



**Consolidated Financial Statements**

**Years Ended**

**December 31, 2009**

and

December 31, 2008



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## Auditors' Report

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To the Shareholders of  
New Guinea Gold Corporation

We have audited the consolidated balance sheets of New Guinea Gold Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive income 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 financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, British Columbia  
April 30, 2010

**NEW GUINEA GOLD CORPORATION**

**Consolidated Balance Sheets**

As at December 31,

	<u>2009</u>	<u>2008</u>
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	3,627,136	3,530,818
Amounts receivable (note 5)	235,270	341,720
Prepaid expenses	10,000	115,781
Inventories (note 6)	5,718,988	5,220,975
Marketable securities (note 7)	98,800	46,800
Assets held for sale (schedule, note 22)	758,063	-
	<u>10,448,257</u>	<u>9,256,094</u>
<b>Mining and other deposits</b> (note 8)	60,417	50,127
<b>Deferred mining costs</b> (note 9)	942,081	1,224,345
<b>Long term receivable</b> (notes 5 and 10)	2,670,146	1,879,325
<b>Investments</b> (note 11)	416,364	809,618
<b>Equipment</b> (note 12)	3,689,368	2,902,837
<b>Mineral properties</b> (schedule, note 18)	6,126,368	5,813,326
<b>Mine development costs</b> (schedule, note 18)	1,633,982	5,869,455
	<u>25,986,983</u>	<u>27,805,127</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,199,617	1,576,750
Bank and short-term debt (note 13)	1,039,545	1,456,389
Convertible debentures (note 15)	2,805,308	-
Embedded derivatives (note 15)	296,445	-
	<u>5,340,915</u>	<u>3,033,139</u>
<b>Asset retirement obligations</b> (note 14)	196,206	175,818
<b>Long-term bank debt</b> (note 13)	613,715	-
<b>Convertible debentures</b> (note 15)	-	1,889,183
<b>Embedded derivatives</b> (note 15)	-	50,862
	<u>6,150,836</u>	<u>5,149,002</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (note 17)	46,758,742	43,277,467
<b>Shares to be issued</b> (note 17)	1,575,000	4,263,780
<b>Contributed surplus</b> (note 17)	5,137,712	4,263,780
<b>Accumulated other comprehensive income</b> (note 16)	52,000	-
<b>Deficit</b>	<u>(33,687,307)</u>	<u>(24,885,122)</u>
	<u>19,836,147</u>	<u>22,656,125</u>
	<u>25,986,983</u>	<u>27,805,127</u>

Approved by the Board of Directors:

"Robert D. McNeil"  
Director

"Ces Iewago"  
Director

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

**NEW GUINEA GOLD CORPORATION**  
**Consolidated Statements of Operations and Deficit**  
For the years ended December 31,

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Revenue</b>		
Metal sales	7,106,526	5,891,382
Royalties	(233,991)	(205,496)
Net metal sales (note 1)	6,872,535	5,685,886
<b>Expenses</b>		
<u>Mine operating costs (note 1)</u>		
Changes in inventory (note 6)	(498,013)	(4,114,662)
Amortization of deferred mining costs	5,175,031	2,524,071
Depreciation of mine equipment	684,222	557,328
Consumables	1,132,049	2,020,503
Contractor payments	829,940	2,947,459
Employee salaries and benefits	1,847,047	1,201,018
Equipment hire	1,405,539	104,651
Repairs and maintenance	504,074	483,195
Travel and accommodation, including on-site	600,072	391,555
Other general mining costs	490,370	482,697
Total mine operating costs	12,170,331	6,597,815
<b>Net loss from mining operations</b>	(5,297,796)	(911,929)
 General and administrative costs		
Depreciation not included in operating costs	255,871	266,461
Employee salaries and benefits	415,752	335,327
Exploration expense written off	4,777	17,843
Financing costs (note 13)	1,220,594	572,781
Professional fees	158,319	134,242
Rent	137,393	22,117
Shareholder communications	250,120	140,793
Stock-based compensation (note 17)	796,257	517,519
Other general and administrative costs	242,440	363,994
<b>Loss from operations</b>	(8,892,181)	(3,283,006)
 <b>Other income (expense)</b>		
Interest and other income	632,776	539,344
Dilution gain on changes in equity interest value (note 11)	542,654	2,208,298
Bad debts (note 5)	(303,501)	(1,036,610)
Impairment loss on available for sale securities (note 7)	-	(178,066)
Impairment loss on equity accounted investments (note 11)	(72,850)	(3,181,486)
Gain on sale of equity accounted investment	187,687	-
Foreign exchange gain/(loss)	(346,674)	353,289
Share equity accounted associate gains/(losses) (note 11)	(662,904)	(2,797,583)
Loss on sale of equipment	(54)	(31,330)
	(22,866)	(4,124,144)
 <b>Net loss for the year</b>	(8,802,185)	(7,407,150)
<b>Deficit, beginning of year</b>	(24,885,122)	(17,477,972)
<b>Deficit, end of year</b>	(33,687,307)	(24,885,122)
<b>Loss per share – basic and diluted</b>	\$ (0.05)	\$ (0.05)
 <b>Weighted average number of common shares outstanding</b>	159,406,065	152,903,480

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

**NEW GUINEA GOLD CORPORATION**  
**Consolidated Statements of Comprehensive Profit or Loss**  
For the years ended December 31,

	<u>2009</u>	<u>2008</u>
	\$	\$
<b>Net loss for the year</b>	(8,802,185)	(7,407,150)
<b>Unrealized gain (losses) on available-for-sale securities</b> (note 7)	52,000	(208,000)
<b>Impairment loss on available-for-sale securities</b> (note 7)	-	178,066
<b>Comprehensive loss for the year</b>	<u>(8,750,185)</u>	<u>(7,437,084)</u>

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

**NEW GUINEA GOLD CORPORATION**

**Consolidated Statements of Cash Flows**

For the years ended December 31,

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net loss for the year	(8,802,185)	(7,407,150)
Adjustment for items not involving cash		
Asset retirement accretion expense	20,388	-
Bad debts	303,501	1,036,610
Depreciation and amortization	6,227,986	3,347,860
Dilution gain	(542,654)	(2,208,298)
Non-cash finance costs	736,507	-
Equities issued as part of financing costs (note 13)	-	248,680
Gain on sale of equity investment	(187,687)	-
Exploration expenditure written off	4,777	17,843
Impairment loss on available for sale securities	-	178,066
Impairment loss on equity accounted investments	72,850	3,181,486
Loss attributable to equity accounting of associates	662,904	2,797,583
Loss on sale of equipment	54	31,330
Stock-based compensation	796,257	517,519
Unrealized foreign exchange on opening cash balance	145,932	(190,236)
Changes in non-cash working capital items:		
Amounts receivable	(197,051)	(66,011)
Inventories	(498,013)	(2,491,421)
Prepaid expenses	105,781	(11,570)
Accounts payable and accrued liabilities	(261,133)	1,360,528
Due to related parties	-	(661,659)
	<u>(1,411,786)</u>	<u>(318,840)</u>
<b>Investing Activities</b>		
Purchase of equipment	(1,732,495)	(558,542)
Sale of equipment	1,040	9,394
Purchase of investments	(116,000)	(2,087,846)
Sale of investments	387,841	-
Long-term receivables	(455,654)	
Deferred mining costs	(1,087,999)	(1,224,345)
Mineral property exploration expenditures	(1,088,429)	(1,636,383)
Mine development offsets from gold sales (note 1)	-	292,803
Mine development expenditures (note 1)	-	(2,643,533)
Mineral property and other deposits	(10,290)	207
	<u>(4,101,986)</u>	<u>(7,848,245)</u>
<b>Financing Activities</b>		
Common shares issued for cash	5,075,000	8,179,756
Share issue costs	(18,725)	(112,851)
Proceeds of borrowings	2,156,136	4,260,473
Repayment of borrowings (note 13)	(1,456,389)	(2,500,056)
	<u>5,756,022</u>	<u>9,827,322</u>
<b>Increase/(decrease) in cash during the year</b>	242,250	1,660,237
Foreign exchange affect on opening cash balance	(145,932)	190,236
<b>Cash - beginning of year</b>	3,530,818	1,680,345
<b>Cash - end of year</b>	<u>3,627,136</u>	<u>3,530,818</u>
Supplementary cash flow information:		
Interest paid - Bank and short-term debt (note 13)	169,895	271,430
Interest paid - Convertible debentures (note 15)	289,348	-

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

**NEW GUINEA GOLD CORPORATION**  
**Consolidated Statements of Cash Flows (continued)**  
For the years ended December 31,

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

During the year ended 2009, the Company:

- Issued 337,200 Agent's Warrants with a fair value of \$53,851 in respect of debenture issue costs (note 15).
- Issued 2,041,667 common shares with a fair value of \$285,833 in respect of share issue costs (note 17).

During the year ended 2008, the Company:

- Issued 400,000 common shares with a fair value of \$188,000 to Vangold Ltd as part of the costs relating to a short term funding arrangement (note 17).

Issued 1,462,800 Agent's Warrants with a fair value of \$128,288 in respect of debenture issue costs (note 16).

*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, 2007 \$	Expenditures (Re- allocations) \$	Balance December 31, 2008 \$	Expenditures (Re- allocations) \$	Balance December 31, 2009 \$
<b>Normanby</b>					
Acquisition costs	55,140	13,649	68,789	2,177	70,966
Exploration costs:					
Drilling	696,089	585,122	1,281,211	102,331	1,383,542
Salaries, wages & fees	775,714	682,329	1,458,043	151,794	1,609,837
Travel & accommodation	162,388	67,632	230,020	12,031	242,051
Geological services & investigations	421,543	42,512	464,055	55,228	519,283
Field supplies & services	1,033,365	443,229	1,476,594	96,731	1,573,325
Community compensation	14,955	4,100	19,055	-	19,055
Field office	383,012	109,826	492,838	21,106	513,944
Impairment write-down	(790,682)	(256,947)	(1,047,629)	(86,914)	(1,134,543)
	<u>2,751,524</u>	<u>1,691,452</u>	<u>4,442,976</u>	<u>354,484</u>	<u>4,797,460</u>
<b>Shulea</b>					
Acquisition costs	35,959	97	36,056	7,701	43,757
Exploration costs:					
Drilling	83,066	-	83,066	69,893	152,959
Salaries, wages & fees	104,475	19,777	124,252	259,489	383,741
Travel & accommodation	34,674	193	34,867	22,947	57,814
Geological services & investigations	94,640	4,120	98,760	94,225	192,985
Field supplies & services	205,474	-	205,474	113,479	318,953
Community compensation	9,121	260	9,381	569	9,950
Field office	105,617	1,151	106,768	19,270	126,038
Impairment write-down	(256,011)	(3,376)	(259,387)	(115,697)	(375,084)
	<u>417,015</u>	<u>22,222</u>	<u>439,237</u>	<u>471,876</u>	<u>911,113</u>
<b>Mt. Penck</b>					
Acquisition costs	8,174	-	8,174	3,022	11,196
Exploration costs:					
Drilling	123,335	378	123,713	31,377	155,090
Salaries, wages & fees	181,690	7,125	188,815	69,201	258,016
Travel & accommodation	41,431	159	41,590	7,801	49,391
Geological services & investigations	110,829	705	111,534	33,190	144,724
Field supplies & services	210,855	2,901	213,756	52,442	266,198
Community compensation	8,798	661	9,459	2,658	12,117
Field office	50,589	5,618	56,207	13,672	69,879
Impairment write-down	(164,221)	(2,314)	(166,535)	(42,013)	(208,548)
	<u>571,480</u>	<u>15,233</u>	<u>586,713</u>	<u>171,350</u>	<u>758,063</u>
<b>Other</b>					
Acquisition costs	8,530	3,691	12,221	6,595	18,816
Exploration costs:					
Drilling	179,114	61,653	240,767	63,331	304,098
Salaries, wages & fees	56,860	15,363	72,223	9,276	81,499
Travel & accommodation	4,465	1,591	6,056	2,044	8,100
Geological services & investigations	12,366	5,578	17,944	3,386	21,330
Field supplies & services	12,450	116,358	128,808	6,606	135,414
Community compensation	975	-	975	-	975
Field office	17,570	4,191	21,761	153	21,914
Joint venture recoveries	(34,530)	-	(34,530)	-	(34,530)
Write down of mineral right costs	(27,430)	(17,843)	(45,273)	-	(45,273)
Impairment write-down	(51,423)	(25,133)	(76,552)	(17,996)	(94,548)
	<u>178,947</u>	<u>165,449</u>	<u>344,400</u>	<u>73,395</u>	<u>417,795</u>
<b>Total deferred mineral property costs</b>	<u>3,918,966</u>	<u>1,894,356</u>	<u>5,813,326</u>	<u>1,071,105</u>	<u>6,884,431</u>

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

	Balance, December 31, 2007 \$	Expenditures (Re-allocations /income) \$	Balance, December 31, 2008 \$	Expenditures (Re-allocations /income) \$	Balance, December 31, 2009 \$
<b>Mt. Sinivit mining lease</b>					
Acquisition costs	308,470	-	308,470	-	308,470
Exploration costs:					
Drilling	71,736	-	71,736	-	71,736
Salaries, wages & fees	117,771	-	117,771	-	117,771
Travel & accommodation	28,951	-	28,951	-	28,951
Geological services & investigations	98,510	-	98,510	-	98,510
Field supplies & services	100,998	-	100,998	-	100,998
Community compensation	13,056	-	13,056	-	13,056
Field office	70,925	-	70,925	-	70,925
Net exploration costs	<u>810,417</u>	<u>-</u>	<u>810,417</u>	<u>-</u>	<u>810,417</u>
 Mine development					
Development costs	9,458,979	1,294,418	10,753,397	-	10,753,397
Development income from gold sales	(359,626)	(292,803)	(652,429)	-	(652,429)
Transferred to inventories (note 6)	-	(2,729,554)	(2,729,554)	-	(2,729,554)
Additions to mine rehabilitation provision (note 15)	-	160,758	160,758	-	160,758
Amortize Life-of-Mine costs	-	(1,981,163)	(1,981,163)	(4,235,473)	(6,216,636)
	<u>9,909,770</u>	<u>(3,548,344)</u>	<u>6,361,426</u>	<u>(4,235,473)</u>	<u>2,125,953</u>
 Reallocation of costs	<u>(402,070)</u>	<u>(89,901)</u>	<u>(491,971)</u>	<u>-</u>	<u>(491,971)</u>
 <b>Total mine development costs</b>	<u><u>9,507,700</u></u>	<u><u>(3,638,245)</u></u>	<u><u>5,869,455</u></u>	<u><u>(4,235,473)</u></u>	<u><u>1,633,982</u></u>

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

## **1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS**

The Company is incorporated in British Columbia, Canada, and is involved in the acquisition, exploration, development and operation of mineral properties in Papua New Guinea (“PNG”). The carrying amount of deferred mineral exploration and development costs on all its 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 commenced production at its Mt Sinivit gold mine during 2008. The Company does not yet generate a positive cash flow from operations. As at December 31, 2009 the Company has an accumulated deficit of \$33,687,307, including a loss for the year then ended of \$8,802,185. The Company anticipates incurring substantial expenditures to further develop its mineral properties. The Company’s cash flows from operating activities may not be sufficient to satisfy its obligations as they come due and meet the requirements of its capital investment programs and covenants on its long-term debt. 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, or sell or farm out interest in mineral properties, if the mining operations do not generate sufficient cash flows. 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 become 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.

Net metal sales and mine operating costs have only been included in the Statement of Operations and Deficit since April 1, 2008. Up to March 31, 2008 these amounts were capitalized as mine development costs and offsets.

## **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. All inter-company balances have been eliminated on consolidation.

### **b) Use of Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles in Canada, 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 revenues and expenses incurred during the year. Significant areas requiring the use of management estimates include the determination of potential impairments of asset values, amortization of mine assets and equipment, and rates for amortization, as well as the assumptions used in determining the fair-value of non-cash stock-based compensation, valuation of investments, future income taxes, asset retirement obligations, recoverability of amounts receivable, inventory and long-term receivables and the ability to continue as a going concern. Actual results could differ from those estimates.

### **c) 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 are translated at average rates in effect during the year in which they are incurred and revenue and expenses are translated at average rates in effect during the year, 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.

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

### d) Financial Instruments

The Company recognizes financial assets and liabilities on the balance sheet when it becomes a party to the contractual provisions of the instrument. Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

The Company expenses transaction costs related to the acquisition or issuance of held-for-trading financial instruments in the year in which the costs are incurred. For all other categories of financial instruments the Company adds the transaction costs related to the acquisition or issuance of financial instruments to the instrument itself and amortizes the transaction costs to the statement of operations over the life of the financial instrument on an effective yield basis.

The Company's financial instruments at December 31, 2009 were comprised of cash and equivalents, amounts receivable, marketable securities, investments, long term receivable, accounts payable and accrued liabilities, bank debt, debentures issued and embedded derivatives. Information related to risk management positions and discussions of risks associated with financial assets and financial liabilities are addressed in note 4 below.

#### *(i) Cash and equivalents*

Cash and equivalents consist of cash and highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired.

#### *(ii) Amounts receivable and long term receivable*

Amounts receivable include amounts due from joint venture partners for exploration managed by the Company on the Company's joint-ventured properties, reimbursable amounts due from related companies, an amount due from the main mining contractor at the Mt Sinivit mine due to the sale of some equipment and consumables to the contractor and interest receivable. Other than the amounts due from related companies items are stated at amortized cost, which approximate fair values due to the short terms to maturity. The reimbursable amounts due from related companies are recorded at the exchange amount which is the amount of consideration paid or received as agreed to by the parties. Amounts receivable and long-term receivables are recognized at amortized cost.

#### *(iii) Marketable securities*

Marketable securities held by the Company are considered to be available-for-sale and are reported at fair value with any unrealized holding gains and losses included in current other comprehensive income, a component of shareholders' equity. At each balance sheet date, we assess for any impairment in value that is considered to be other than temporary, and record such impairments in net earnings for the year. Transaction costs are expensed as incurred.

#### *(iv) Investments*

Investments over which the Company does not exercise control or significant influence are classified as available-for-sale. The Company's investment in Goldmines of Niugini Holdings Limited, which does not have a quoted market price in an active market, is measured at cost.

#### *(v) Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities are non-interest bearing and are stated at amortized cost, which approximate fair values due to the short terms to maturity.

#### *(vi) Bank debt*

Bank debt is comprised of two short-term loans with the Bank of South Pacific Limited. Both loans are repayable in PNG Kina within the next twelve months pursuant to the terms and conditions more fully described in note 13. Bank debt is recognized at amortized costs, with transaction costs are included the effective interest rate calculation.

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

### *(vii) Convertible debentures*

Convertible debentures are initially recognized at fair value net of transaction costs incurred and are subsequently measured at amortized cost, and are amortized to the repayment amount over the expected term to repayment using the effective interest rate method.

### *(viii) Embedded derivatives*

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value with subsequent changes in fair value recognized in income. Fair values for derivative instruments held for trading are determined using valuation techniques. These valuations use assumptions based on market conditions existing at the balance sheet date. Derivatives embedded in non-derivative contracts are recognized separately from the host instrument when their economic characteristics and risks are not closely related to those of the host instrument.

### **e) Inventories**

Inventories, which include work-in-progress and consumables, are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to perform the sale. Work-in-progress consists of direct materials, direct labour and an appropriate proportion of fixed and variable overhead expenditure. Costs are assigned to work-in-progress and consumables on a weighted average basis, less allowance for redundant items.

### **f) Investments**

Investments in companies subject to significant influence are accounted for using the equity method. The equity method is a basis of accounting whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro-rata share of post-acquisition income or loss. The amount of the adjustment is included in the determination of net income (loss) by the Company and the investment account of the Company is also increased or decreased to reflect the Company's share of capital transactions and changes in accounting policies and corrections of errors. Profit distributions received or receivable from the investments will reduce the carrying value of the investment. Investments accounted for on the equity basis are written down to their fair value when they have a loss in value that is other than a temporary decline.

### **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 of:

Equipment	25 – 37.5%
Furniture & Equipment	11 – 37.5%

### **h) Mineral Properties**

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 total production 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.

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.

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

### **i) Mine Development (Mt Sinivit)**

The Mt Sinivit property costs, where mine development was 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. All mine revenue and expenditure, including inventory and work-in-progress values, had been capitalized to mine development to March 31, 2008 awaiting commencement of commercial production. From April 1, 2008 revenue and operating expenses, including changes in inventory and work-in-progress values, and amortization of deferred life of mine costs, and other deferred mining costs, have been included in the statement of operations and deficit.

Deferred mining costs are associated with grade control and vat leach preparation activities in relation to areas that will be mined or utilized within the next 12 months. Grade control and vat leach costs are deferred and amortized as the mine and utilization occurs, and are included in amortization of deferred mining costs in the statement of operations and deficit.

### **j) Impairment of Long Lived Assets**

Long-lived assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of long-lived assets, other than indefinite life intangibles, are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value is not recoverable from future expected cash flows, any loss is measured as the amount by which the asset's carrying value exceeds fair value and recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets.

Indefinite life intangible assets are subjected to impairment tests on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value.

### **k) 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.

### **l) 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, or in the case of stock options the trading price of the shares on the TSX Venture Exchange on the date the options are granted. Costs incurred to issue shares are deducted from share capital.

### **m) Stock-based Compensation**

The Company grants stock options to executive officers, directors and employees and consultants. 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 using the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, volatility of the expected market price of the Company's shares and an expected life of the options. Where awards are subject to vesting provisions, the fair value of the awards will be recognized over the vesting period.

The fair value of direct awards of stock is determined by the relevant market price of the Company's stock.

### **n) Revenue Recognition**

Sales are recognized when title transfers, the rights and obligations of ownership pass to the customer and the price is reasonably determinable. Revenue from metal sales represents gross proceeds receivable from the customer less associated refining costs. Revenue from metal sales is primarily from gold sales but also includes some silver product. Interest revenue is recognized as it accrues.

The Company has a memorandum of agreement with the PNG government and local landowner groups under which the Company is obligated to pay a royalty of 2%. The Company also pays a 1% Net Smelter Royalty ("NSR") to Macmin Silver Ltd (Subject to Deed of Company Arrangement) ("Macmin") and 0.25% mineral production levy to the PNG Mineral Resources Authority. All royalties and the production levy are calculated on metal sales revenue less associated refining costs. The royalties and production levy are accrued at the same time the metal sales revenue is recognized.

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

### **o) Loss Per Share**

Basic profit or loss per share is calculated by dividing the net profit or loss applicable to common shares by the weighted-average number of common shares outstanding for the year. Diluted profit or loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

At December 31, 2009, potentially dilutive common shares, relating to the options, warrants and convertible debentures outstanding at year end, totalled 30,250,000 (2008: 28,430,404). These potentially dilutive common shares were not included in the computation of the loss per share because their effect was anti-dilutive.

### **p) Income Taxes**

Income taxes are calculated using the asset and liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets and liabilities are measured using tax rates and laws that are expected to apply when the temporary differences are expected to reverse.

Future income tax assets also result from unused loss carry-forwards and other deductions. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The income tax expense or benefit is the income tax payable or refundable for the period plus or minus the change in future income tax assets and liabilities during the period. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

### **q) Comparative Financial Statements**

Certain figures included in the comparative financial statements and schedule of deferred mineral property costs as at December 31, 2008, and for the year then ended, have been reclassified to conform to the presentation used in the current year.

### **r) Recently adopted Accounting Pronouncements**

#### *i) Financial Instruments – Disclosures – Revised section 3862*

The amendments to CICA HB 3862 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company has not provided comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered in these amendments. The result of the expanded disclosures required the Company to identify the degree to which the fair value is observable. The Company's analysis is included in Note 4.

#### *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 is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008.

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 adoption of this section did not have any impact on the Company's consolidated financial statements.

#### *iii) Mining Exploration Costs*

In March 2009, the Emerging Issues Committee (EIC) issued EIC-174 "Mining Exploration Costs", which provides guidance to mining enterprises related to the measurement of exploration costs and conditions that a mining enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and did not have an impact on the valuation of mineral exploration assets.

#### *iv) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" was issued, which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance. The accounting treatments in EIC-173 did not impact the Company's financial results for the year ended December 31, 2009.

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

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

The CICA accounting standards board amended section 1400 to include requirements, from January 1, 2008, 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.

### vi) *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.

### **Accounting Pronouncements 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) *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 is currently developing an implementation strategy to establish timelines and identify significant differences between Canadian GAAP and IFRS, but the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

#### ii) *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. Companies 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.

At the date of this report the Company did not have any investments in subsidiaries with non-controlling interests and so has assessed that there will be no impact from these new accounting standards on its current consolidated financial statements.

## 3. CAPITAL MANAGEMENT

The Company's objectives for the management of capital are to safeguard the Company's ability to continue as a going concern including the preservation of capital and to achieve reasonable returns on invested cash after satisfying the objective of preserving capital.

The Company's capital consists of cash and short term investments, share capital, convertible debentures and bank debt. The Company's policy is to fund ongoing mining and exploration operations, as well as its administration and corporate activities, from gold production. The Company also accesses capital or debt markets as necessary to finance its operations. The Company may acquire additional funds from capital or debt markets where favourable conditions arise. The Company assesses capital and debt markets on a case by case basis to minimize the cost of capital in the prevailing markets and maintain optimal capital structure. The Company may also realize, sell or farm out interest in mineral properties to generate operational funds.

Excess cash investments are restricted to bank term deposits of major Canadian and Australian banks or instruments of equivalent or better quality. Only operational level cash balances are held in PNG bank accounts. No investments in asset backed commercial paper are used.

The only externally imposed capital requirement on the Company is to maintain sufficient cash and investment balances to meet exploration commitments imposed by property licences issued by the PNG government. The Company is in full compliance with this requirement.

There have been no changes to the Company's capital management objectives during 2009.

#### **4. FINANCIAL INSTRUMENTS RISK**

The Company's financial instruments are exposed to the following risks:

##### *Credit Risk*

Credit risk is the risk that other parties to a financial instrument will fail to discharge their obligations resulting in the Company incurring financial loss. This usually occurs when a debtor or counterparty to a derivative contract fails to settle their obligations owing to the Company. The carrying amounts of cash and cash equivalents, and short and long term amounts receivables totalling \$6,532,215 (2008: \$5,751,863) represents the maximum exposure to credit risk in relation to financial assets at balance date.

The Company's exposure to credit risk in relation to the non-payment of cash and equivalents amounted to \$3,627,136 at December 31, 2009 (2008: \$3,530,818); \$1,450,661 was held in Canadian bank accounts (2008: \$2,464,298), \$1,680,638 in Australian bank accounts (2008: \$96,268) and \$495,837 in PNG bank accounts (2008: \$970,252). As the Company's policy is to limit investments to term deposits with major Canadian and Australian banks, or instruments of equivalent or better quality, the credit risk is considered by management to be negligible.

Included in short term amounts receivable at December 31, 2009 are reimbursable amounts due from related companies for exploration managed by the Company on the related companies' properties in the amount of \$16,930 (2008: \$135,302). The Company has the right to request cash advances for all such work but where the companies are considered credit worthy cash calls have not been requested. The risk is also mitigated by the degree of access to information and influence the Company has with the debtors. Also included in amounts receivable at December 31, 2009 are amounts held in mining and exploration site cash-boxes, GST receivable due from the Canadian and PNG governments, and a deposit paid on capital equipment, which was which was purchased in January 2010, totalling \$218,003 (2008: \$46,670). Other amounts included in amounts receivable at December 31, 2008, included \$46,244 due from the former main mining contractor at the Mt Sinivit mine. This amount was expensed during 2009 as a doubtful debt. The amount related to supplies purchased on behalf of the contractor. Also included in short term amounts receivable at December 31, 2008 was amounts due from joint venture partners for exploration managed by the Company on the joint venture properties, in the amount of \$113,504.

Long term amounts receivable at December 31, 2009 of \$2,670,146 (2008: \$1,879,325) were owed by Goldmines of Niugini Holdings Limited ("GMNH"), the 10% joint venture partner in the Mt Sinivit mine. The amount relates to GMNH's share of mine development costs and, as it is recoverable from positive cash flows from the operation of the mine, management considers any credit risk to be primarily related to the success of the mine operations.

There were no significant credit risk issues relating to metal sales for the Company at the balance date with all customers on short credit terms and no balance in trade debtors at either December 31, 2009 or December 31, 2008.

##### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages financial risk by ensuring it maintains sufficient resources to meet its financial liabilities as they become due.

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 to 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 sometime the next 12 months. Capital markets may need to be accessed again, or interest in the Company's mineral properties sold or farmed out, to fund the Company's operations. There is however no certainty that the Company will be able to obtain funding by share issuances, or debt financing, in the future.

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**4. FINANCIAL INSTRUMENTS RISK (continued)**

The following table illustrates the Company's contractual maturity for its financial assets and liabilities as at December 31, 2009 and December 31, 2008.

	Carrying Value	1 – 6 months	7 – 12 months	1 – 2 years	Over 2 years
<b>December 31, 2009</b>	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Cash and equivalents	3,627,136	3,627,136	-	-	-
Amounts receivable	235,270	235,270	-	-	-
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	(2,774,617)	(2,774,617)	-	-	-
Bank and short-term debt	(1,653,260)	(761,088)	(278,457)	(613,715)	-
Convertible debentures	(2,805,308)	(2,805,308)	-	-	-
Embedded derivatives	(296,445)	(296,445)	-	-	-
	(3,667,224)	(2,775,052)	(278,457)	(613,715)	-
	<b>Carrying Value</b>	<b>1 – 6 months</b>	<b>7 – 12 months</b>	<b>1 – 2 years</b>	<b>Over 2 years</b>
<b>December 31, 2008</b>	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Cash and equivalents	3,530,818	3,530,818	-	-	-
Amounts receivable	341,720	341,720	-	-	-
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	(1,576,750)	(1,576,750)	-	-	-
Bank and short-term debt	(1,456,389)	(732,615)	(723,774)	-	-
Convertible debentures	(1,889,183)	-	-	(1,889,183)	-
Embedded derivatives	(50,862)	-	-	(50,862)	-
	(1,100,646)	1,563,173	(723,774)	(1,940,045)	-

*Market Risk*

The significant market risk exposures to which the Company is exposed are foreign exchange risk, interest rate risk, commodity price risk and equity price risk, which are discussed further below. In addition, the Company is exposed to price increases in cost of labour, energy and equipment which might influence the ultimate capital investment in the development of the Company's projects and operational cost.

(i) *Foreign Exchange Risk*

The Company's foreign exchange risks from financial instruments include its exposure to Australian dollar exchange rate changes on bank account balances held in Australia and PNG kina exchange rate changes on bank account balances held in PNG, amounts receivable, bank loans, and accounts payable arising from exploration expenditures incurred in PNG. Due to the short term nature of these liabilities, the risk is not considered material by management and no hedging is considered necessary. A 10% change in the Canadian dollar to Australian dollar exchange rate at December 31, 2009 would have an effect on net income of approximately +/- \$168,000. A 10% change in the Canadian dollar to PNG kina exchange rate at December 31, 2009 would have an effect on net income of approximately +/- \$49,700.

Items exposed to foreign exchange risk:

Australian Dollar	PNG Kina	
Cash and cash equivalents	1,680,638	495,837
Bank and short-term debt	-	1,153,260

#### **4. FINANCIAL INSTRUMENTS RISK (continued)**

##### *(ii) Equity Price Risk*

The Company is exposed to price risk on its marketable securities investment in Vangold Resources Ltd. Although the volatility of this class of shares can be significant it is not considered material by management as the investment represents less than 1% of the Company's net assets. Unrealized gains and losses are reported in other comprehensive income or, if impairment is considered more than temporary, the fall in value is expensed.

If market prices for the shares held by the Company, at year end, had differed by 10%, there would have been a change in other comprehensive income of approximately +/- \$9,900.

##### *(iii) Interest Rate Risk*

The Company is exposed to interest rate risk on its cash equivalent investments and its bank debt.

Interest bearing cash equivalent investments are in term deposits with pre-determined fixed yields or cash management accounts with higher variable yields than transaction bank accounts. Interest rate movements will affect the income earned on these instruments so the Company manages maturity dates of these instruments to match cash flow needs. A difference in interest rates of 50 basis points, on the December 31, 2009 balance of interest bearing cash equivalent investments, over the year, would result in a change to net income of approximately +/- \$8,400.

The interest on the bank debt is at a variable rate of interest. Interest rates are monitored in line with the Company's overall cost of finance. At December 31, 2009 bank debt interest rates were broadly in line with other sources of finance available to the Company. A difference in interest rates of 50 basis points, on the December 31, 2009 balance of bank debt, over the year, would result in a change to net income of approximately +/- \$5,800.

##### *(iv) Commodity Price Risk*

Commodity price risk is the risk that the fair value of instruments or future cash flows will fluctuate as a result of changes in commodity prices.

The value of the Company's mineral properties, other than Mt. Sinivit, is related to the price of gold and the outlook for this mineral. Since these projects are primarily in the exploration and evaluation stage and do not yet have proven reserves commodity based risks in respect of these properties is considered negligible.

Since the Company has begun commercial production on the Mt. Sinivit property the Company is subject to commodity price risk related to the market price of gold. The Company did not have any financial instruments subject to commodity price risk at balance date.

**4. FINANCIAL INSTRUMENTS RISK (continued)**

*(v) Fair value*

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, amounts receivable, marketable securities approximate fair values due to their short-term maturities.

The fair value of other financial instruments are as follows:

	Carrying Value	Fair Value
Long-term receivable <sup>(1)</sup>	2,670,146	2,670,146
Bank and short term debt <sup>(2)</sup>	(1,039,545)	(1,039,545)
Convertible debentures <sup>(3)</sup>	(2,805,308)	(2,805,308)
Embedded derivatives <sup>(3)</sup>	(218,637)	(218,637)
Long-term bank debt <sup>(2)</sup>	(613,715)	(613,715)

(1) Long-term receivables are recognized at market interest rates. Fair value is approximate to carrying value.

(2) Bank and short-term debt are recognized at floating market interest rates. Fair value is approximate to carrying value.

(3) Convertible debentures and embedded derivatives are primarily determined using quoted market prices, adjusted for conversion features. At December 31, 2009 the effective interest rate and market interest rate approximate each other.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3
Cash and cash equivalents	3,627,136	-	-
Marketable securities	98,800	-	-
Embedded derivatives	-	(218,637)	-

There were no significant transfers between Level 1 and Level 2 in the period. The Company does not hold any Level 3 fair value measurements.

**5. RELATED PARTY TRANSACTIONS**

Transactions with related parties are in the normal course of operations and were valued at exchange amount being the value established and agreed to between the parties. Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

Coppermoly Ltd ("Coppermoly") was incorporated in 2007 and acquired 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 21.5% (2008: 46.7%) of the share capital of Coppermoly after selling down its share holding during 2009 and Coppermoly raising additional capital. As at December 31, 2009 Coppermoly owed the Company \$716 (2008: \$78,541) for exploration expenditures paid for by the Company on Coppermoly's behalf. In 2008 Copper Quest PNG 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.

**5. RELATED PARTY TRANSACTIONS (continued)**

Pacific Kanon Gold Corporation (“PKG”), a private company, acquired the Company’s interest in Kanon Resources Ltd (“Kanon”) for shares in 2007. At December 31, 2009, the total owed by PKG to the Company was \$1,297,829 (2008: \$1,036,610). The amount related to exploration expenditures, as well as professional and other fees relating to PKG’s planned IPO, paid by the Company on PKG’s behalf. Due to uncertain market conditions at December 31, 2009, the Company has provided \$261,219 (2008: \$1,036,610) for the non-collection of this receivable. In 2009 Kanon also paid the Company \$139,341 in operating fees (2008: \$94,779) for managing the exploration programs and \$32,023 (2008: \$27,323) for equipment hire. Both of these amounts were included in interest and other income on the statement of operations and deficit.

Frontier Resources Ltd (“Frontier”) is an ASX listed company with two directors in common with the Company at December 31, 2009. As at December 31, 2009 Frontier owed the Company \$16,214 (2008: \$nil) for exploration expenditures paid for by the Company on Frontier’s behalf.

Goldmines of Niugini Holdings Limited (“GMNH”) is the 10% joint venture partner in the Mt Sinivit mine. At December 31, 2009 GMNH owed the Company \$2,670,146 (2008: \$1,879,325). Refer to note 10 for further details.

Prior to 2003, Macmin, was the Company’s joint venture partner in certain properties through Macmin’s wholly-owned subsidiary, New Guinea Gold Ltd (then known as Macmin PNG Ltd), which the Company acquired from Macmin in 2003. In November 2008 Macmin was placed into voluntary administration and subsequently acquired and relisted by an unrelated third party. Macmin ceased to be a related party in 2009. At December 31, 2009 however the Company owed Macmin \$82,903 for royalties, offset by shared services used by Macmin (2008: Macmin owed the Company \$56,761 for shared services).

All balances owing to the Company in relation to related party transactions at December 31, 2009 and December 31, 2008 were included in amounts receivable, long term receivables or accounts payable and accrued liabilities on the balance sheet.

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**6. INVENTORIES**

	<u>2009</u>	<u>2008</u>
	\$	\$
Work in progress	5,594,372	5,119,554
Consumables	124,616	101,421
<b>Inventories</b>	<u>5,718,988</u>	<u>5,220,975</u>

**7. MARKETABLE SECURITIES**

The Company's marketable securities at December 31, 2009 consist of 520,000 shares (2008: 520,000) of TSX Venture Exchange listed company Vangold Resources Ltd. ("Vangold") with a fair market value of \$98,800 (2008: \$46,800) and a historical cost of \$224,866.

Marketable securities are shown at fair value on the balance sheet with unrealized gains/(losses) included in accumulated Other Comprehensive Income ("OCI") unless impaired on an other than temporary basis, in which case an impairment loss is expensed in the relevant year. During the year ended December 31, 2008, the Company determined the decline in value of Vangold to be other than temporary and recognized an impairment write-down of \$178,066.

**8. MINING AND OTHER DEPOSITS**

This amount is primarily comprised of refundable deposits pledged with the Papua New Guinea Mining Department for reclamation of the Company's mineral tenements but also includes deposit amounts paid as security for leases on, and utilities for, business premises.

**9. DEFERRED MINING COSTS**

	<u>2009</u>	<u>2008</u>
	\$	\$
Deferred grade control	1,905,560	1,527,197
Less: accumulated deferred grade control amortization	(1,537,558)	(823,134)
Vat leach preparation costs	1,845,557	1,222,381
Less: accumulated vat leach preparation costs amortization:		
Expensed through statement of operations as amortization expense	(1,112,287)	(542,908)
Capitalised as mine development costs	(159,191)	(159,191)
<b>Deferred mining costs</b>	<u>942,081</u>	<u>1,224,345</u>

Deferred mining costs are associated with grade control and vat leach preparation activities and they are in relation to areas that will be mined or utilized within the next 12 months. Prior to April 2008 these costs were included as part of Mine Development costs on the balance sheet.

**10. LONG TERM RECEIVABLE**

	<u>2009</u>	<u>2008</u>
	\$	\$
Goldmines of Niugini Holdings Limited ("GMNH")		
Opening balance, January 1	1,879,325	1,345,817
Interest charge	335,167	194,817
Additional advances	455,654	339,311
Closing balance, December 31	<u>2,670,146</u>	<u>1,879,325</u>

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 and ongoing costs to December 31, 2009 plus applicable interest charges. At December 31, 2009 interest was being charged at 12.95% (2008: 10.95%), the same rate as the Company's cost of finance in PNG. The Company accrued \$335,167 of interest in 2009 (2008: \$244,386) to the receivable with a corresponding credit to interest and other income on the statement of operations and deficit. This long term receivable is recoverable from GMNH's share of positive net cash flows from mine operations.

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**11. INVESTMENTS**

	<b>2009</b>	<b>2008</b>
<b>Investments carried at Cost</b>	\$	\$
<i>Goldmines of Niugini Holdings Limited</i>		
Investment at cost	72,850	72,850
Impairment loss <sup>(1)</sup>	(72,850)	-
	<u>-</u>	<u>72,850</u>
<b>Investments valued using Equity Accounting</b>		
<i>Pacific Kanon Gold Corporation</i>		
Carrying value at start of year	-	1,495,444
Additional shares acquired <sup>(2)</sup>	-	116,000
Share of net gain/(loss) for year	-	(513,854)
Impairment loss <sup>(3)</sup>	-	(1,097,590)
	<u>-</u>	<u>-</u>
<i>Coppermoly Limited</i>		
Carrying value at start of year	736,768	808,249
Additional shares acquired in IPO <sup>(4)</sup>	-	1,996,730
Share options acquired as part of entitlements issue	-	91,116
Dilution gain <sup>(4)</sup>	342,500	2,208,298
Share of net loss for year	(662,904)	(2,283,729)
Impairment loss <sup>(5)</sup>	-	(2,083,896)
	<u>416,364</u>	<u>736,768</u>
<b>Investments</b>	<u>416,364</u>	<u>809,618</u>

(1) Due to market conditions at December 31, 2009 and uncertainty at that date, the Company, assessed the value of this investment in GNHL to be \$nil, and recognized an impairment loss of \$72,850.

(2) In fiscal 2008, in order to satisfy TSX listing requirements, the Company, along with PKG's other significant shareholder, Vangold Resources Ltd, acquired the remaining outstanding share capital in PKG. This transaction took the Company's shareholding in PKG to 50% at December 31, 2008. The Company continues to account for its investment in PKG using the equity accounting method as it maintains significant influence over PKG, but it does not control PKG.

(3) Due to market conditions at December 31, 2008 and uncertainty at that date, the Company assessed the value of this investment in PKG to be \$nil and recognized an impairment loss of \$1,097,590. Subsequent to December 31, 2009, the Company sold its interest in PKG. See note 23.

(4) In 2009 the Company disposed of its additional shares acquired in Coppermoly's IPO. During the same period Coppermoly engaged in a rights issue in which the Company did not participate. After the rights issue, including the shares sold by the Company, the Company's interest in Coppermoly declined from approximately 47% to approximately 21%; and as a result the Company recorded a dilution gain of \$542,654, and received proceeds from the sale of shares of \$387,841. During 2008 the Company participated in the initial public offering of Coppermoly on the Australian Stock Exchange. After the listing, including the additional shares acquired by the Company, the Company's interest in Coppermoly declined from approximately 59% to approximately 47%; as a result the Company recorded a dilution gain of \$2,208,298.

(5) At December 31, 2008, after picking up the Company's share of Coppermoly's net loss for the year the Company's investment in Coppermoly had a carrying value of \$2,820,664 and a fair market value of \$736,768. As a result the Company recorded an impairment of \$2,083,896 to the investment. At December 31, 2009 the Company's investment in Coppermoly had a fair market value of \$3,415,215. Coppermoly's fair market value is based on the quoted share price at December 31, 2009 as listed on the Australian Stock Exchange.

Summary financial information for Coppermoly Limited as of December 31, 2009 and 2008 is provided below:

	<b>2009</b>	<b>2008</b>
	\$	\$
Total assets	4,280,382	3,409,221
Total liabilities	167,597	209,214
Losses from operations for the year ended	<u>2,196,383</u>	<u>4,893,355</u>

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**12. EQUIPMENT**

	<b>2009</b>		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Equipment	7,326,699	3,639,490	3,687,209
Furniture and fixtures	12,467	10,308	2,159
	<u>7,339,166</u>	<u>3,649,798</u>	<u>3,689,368</u>
	<b>2008</b>		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Equipment	5,612,875	2,713,229	2,899,646
Furniture and fixtures	13,405	10,214	3,191
	<u>5,626,280</u>	<u>2,723,443</u>	<u>2,902,837</u>

**13. BANK AND SHORT-TERM DEBT**

	Due to Bank of South Pacific Limited			Vangold Short term funding \$	Totals \$
	Business Asset Loan	Fully drawn advance (FDA)	Insurance premium funding		
	\$	\$	\$		
<b>2009</b>					
Balance owing at start of year	-	1,379,988	76,401	-	1,456,389
Additional funds borrowed	1,153,260	-	-	500,000	1,633,260
Repayments	-	(1,379,988)	(76,401)	-	(1,456,389)
Balance owing at end of year	<u>1,153,260</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>1,653,260</u>
Classified as:					
Current	539,545	-	-	500,000	1,039,545
Long-term	613,715	-	-	-	613,715
Cash interest and other charges paid during year	-	165,902	3,993	-	169,895
Non-cash interest and other charges paid during year	8,641	-	-	20,000	8,641
Total interest and other charges paid during year	<u>8,641</u>	<u>165,902</u>	<u>3,993</u>	<u>20,000</u>	<u>178,536</u>
<b>2008</b>			\$		
Balance owing at start of year	-	1,792,759	78,055	-	1,870,814
Additional funds borrowed	-	-	85,631	2,000,000	2,085,631
Repayments	-	(412,771)	(87,285)	(2,000,000)	(2,500,056)
Balance owing at end of year	<u>-</u>	<u>1,379,988</u>	<u>76,401</u>	<u>-</u>	<u>1,456,389</u>
Classified as:					
Current	-	1,379,988	76,401	-	1,456,389
Long-term	-	-	-	-	-
Cash interest and other charges paid during year	-	258,313	3,850	9,266	271,430
Non-cash interest and other charges paid during year	-	-	-	248,680	248,680
Total interest and other charges paid during year	<u>-</u>	<u>258,313</u>	<u>3,850</u>	<u>257,946</u>	<u>520,110</u>

Contractual maturities are disclosed in note 4.

**13. BANK AND SHORT-TERM DEBT (continued)**

The Business Asset Loan is a \$1,213,500 (3 million Kina) facility secured by a fixed and floating charge over the assets of the Company. As at December 31, 2009 the Company had drawn down \$1,153,260 (2,851,076 Kina) (2008: \$nil). The variable interest rate charged is the Bank's prevailing indicator lending rate + 2%, for the year ended December 31, 2009 this was calculated to be 12.95% per annum. The facility was taken up in December 2009 and is repayable in equal instalments of \$54,800 (135,478 Kina) over 2 years.

The FDA was an \$800,000 (2 million Kina) facility (2008: \$1.4 million/4 million Kina facility) secured by a fixed and floating charge over the assets of the Company. The variable interest rate charged was the Bank's prevailing indicator lending rate + 2% or 12.95% per annum for the year ended December 31, 2009 (2008: 10.95%). The facility was repaid in December 2009.

The Insurance premium funding loan is unsecured with a term of 9 months and a fixed interest rate of 9.95% per annum.

All loans due to the Bank of South Pacific Limited are repayable in PNG Kina.

In August 2009 the Company signed a letter of intent ("LOI") to sell its interests in Pacific Kanon Gold Corporation and the Feni property to Vangold Resources Ltd. ("Vangold") (note 18). The LOI included a condition for a cash payment of \$500,000 within 3 days of TSX approval. If TSX approval was not received within 3 days the payment would still be made but treated as a non-interest bearing loan until the earlier of such time as TSX approval is granted or 9 months from the date of the LOI. TSX approval was granted in January 2010. The Company determined that the prevailing market interest rate for a similar advance is 12.95% based on similar commercial arms length borrowings. On initial recognition a gain of \$20,000 was recognized in finance costs, while it is offset by an interest charge of \$20,000.

In January 2008 the Company entered a \$2 million short-term loan agreement with its joint venture partner, Vangold. The loan was subject to a 5% per annum simple interest rate. The Company also issued 400,000 common shares to Vangold plus 400,000 bonus warrants, exercisable at \$0.60 for a period of two years which has been accounted for as additional financing costs.

***Financing Costs***

Total interest and other charges paid during the year are included in financing costs on the statement of operations and deficit. Also included in financing costs on the statement of operations and deficit are cash interest payments on convertible debentures of \$289,348 (2008: \$nil) (note 15) and non-cash amortized convertible debenture transaction costs of \$640,556 (2008: \$48,761) (note 15) and bank charges of \$4,844 (2008: \$3,910).

**14. ASSET RETIREMENT OBLIGATIONS**

At December 31, 2009 the estimated total undiscounted cash flows required to settle asset retirement obligations were \$203,256 (2008: \$189,148). At this stage it is anticipated that expenditures to settle asset retirement obligations will likely be incurred some time after December 31, 2010. Estimated cash flows have been discounted using an annual credit-adjusted risk-free rate of 12% per annum and have been inflated using an inflation rate of 5% per annum. Changes to asset retirement obligations were as follows:

	<b>2009</b>	<b>2008</b>
	\$	\$
Beginning of year	175,818	-
Liabilities incurred	-	160,758
Accretion expense	20,388	15,060
End of year	196,206	175,818

The accretion expense incurred during the year is included in other mining general and administrative costs on the statement of operations and deficit.

## 15. CONVERTIBLE DEBENTURES

On November 28, 2008 the Company entered into a non-brokered financing of unsecured convertible debentures for up to \$3,000,000 maturing April 30, 2010. The debentures bear interest at base rate of 10% per annum payable semi-annually and subject to certain other terms including possible bonus interest at maturity and default remedies. At maturity debentures will be repaid in cash, unless between 30 and five days before maturity debenture holders have made a written election to have the principal amount of their debentures converted into shares at a price of C\$0.20 per share.

In addition, to the stated interest rate, in the event that the average price of gold, based on the London Gold Fix during the term of the debenture exceeds US\$800/oz, the Company shall on the maturity date, pay to each debenture holder a bonus payment equal to 3% of the principal amount of the debenture. In the event that the average price of gold based on the London Gold Fix during the term of the debenture exceeds US\$1,000/oz, the Company shall, on the maturity date, pay to each debenture holder a bonus payment equal to 5% of the principal amount of the debenture. The Company has determined that this represents an embedded derivative that will need to be accounted for separately from the host instrument (the debenture contract) because the economic characteristics and risks are not closely related. The embedded derivative is classified as held-for-trading and is measured at fair value.

Commencing January 2009 the Company is required to pay into a "Debt Service Account" an amount equal to 50% of positive free cash flow each month, up to a maximum of \$500,000 per month, provided that the total amount in the Debt Service Account shall not at any time exceed the aggregate principal amount of all debentures outstanding at such time.

In connection with the debenture financing the Company paid a cash commission equal to 9% of the gross proceeds of the offering; warrants ("agent's warrants") entitling the agent to purchase up to such number of common shares of the Company equal to 12% of the gross proceeds of the offering divided by \$0.20. Each agent's warrant will be exercisable into one (1) common share of the Company at \$0.20 for a period of two years from the date of the closing of the offering. A work fee of \$7,500 plus GST was also payable upon closing of the offering.

The first tranche of the financing closed on December 22, 2008 and raised gross proceeds of \$2,438,000. The Company paid cash commissions of \$219,420, the work fee of \$7,500, legal and other costs of \$67,458 and issued 1,462,800 warrants. The fair value of the warrants, estimated to be \$128,288 was calculated using the Black-Scholes option pricing model using the assumptions described in note 17.

The second tranche of the financing closed on January 23, 2009 and raised gross proceeds of \$562,000. The Company paid cash commissions of \$50,580, being 9% of the gross proceeds of the offering, legal and other closing costs of \$19,903 and issued 337,200 warrants. The fair value of the warrants, estimated to be \$53,851 was calculated using the Black-Scholes option pricing model using the assumptions as described in note 17.

The debentures were initially designated as other liabilities. The proceeds raised from the financing were allocated between the debentures (liability), the conversion feature (equity) and the embedded derivative (liability) in accordance with S3863, *Financial instruments – Presentation* and Emerging Issues Committee ("EIC") No 164, *Convertible and other debt instruments with embedded derivatives*. The Company first determined the fair value of the liability, being the present value of the repayment obligation using a discount factor of 15% and allocated the residual of the proceeds to the equity component. The Company then took the liability and split it between the debenture and the embedded derivative by fair valuing the embedded derivative and allocating the residual to the host contract. On issue of the first tranche the fair value of the components of the convertible debentures, associated embedded derivative, and conversion feature were \$2,227,931, \$60,002, and \$150,067 respectively. The initial fair value was based on the 100% probability that gold prices would be greater than US\$800, but less than US\$1,000. Following the observed gold prices in 2009, the Company determined that the probability of gold prices exceeding US\$1,000 was now 100% and that both the 3% and 5% bonuses would be paid. This resulted in an increase in the first tranche's embedded derivative fair value increasing by \$206,373, which is included in financing costs within the consolidated statement of operations.

As a result the Company has determined the fair value of the second tranche debentures and associated embedded derivative to be respectively \$493,655 and \$37,753 respectively, and allocated \$30,592 to the conversion feature (as a credit to contributed surplus). The Company allocated the total transaction costs on a pro-rata basis to each component of \$109,213, \$8,352, and \$6,767 respectively. The net proceeds for the debenture, embedded derivative, and equity component on initial recognition are \$384,442, \$29,401, and \$23,824 respectively. The Company has determined that at the date of issue of the first tranche there was a 100% probability that both the 3% and 5% bonus payments would be payable.

The amounts allocated to the conversion feature and the transactions costs represent a discount on the debentures which will be accreted to income over the term of the debentures using the effective interest rate method.

The debentures are convertible into 15,000,000 common shares of the Company.

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**15. CONVERTIBLE DEBENTURES (continued)**

Details of the outstanding amounts of the debentures, embedded derivatives and conversion feature at December 31, 2009 and December 31, 2008 are summarized as follows:

<b>2009</b>	<b>Debentures</b>	<b>Embedded Derivative</b>	<b>Equity Component (conversion feature)</b>	<b>Totals</b>
	\$	\$	\$	\$
Fair values at issue	2,721,586	97,755	180,659	3,000,000
Proportional transaction costs	(495,460)	(18,754)	(32,784)	(546,999)
	<u>2,226,126</u>	<u>79,001</u>	<u>147,875</u>	<u>2,453,001</u>
Financing costs	868,530	-	-	868,531
Fair value adjustment	-	217,444	-	217,444
Interest payments	(289,348)	-	-	(289,348)
Carrying values at December 31, 2009	<u>2,805,308</u>	<u>296,445</u>	<u>147,875</u>	<u>3,249,628</u>

  

<b>2008</b>	<b>Debentures</b>	<b>Embedded Derivative</b>	<b>Equity Component (conversion feature)</b>	<b>Totals</b>
	\$	\$	\$	\$
Fair values at issue	2,227,931	60,002	150,067	2,438,000
Proportional transaction costs	(386,247)	(10,402)	(26,017)	(422,666)
	<u>1,841,684</u>	<u>49,600</u>	<u>124,050</u>	<u>2,015,334</u>
Financing costs	47,499	-	-	47,499
Fair value adjustment	-	1,262	-	1,262
Carrying values at December 31, 2008	<u>1,889,183</u>	<u>50,862</u>	<u>124,050</u>	<u>2,064,095</u>

**16. ACCUMULATED OTHER COMPREHENSIVE INCOME (OCI)**

	<b>2009</b>	<b>2008</b>
	\$	\$
Accumulated OCI - beginning of year	-	29,934
Total unrealized gains/(losses) for year	52,000	(208,000)
Impairment loss on available for sale securities (note 7)	-	178,066
<b>Accumulated OCI – end of year</b>	<u>52,000</u>	<u>-</u>

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**17. 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, 2007	128,574,242	34,295,465	4,160,340
Issued for:			
Shares and warrants issued in lieu of borrowing costs	400,000	188,000 <sup>(1)</sup>	60,680 <sup>(1)</sup>
Exercise of warrants	26,508,238	7,817,690 <sup>(2)</sup>	-
Exercise of options	760,000	227,285	-
Fair value of warrants exercised	-	532,950	(532,950)
Fair value of options exercised	-	216,077	(216,077)
Equity component of convertible debentures issued (note 15)	-	-	124,050
Stock-based compensation	-	-	517,519 <sup>(3)</sup>
Fair value of agent's warrants issued on the convertible debentures (note 15)	-	-	128,288 <sup>(4)</sup>
Adjustment related to prior year	-	-	21,930 <sup>(5)</sup>
Balance, December 31, 2008	156,242,480	43,277,467	4,263,780
Private placements	31,208,334	3,481,275 <sup>(1)</sup>	-
Equity component of convertible debentures issued (note 15)	-	-	23,824
Stock-based compensation	-	-	796,257 <sup>(2)</sup>
Fair value of agent's warrants issued on the convertible debentures (note 15)	-	-	53,851 <sup>(3)</sup>
Balance, December 31, 2009	187,450,814	46,758,742	5,137,712

2009 notes:

- (1) Includes the issue of 2,041,667 common shares with a fair value of \$285,833 as commission payable at 7% of gross proceeds of the private placements. The shares were issued on November 24, 2009. The shares were valued using the closing share price for that day.
- (2) Comprised of the 3,830,000 employee options granted in February 2009 (note 17(c)).
- (3) Comprised of the 337,200 agent's warrants issued in January 2009 in relation to the convertible debenture financing (note 15).
- (4) The Company completed a private placement of 13,333,333 common shares units at a price of \$0.12 per unit for gross proceeds of \$1,600,000. Of this amount, \$1,575,000 was received prior to December 31, 2009 and has been included in the balance sheet as "Shares to be issued" (note 23).

2008 notes:

- (1) Issued 400,000 common shares with a fair value of \$188,000 and 400,000 warrants with a fair value of \$60,680 issued to Vangold Resources Ltd as part of the costs relating to a short-term funding arrangement (note 13). The shares and warrants were issued to Vangold on February 21, 2008. The shares were valued using the closing share price for that day and the warrants were fair valued using the Black-Scholes option pricing model using the assumptions described in part (d) of this note.
- (2) Net of \$134,781 in issue costs, \$112,851 paid in cash and by the issuance of 94,354 agent's warrants with a fair value of \$21,930.
- (3) Comprised of the 1,750,000 employee options granted in April 2008 (note 17(c)).
- (4) Comprised of the 1,462,800 agent's warrants issued in December 2008 in relation to the convertible debenture financing (note 15).
- (5) Value of agent's warrants issued as stock-based compensation relating to share placements in March and April 2007.

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

**c) Stock options**

The Company's stock option plan (the "Plan") provides for the grant of options to common shares to eligible directors, senior officers, employees and consultants. The Plan is a rolling plan where up to 10% of the issued shares of the Company may be granted. The options have a maximum expiry date of no more than five years from the date of issue. No individual optionee can be granted options for more than 5% of the Company's issued shares. The Stock Option Plan must be approved by a majority of disinterested shareholders each and every year at the Annual General Meeting and approved by the TSX Venture Exchange. Of the 3,830,000 stock options issued in 2009 1,970,000 were granted to employees, 1,530,000 to directors and 330,000 to consultants (2008: 1,550,000 granted to employees and 200,000 to consultants).

Compensatory stock-based transactions with directors, officers, employees and consultants are recorded at fair value using the Black-Scholes option pricing model to estimate fair value at each grant date. The fair value of options, which vest immediately, is recorded at the date of grant; the fair value of options which vest in the future is recognized over the vesting period using the straight-line method. Stock options granted to consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date. Stock-based compensation is recognized as an expense with a corresponding increase in contributed surplus.

Stock option activity for the year ended December 31, 2009 and the year ended December 31, 2008:

	<b>2009</b>		<b>2008</b>	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
		\$		\$
Balance – beginning of year	5,660,000	0.36	7,225,600	0.36
Granted	3,830,000	0.29	1,750,000	0.43
Exercised	-	-	(760,000)	0.30
Cancelled / expired	(2,440,000)	0.39	(2,555,600)	0.36
Balance – end of year	<u>7,050,000</u>	<u>0.31</u>	<u>5,660,000</u>	<u>0.36</u>
Exercisable – end of year	<u>7,050,000</u>	<u>0.31</u>	<u>4,010,000</u>	<u>0.33</u>

The stock options granted in February 2009 had a vesting period that ended on June 3, 2009. The stock options granted in 2008 had a vesting period that ended on April 14, 2009.

Details of the exercise prices and expiry dates of options outstanding at December 31, 2009 are as follows:

Expiry Date	Exercise Price	Outstanding Options		Exercisable Options	
		Number of Options	Weighted average remaining life	Number of Options	Weighted average remaining life
May 6, 2010	\$0.23	740,000	0.3 years	740,000	0.3 years
February 2, 2011	\$0.23	50,000	1.1 years	50,000	1.1 years
July 25, 2011	\$0.30	150,000	1.6 years	150,000	1.6 years
December 11, 2011	\$0.33	1,380,000	1.9 years	1,380,000	1.9 years
April 14, 2013	\$0.43	950,000	3.3 years	950,000	3.3 years
February 3, 2014	\$0.29	3,780,000	4.1 years	3,780,000	4.1 years
		<u>7,050,000</u>	<u>3.1 years</u>	<u>7,050,000</u>	<u>3.1 years</u>

The fair value of stock options granted during 2009 and 2008 were ascribed fair values of \$796,257 and \$517,519 respectively using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>2009</b>	<b>2008</b>
Risk-free interest rate	2.1%	3.0%
Estimated volatility	78%	152%
Expected lives	5 years	5 years
Expected dividends	\$nil	\$nil

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.

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

**d) Warrants**

Warrant activity for the year ended December 31, 2009 and the year ended December 31, 2008:

	<b>2009</b>		<b>2008</b>	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		\$		\$
Balance – beginning of year	10,580,404	0.52	35,225,842	0.37
Granted	337,200	0.20	1,862,800	0.29
Exercised	-	-	(26,508,238)	0.30
Cancelled / expired	(2,717,604)	0.60	-	-
Balance – end of year	<u>8,200,000</u>	<u>0.48</u>	<u>10,580,404</u>	<u>0.52</u>

Details of the exercise prices and expiry dates of the warrants outstanding at December 31, 2009 are as follows:

Expiry Date	Exercise Price	Number of warrants	Weighted average remaining life	
February 21, 2010	\$0.60	400,000	0.1 years	†
March 23, 2010	\$0.55	5,056,250 *	0.2 years	†
April 19, 2010	\$0.55	943,750 *	0.3 years	†
December 22, 2010	\$0.20	1,462,800	1.0 years	
January 23, 2011	\$0.20	337,200	1.1 years	
		<u>8,200,000</u>	<u>0.4 years</u>	

\* On February 11, 2009 the Company 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 were not eligible to have their expiry dates extended. 1,083,595 of those agent warrants expired on March 23, 2009 and 209,009 expired on April 19, 2009.

† Subsequent to the year ended December 31, 2009 these warrants remained unexercised and expired.

Each outstanding warrant can be exercised into one common share of the Company.

The fair value of warrants granted during 2009 and 2008 were calculated using the Black-Scholes option pricing model with the following assumptions:

	<b>2009</b>	<b>2008</b>
Risk-free interest rate	1.24%	1.09% - 3.05%
Estimated volatility	110%	91% - 105%
Expected lives	2 years	2 years
Expected dividends	-	-

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 warrants.

## **18. MINERAL PROPERTIES**

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

At December 31, 2009 the Company had 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 had a 90% interest in one, a 100% interest in two of the projects, and a 20% interest, a 50% interest and a 10% interest in the other three properties. In early 2010 some of these property interests were sold or otherwise traded. Further details are provided below and in note 23 Subsequent Events.

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

### **Sinivit**

The Sinivit Property, on which the Company began commercial production of an open-cut vat leach processing mine in April 2008, is held under three titles in which New Guinea Gold Ltd has a direct 90% equity interest and a further 2.5% indirect equity interest. The Company has recorded all revenue and associated costs in the consolidated statement of operations since April 2008. The Sinivit property also includes an exploration licence that covers approximately 43 square kilometres. As at December 31, 2009 the Company is committed to perform exploration work to the value of \$27,000, within the next 2 years, to maintain current rights of tenure to this exploration property.

### **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. As at December 31, 2009 the Company has already met its expenditure to maintain current rights of tenure to this exploration property for the next 18 months.

The Company has optioned out the following projects:

### **Normanby**

The Normanby Licence covers approximately 68 square kilometres on Normanby Island, Milne Bay Province. As at December 31, 2009 the Company has already met its expenditure to maintain current rights of tenure to this exploration property for the next 18 months.

In September 2009, NGG entered into an Option Agreement providing a Private Company the right to acquire a 50% interest in the Normanby's Imwauna property for a series of cash payments totalling \$1 million, plus the purchase by way of private placement of \$1 million worth of New Guinea Gold common shares. In addition, the Private Company must complete exploration expenditures totalling a minimum of \$5 million over two years.

### **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 licence covers 102.6 square kilometres in area and is 55 kilometres west of Kimbe in the West New Britain Province. Subsequent to year end the Company's interest in Mt Penck was acquired by Vangold Resources Ltd. (Vangold), a company listed on the TSX Venture Exchange. The transaction formed part of the sale of the Company's interest in Pacific Kanon Gold Corporation that was completed in January 2010. The Company retains a 5% carried interest to bankable feasibility.

### **Feni**

The company's 50% interest in the Feni property was acquired by the properties joint venture partner Vangold. The transaction formed part of the sale of the Company's interest in Pacific Kanon Gold Corporation that was completed in January 2010. The Company retains a 10% carried interest to bankable feasibility.

### **Crater Mountain**

Originally optioned by agreement dated 6 January 2004 to Celtic Minerals Ltd., a company listed on the TSX Venture Exchange, which acquired an 86.25% interest by expending \$4,000,000 on exploration prior to 1 August 2007. New Guinea Gold Limited's 13.75% stake has reduced to a 10% carried interest.

Gold Anomaly, a company listed on the Australian Stock Exchange (ASX), has acquired the rights to, and is the current operator of, the Crater Mountain joint venture. The Company continues to hold a 10% free carried interest in the project to bankable feasibility.

**18. MINERAL PROPERTIES (continued)**

**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% NSR payable to Macmin. 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 is to be made.

**19. SEGMENTED INFORMATION**

The Company is in the business of acquisition, exploration, development and operation of mineral properties in Papua New Guinea. As such, management has concluded that it has one reportable operating segment. The Papua New Guinea operation is responsible for that country's acquisition, exploration, development and production activities while the Canadian and Australian offices manage administration and corporate head office activities.

Information concerning the Company's assets and revenues by geographic region:

	<b>2009</b>			
	Papua New Guinea	Canada	Australia	Total
	\$	\$	\$	\$
Equipment	3,685,157	4,211	-	3,689,368
Mineral Properties	7,760,350	-	-	7,760,350
Other	10,115,918	2,325,061	2,096,286	14,537,265
<b>Total Assets</b>	<b>21,561,425</b>	<b>2,329,272</b>	<b>2,096,286</b>	<b>25,986,983</b>
Revenues, net	6,872,535	-	-	6,872,535
	<b>2008</b>			
	Papua New Guinea	Canada	Australia	Total
	\$	\$	\$	\$
Equipment	2,897,573	5,264	-	2,902,837
Mineral Properties	11,682,781	-	-	11,682,781
Other	9,856,987	2,522,486	833,036	13,219,509
<b>Total Assets</b>	<b>24,437,341</b>	<b>2,534,750</b>	<b>833,036</b>	<b>27,805,127</b>
Revenues, net	5,685,886	-	-	5,685,886

**20. CONTINGENCIES**

At the end of June 2009, the Company's Sinivit mining equipment contractor, HBS Machinery ("HBS"), unilaterally terminated its Agreement without due notice removing equipment from the Sinivit mining site. The Company views this as a breach of the Company's contract agreement with HBS, specifically HBS's removal of certain equipment from the Sinivit site, which equipment, under the terms of the contract agreement, is now beneficially owned by NGG and, failure on the part of HBS to give the requisite 30 days notice to NGG before removing any such piece of equipment from the Sinivit site. NGG is pursuing claims against HBS in the Papua New Guinea courts for damages totalling 5,161,389 Kina or approximately \$2,100,000.

HBS have made a counter claim against the Company for alleged unpaid hire fees for 2,928,430 Kina or approximately \$1,200,000. NGG disputes the amount of the counter claim.

Due to the uncertainties of such proceedings no provision for potential liability has been made in the accounts. If any amounts are subsequently determined to be payable they will be recognized in the period in which the dispute is resolved.

## 21. INCOME TAXES

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Net loss	8,802,185	7,407,150
Effective statutory rate	30.00%	31.00%
Expected tax recovery	2,641,000	2,296,000
Foreign income tax at other than Canadian statutory rates	-	16,000
Stock based compensation	(239,000)	(160,000)
Foreign exchange gain (loss) on revaluation of future tax assets	2,000	431,000
Effect of a reduction in statutory rate	(130,000)	(311,000)
Impairment loss on equity investments	-	(982,000)
Other non-deductible amounts	(417,000)	(1,050,000)
Valuation allowance	(1,857,000)	(240,000)
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, 2009 and 2008 are as follows:

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	\$	\$
Potential future income tax assets:		
Non-capital losses	7,848,000	5,998,000
Undeducted financing costs	196,000	239,000
Mineral properties	1,473,000	1,532,000
Equity investments	142,000	97,000
Other	300,000	236,000
Total	<u>9,959,000</u>	<u>8,102,000</u>
Valuation allowance	<u>(9,959,000)</u>	<u>(8,102,000)</u>
Carrying value	<u>-</u>	<u>-</u>

The tax benefit of net operating losses carried forward and the associated valuation allowance was reduced by \$Nil (2008: \$62,000) representing the tax effect of losses which expired during the year.

The Company's future tax assets also include approximately \$786,000 (2008: \$920,000) related to deductions for share issuance costs for tax purposes in excess of amounts deducted for financial reporting purposes. If and when the valuation allowance related to these amounts is reversed, the Company will recognize the benefit as an adjustment to share capital as opposed to income tax expense in the Statement of Operations and Deficit. The valuation allowance as at December 31, 2009 was increased by \$Nil (2008: \$455,000) representing the effect of unamortized share issuance costs incurred in the year.

The Company has determined that for financial reporting purposes a 100% valuation allowance is appropriate as the criteria for recognition of the future income tax assets have not been met. The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on the valuation allowance is reflected in current income.

The Company has incurred estimated losses of \$27,141,000 in Canada and Papua New Guinea for tax purposes which are available to reduce future taxable income and which expire in various amounts from 2010 to 2029. Such benefits will be recorded as an adjustment to the tax provision in the year realized.

## 22. ASSETS HELD FOR SALE

On August 27, 2009 the Company entered into an agreement with Vangold Resources Ltd (Vangold) to acquire the Company's 50% shareholding in Pacific Kanon Gold Corp (PKG), 20% interest in the Mt. Penck Property, and a 50% interest in a mineral property known as Feni Island. Under this agreement the Company is to receive \$500,000 in cash and 6,046,122 common shares in Vangold. The assets were transferred to Vangold on February 1, 2010.

The following tables summarize the assets held for disposal with respect to the sale of PKG, and the Company's interests in the Mt Penck and Feni Island properties to Vangold:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
	\$	\$
Assets held for sale		
Revenue	-	-
Expenses	-	-
Other (income) loss	-	-
Net income/(loss) from discontinued operations	-	-
Mineral properties		
Mt Penck property	758,063	597,716
Feni Island property	-	-

## 23. SUBSEQUENT EVENTS

- The Company completed a private placement on January 25, 2010 for the issue of 13,333,333 common shares for gross proceeds of \$1,600,000, plus 918,750 shares issued as commission to the agents.
- On February 1, 2010 the Company announced the closing of the sale of its interest in Pacific Kanon Gold Ltd, and the associated interests in certain mineral properties to Vangold Resources Ltd for \$500,000 cash and 6,046,122 common shares. The Company will retain a 5% interest in the Mt Penck, Allemata and Fergusson Properties and a 10% interest in the Feni Island property. On completion of this sale, the Company will hold approximately 17% of the common shares of Vangold Resources.
- On April 16, 2010 the Company announced that it intends to transfer its 50% interest in the Normanby and Sheulea properties to Normanby Mining PNG Ltd (Normanby). Under an option agreement, Normanby can earn a further 50% interest in the property after completing expenditures of CAD\$8 million. In return, the Company will be issued shares representing 45% of the outstanding capital of Normanby, and Normanby will provide a \$3,000,000 loan repayable within 12 months. The loan will be convertible, at the Company's option into share units (one share and one warrant), at a price to be determined based on the share prices for the 5 days preceding repayment. The warrants will be for 24 months with a strike price of 100% above share price. The Company will also issue Normanby 5,454,545 common shares at a deemed price of \$0.11 per share. The completion of this transaction is subject to the approval of the TSX-Venture Exchange.

## 24. COMPARATIVE FIGURES

Certain of the prior year's figures for December 31, 2008 have been reclassified to conform with the presentation in the current year.