

# NEW GUINEA GOLD CORPORATION

## Management Discussion & Analysis For the Quarter Ended March 31, 2008

### INTRODUCTION

*The following Management Discussion and Analysis of the Company's financial position is for the three month period ended 31<sup>st</sup> March, 2008 compared to 31<sup>st</sup> March, 2007. This discussion should be read in conjunction with the attached interim financial statements and related "Notes to the Consolidated Financial Statements" which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and with the audited financial statements and related "Notes to the Consolidated Financial Statements".*

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 is current to 12<sup>th</sup> May 2008, unless otherwise indicated.

The Business and Development Strategy and Corporate Structuring remain essentially the same as outlined in the Management Discussion and Analysis for the year ended 31<sup>st</sup> December 2007. Please refer to Management Discussion & Analysis lodged on Sedar on April 29<sup>th</sup> 2008 and at [www.newguineagold.ca](http://www.newguineagold.ca)

### OVERALL PERFORMANCE / HIGHLIGHTS IN Q1 2008

- Gold production from commissioning and ramp up of production at Sinivit continued during the quarter. For details of Sinivit please refer to Management Discussion & Analysis for year ending 31<sup>st</sup> December 2007.
- A resource estimate for the Imwauna Project on the Normanby Property was completed and is being reviewed by an Independent QP.  
The resource is expected to be announced in mid June with a qualifying, independent, NI 43-101 report lodged on Sedar by the end of July 2008.
- The Company's 45% owned associate, Coppermoly Ltd, (Coppermoly) raised A\$8 million, listed on the ASX and has commenced a 5,000m core drilling program on the Simuku porphyry copper/molybdenum project in West New Britain, Papua New Guinea. Coppermoly also expects to commence exploration at the Mt Nakru project in late April 2008, focusing on further defining previously announced significant gold results in bulldozer trench.
- 39,915,438 Share Purchase Warrants, which expired on 17<sup>th</sup> February 2008, were exercised for gross proceeds of approximately C\$11.7 million.
- As at 31<sup>st</sup> March 2008, the Company was in a strong financial position with approximately C\$5,889,000 in cash. The Company has a partly drawn down overdraft facility of C\$1,930,000 with the Bank of South Pacific. The Company beneficially owned approximately 50% of Coppermoly Ltd.

## **BUSINESS & DEVELOPMENT STRATEGY**

The Company is involved in Mineral Exploration and Mine Development in Papua New Guinea (“PNG”). New Guinea Gold Corporation (“NGG” or the “Company”) has direct interests in 5 gold properties and indirect interests in 5 gold properties through Pacific Kanon Gold Corporation (Pacific Kanon), and indirect interests in 2 porphyry copper-gold-molybdenum properties through Coppermoly Ltd. In excess of 75,000 metres of drilling has been completed on all properties and this drilling has located extensive gold or copper-gold-molybdenum mineralization at 11 of the 12 properties. An additional property contains widespread and extensive alluvial gold.

## **CORPORATE RESTRUCTURE**

As part of the business and development strategy the Company is undertaking a corporate restructuring with the objective of obtaining better shareholder value for the twelve properties. Management has concluded that the market assigns value only to NGG’s principal two or three properties. The Company intends to focus on its core gold properties at Sinivit in East New Britain and on its Normanby and Sehulea properties on Normanby Island in Milne Bay Province. Other projects have been joint ventured, or are being restructured into separate entities.

The proposed corporate restructuring is to finance the five Kanon properties and the two copper-gold-molybdenum properties through the creation of two new publicly listed companies Pacific Kanon and Coppermoly. The Company would retain a major equity in each new public company after a prospectus financing or IPO. The first part of the restructure was completed with the successful listing of Coppermoly on the Australian Securities Exchange. The prospectus for Pacific Kanon remains under discussion with the TSX Venture Exchange.

The reason that the Company favours this form of financing is that under the Company’s present financial arrangements the properties in question cannot meet their full potential. Each property has substantial gold and/or copper-molybdenum defined in drill hole and trench and increased exploration expenditure may define a major resource or resources. An IPO allows the Company and/or its shareholders to substantially increase the rate of exploration, realize the potential of the properties, and increase shareholder value.

After the restructure, the Company will focus its activities on three properties and approximately eight prospects in East New Britain, and on Normanby Island. The Sinivit Gold Mine is in East New Britain and the Company intends to focus on delineating further resources at the mine and extending exploration to the prospective area away from the mine. Normanby Island hosts a number of gold/silver and gold/copper prospects including the Imwauna and Weioko systems. Resource definition drilling is in progress at Imwauna using two diamond core rigs with a third rig to be added mid year. Imwauna is a high grade gold system with the gold mineralized zone varying from veins 10cms wide up to 10m width. Mineralization commences at surface and could potentially be mined by open-pit methods. Metallurgical testing suggests the gold is relatively easily extracted by cyanide leach. Best results include 6m at 68g/t gold and 69g/t silver and 5.6m at 36.2g/t gold and 44.6g/t silver intersected in 2006. All results are listed at [www.newguineagold.ca](http://www.newguineagold.ca).

The Crater Mt and Feni properties are presently joint ventured with expenditures currently funded by the JV partner.

The Mt Penck property is owned 80% by Pacific Kanon, 20% by the Company.

## **PROJECTS**

Details of projects and associate companies, Coppermoly Ltd and Pacific Kanon Gold Corporation have not changed materially since the annual Management Discussion & Analysis, lodged on Sedar on 29<sup>th</sup> April 2008. The reader is referred to that document.

The main company objectives in respect to project development are:

- achieve production of 3,000 ozs gold/month from the Sinivit Mine
  - define a substantial gold resource at the Imwauna Project
  - define a substantial gold resource at the Weioko Project (Sehulea Property)
1. The first objective is on track to be achieved in the third quarter of 2008. The main risk factor is rain in that heavy rain slows all aspects of development including crushing, construction of and lining vats and other earthworks.

The grade of the gold mineralization to be mined is not a risk factor at present in that grade control drilling suggests that mined grades will exceed resource grades.

Another risk factor, which is considered to be unlikely to occur, is the occurrence of major earthquakes which could de-stabilize the vats or cause leaks from vats.

2. Considerable progress has been made in achieving a reportable resource at Imwauna. As noted above a resource is expected to be announced in June. Drilling will continue subsequent to the resource announcement as a further objective is to increase the resource to the equivalent of several million ounces of gold. Management cautions that although there are additional prospects where this could be achieved and the present mineralization at Imwauna is open ended along strike and to depth, such an increase has not yet been defined and may not be defined.
3. Over 40 drill holes have defined significant mineralization at Weioko but the Company will not be in a position to further explore this prospect and hopefully increase the size of the known mineralization until late in 2008. This objective still has to be achieved.

## **RESULTS OF OPERATIONS**

The Company's net loss for the three months ended March 31, 2008 was \$747,172 or \$0.01 per common share compared to \$811,399 in the same period ended 2007 or \$0.01 per common share. The Company received \$43,340 in interest payments on cash balances and deposits. Interest revenues fluctuate according to the amount of funds held in deposit and the interest rates attained during the period.

The decrease in net loss for the three months ended March 31, 2008 compared to the same period in 2007 was \$64,227 and is mainly attributed to decreased stock-based compensation, offsetting increased interest and borrowing costs and a new share of losses from equity accounted associates. The Company also had a foreign exchange loss in the three months ended March 31, 2008 of \$52,745 compared to a gain of \$63,718 during the same period in 2007 because of fluctuations in foreign currency rates.

The Company had no stock-based compensation expense during the three months ended March 31, 2008, compared to \$338,499 in the same period in 2007. This is non-cash expenditure and does not affect the financial condition of the Company.

During the three months ended March 31, 2008 the Company completed \$395,972 in exploration expenditures, and \$1,635,710 in development and commissioning expenditures on its mineral property interests. During this same period the Company had \$292,803 of gold sales, which were offset against mine development costs as the mine was still in the development/commissioning phase.

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

The following table presents selected unaudited financial information for each of the last eight quarters ended March 31, 2008:

	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	46,324	460,183	38,944	22,027	13,836	81,269	57,764	62,979
Net loss	(747,172)	(275,728)	(297,999)	(604,362)	(811,399)	(80,186)	(702,538)	(183,462)
Basic/diluted loss per share	(0.01)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)	(0.00)

## **FINANCIAL CONDITION**

At March 31, 2008 the Company had working capital of \$4,172,819 (2007 - \$447,866). The Company has no long-term indebtedness or long-term obligations. The change in working capital is due largely to an increase in available cash of \$5,728,461 compared to the previous year (2007 - \$1,680,345).

At May 12, 2008 the Company is committed to paying approximately \$580,000 for expenses billed, \$61,000 for short term insurance premium funding and \$1,926,000 for a fully drawn advance due for repayment by June 30, 2008.

## **CAPITAL RESOURCES AND LIQUIDITY**

Capital resources of the Company consist primarily of cash and liquid short-term deposits of approximately \$5,000,000 May 12, 2008.

The Company has adequate cash reserves to continue operations at current levels to at least November 2008, and has been able to fund its operations by the issue of shares as needed. The Company is also generating cash from gold production. The Company has warrants and stock options outstanding, some of which are "in-the-money" and could generate an additional \$ 1,463,700 if exercised. There is no certainty that the Company will be able to continue to obtain funding by share issuances in the future.

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

## **CASH FLOWS**

The Company has not yet generated positive cash flow from mining operations. The Company has funded its operations by issuing its shares either through financings or the exercise of existing share purchase warrants and stock options.

Shares issued from January 1, 2007 to December 31, 2007 and to the date of this report are as follows:

	<b>Number of Shares</b>	<b>Share Capital</b>
		<b>\$</b>
Balance, December 31, 2006	108,723,434	26,988,402
Private placements	14,688,708	5,506,922
Exercise of warrants	4,482,700	1,344,810
Exercise of stock options	679,400	221,506
Stock-based compensation on exercises	-	233,825
Total shares issued	19,850,808	7,307,063
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	7,952,471
Exercise of stock options	600,000	178,500
Shares issued	27,508,238	8,318,971
Balance, May 12, 2008	156,082,480	42,614,436

### **Related Party Transactions**

Amounts paid to related parties were in the normal course of operations and were valued at fair market value as determined by management.

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 the date of this report, the Company owed Macmin \$197,449 for exploration and mine development expenditures paid for by Macmin (2007 - \$661,659).

### **Disclosure Controls**

The Company has adopted a policy of disclosure controls and procedures and will continue to review these, as appropriate, from time to time. The Chief Executive Officer and Chief Financial Officer have concluded that, the process in place was effective enough to ensure that material information was accumulated and communicated to management in a sufficiently timely manner for management to make decisions regarding the Company's disclosure as required by securities legislation.

### **Internal Controls**

The Company has designed and put in place internal controls over financial reporting. The internal controls have an inherent weakness in the area of segregation of accounting duties, in that the accounting staff is small in number and it is not practical or cost effective to increase accounting personnel to enable the segregation of all accounting duties in the company of this size. The Chief Executive Officer and Chief Financial Officer have reviewed the process and have concluded that the controls in place give reasonable assurance that relevant and reliable financial information is available for reporting and for the preparation of interim and annual financial statements in accordance with Canadian GAAP.

### **Contractual Obligations**

The Company has no long-term debt and does not anticipate that it will require debt financing for current planned expenditures.

### **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, amounts receivable, prepaid expenses, marketable securities, accounts payable and accrued liabilities, and amounts due to related parties. The balances in these accounts are in Canadian dollars, Papua New Guinea kina and Australian dollars and are recorded at their 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 INCLUDING INITIAL ADOPTION**

### **Comprehensive Income, CICA Handbook Section 1530**

In 2007 the Company adopted section 1530 which introduces new standards for reporting and display of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

### **Financial Instruments, CICA Handbook Section 3855**

In 2007 the Company adopted new handbook Section 3855 which prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented.

Pursuant to these new standards, the Company has included a new statement of comprehensive income with its financial statements and has applied fair value accounting to certain of its financial instruments. This has resulted in the recognition of unrealized gains and losses as other comprehensive income or loss which appear on the statement of comprehensive income or loss.

### **Capital Disclosures, CICA Handbook Section 1535**

Effective 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.

### **Financial Instruments - Disclosure and Presentation, CICA Handbook Sections 3862 and 3863**

Effective 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.

## **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:

### **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.

## **OUTSTANDING SHARE DATA**

The Company has one class of shares and there were 156,082,480 shares issued as at May 12, 2008 (128,574,242 shares issued as at December 31, 2007) and 170,685,684 on a fully diluted basis.

The Company has a stock option plan and at the date of this report there were 5,885,600 options outstanding exercisable into one common share between \$0.23 and \$0.49.

The Company has 8,717,604 warrants outstanding as at May 12, 2008 exercisable into one common share between \$0.55 and \$0.65.

## **SUBSEQUENT EVENTS**

Subsequent to March 31, 2008 the Company:

- 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.