts payable and accrued liabilities, bank debt, convertible debentures and embedded derivatives. The cash and equivalents and bank debt balances in these accounts are in Canadian dollars, Papua New Guinea kina and Australian dollars and are recorded at their carrying value which approximates fair value due to the short-term nature of these items. The amounts receivable, long term receivable accounts payable and accrued liabilities and convertible debentures are stated at amortized cost. The investment is measured at cost while marketable securities and embedded derivatives are recorded at fair value.

## **Legal Proceedings**

The Company and its subsidiaries are not parties to any legal proceedings and have no contingent liabilities.

## **CHANGES IN ACCOUNTING POLICIES**

### *i) Capital Disclosures*

From January 1, 2008, the Company adopted new CICA Handbook section 1535 which 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 (see note 3 to the consolidated financial statements for the year ended December 31, 2008).

### *ii) Financial Instruments - Disclosure and Presentation*

From January 1, 2008, the Company adopted new CICA Handbook sections 3862 and 3863 which replace CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation. These standards 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 (see note 4 to the consolidated financial statements for the year ended December 31, 2008).

### *iii) Financial Instruments - Recognition and Measurement*

In 2007 the Company adopted the new CICA Handbook sections 1530, Comprehensive Income and 3855, Financial Instruments - Recognition and Measurement. 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 amortized cost. 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. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net income until realized or impaired.

The application of these new standards did not have a significant effect on the Company's financial position, earnings or cash flows. The new standards do not apply to equity accounted investments and as such the Company's investments in Coppermoly Ltd and Pacific Kanon Gold Corporation were excluded from the above adjustment.

#### *iv) General Standards of Financial Presentation*

The CICA accounting standards board amended section 1400 to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The adoption of this amendment did not have an impact on these consolidated financial statements other than disclosures.

#### *iv) Inventories*

From January 1, 2008, the Company adopted new CICA Handbook section 3031 which provides additional guidance in the measurement and disclosure of inventories. The revised standard requires inventories to be presented at the lower of cost and net realizable value. In addition, the revised standard requires inventories to include fixed production overhead based on their normal capacity. The adoption of this section did not have a material impact on the Company's consolidated financial statements.

### **NEW ACCOUNTING PRONOUNCEMENTS**

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

#### *i) 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, 2010 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 Company has not yet developed an implementation strategy to establish timelines and identify significant differences between Canadian GAAP and IFRS, thus the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

#### *ii) Goodwill and intangible assets*

In February 2008, the CICA issued section 3064, *Goodwill and intangible assets*, ("Section 3064") replacing Section 3062, *Goodwill and other intangible assets* ("Section 3062") and Section 3450, *Research and development costs*. Various changes have been made to other standards to be consistent with the new Section 3064. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009

Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently assessing the impact of this new accounting standard on its financial statements.

#### *iii) Business combinations*

In December 2008 the CICA issued section 1582, *Business Combinations*, replacing section 1581, *Business Combinations*. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. Company's adopting section 1582 will also be required to adopt CICA Handbook sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*. These standards will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders' equity on the balance sheet. In addition, the income statement of the controlling parent will include 100% of the subsidiary's results and present the allocation between controlling and non-controlling interest. These standards will be effective January 1, 2011 however early adoption is permitted. The changes resulting from adopting section 1582 will be applied prospectively and the changes for adopting sections 1601 and 1602 will be applied retrospectively. The Company has not yet begun to assess the impact of these new accounting standards on its financial statements.

## **OUTSTANDING SHARE DATA**

The Company has one class of shares and there were 156,242,480 shares issued as at April 22, 2009 (156,242,480 shares issued as at December 31, 2008) and 184,672,884 on a fully diluted basis.

The Company has a stock option plan and at the date of this report there were 9,490,000 options outstanding exercisable into one common share between \$0.23 and \$0.43 (5,660,000 options outstanding as at December 31, 2008).

The Company has 10,917,604 warrants outstanding at the date of this report exercisable into one common share between \$0.20 and \$0.65 (10,580,404 warrants outstanding as at December 31, 2008).

## **BUSINESS RISK ASSESSMENT**

In addition to operational issues, there are several risks that could affect our business prospects. The feasibility of our mine operations and mineral exploration is significantly affected by changes in the market price of gold and silver. Gold prices fluctuate widely and are affected by numerous factors beyond our control. The level of interest rates, the rate of inflation, world supply of gold and stability of exchange rates can all cause significant fluctuations in gold prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

The exploration and development of our mineral exploration properties will require substantial additional financing. Failure to obtain sufficient financing will result in the delay or indefinite postponement of exploration, development or production on any or all of our properties or even a loss of property interests. Our ability to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions as well as our business performance. There can be no assurance that we will be successful in our efforts to arrange additional financing on satisfactory terms. If additional financing is raised by the issuance of shares, control of the Company may change and shareholders may suffer dilution.

Our business risks also include operating hazards, environmental and other government regulations, competition in the marketplace, and the market for our securities. Our properties are located in PNG and are subject to the laws and regulations of that country. We carry on our exploration activity outside of Canada. Accordingly, we are subject to the risks associated with the fluctuation of the rate of exchange of the Canadian dollar and foreign currencies, in particular the Australian dollar and the PNG kina. Such fluctuations may materially affect our financial position and results.

In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although we maintain liability insurance in an amount that we consider consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, which could lead to significant costs that could have a materially adverse effect upon our financial condition.

## **SUBSEQUENT EVENTS**

Subsequent to the year ended December 31, 2008 the Company:

- issued the final tranche of \$562,000 convertible debentures maturing on April 30, 2010, bearing interest at base rate of 10% per annum.
- granted 3,830,000 stock options to directors and employees exercisable at \$0.29 for a five year period, subject to a four month vesting period.
- was granted approval to amend the terms of 6,000,000 outstanding \$0.55 warrants originally due to expire on March 23, 2009 and April 19, 2009 respectively. These warrants now have a new expiry date of March 23, 2010 and April 19, 2010 respectively. A total of 1,292,604 \$0.55 agents warrants with the same original expiry dates as the warrants listed here were not eligible to have their expiry dates extended.

## **DISCLOSURE CONTROLS**

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the year ended December 31, 2008. The Corporation makes no assessment relating to the establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at December 31, 2008.