



Interim Consolidated Financial Statements

First Quarter ended

March 31, 2010

(Unaudited, prepared by Management)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators the Company discloses that its external auditors have not reviewed the unaudited financial statements for the period ended March 31, 2010 in accordance with Section 7050 of the CICA Handbook.

NEW GUINEA GOLD CORPORATION

Consolidated Balance Sheets

As at March 31, 2010 and December 31, 2009

| | March 31, 2010 | December 31, 2009 |
|---|---------------------------|------------------------------|
| | _____ \$ | _____ \$ |
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | 1,350,839 | 3,627,136 |
| Amounts receivable (note 5) | 333,152 | 235,270 |
| Prepaid expenses | 10,000 | 10,000 |
| Inventories (note 6) | 6,500,511 | 5,718,988 |
| Marketable securities (note 7) | 1,334,295 | 98,800 |
| Assets held for sale (schedule) | - | 758,063 |
| | _____ 9,528,797 | _____ 10,448,257 |
| Mining and other deposits (note 8) | 60,417 | 60,417 |
| Deferred mining costs (note 9) | 376,694 | 942,081 |
| Long term receivable (notes 5 and 10) | 3,037,599 | 2,670,146 |
| Investments (note 11) | 357,706 | 416,364 |
| Equipment (note 12) | 4,392,431 | 3,689,368 |
| Mineral properties (schedule, note 18) | 6,491,256 | 6,126,368 |
| Mine development costs (schedule, note 18) | 501,941 | 1,633,982 |
| | _____ 24,746,841 | _____ 25,986,983 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 1,335,440 | 1,199,617 |
| Bank and short-term debt (note 13) | 593,764 | 1,039,545 |
| Convertible debentures (note 15) | 3,043,346 | 2,805,308 |
| Embedded derivatives (note 15) | 299,811 | 296,445 |
| | _____ 5,272,361 | _____ 5,340,915 |
| Asset retirement obligations (note 14) | 201,260 | 196,206 |
| Long-term bank debt (note 13) | 447,386 | 613,715 |
| | _____ 5,921,007 | _____ 6,150,836 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (note 17) | 48,358,742 | 46,758,742 |
| Shares to be issued (note 17) | - | 1,575,000 |
| Contributed surplus (note 17) | 5,137,712 | 5,137,712 |
| Accumulated other comprehensive income (note 16) | (828,648) | 52,000 |
| Deficit | (33,841,972) | (33,687,307) |
| | _____ 18,825,834 | _____ 19,836,147 |
| | _____ 24,746,841 | _____ 25,986,983 |

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 3 months ended March 31,

| | 2010 | 2009 |
|--|--------------|--------------|
| | \$ | \$ |
| Revenue | | |
| Metal sales | 1,449,078 | 1,591,161 |
| Royalties | (34,355) | (51,693) |
| Net metal sales (note 1) | 1,414,723 | 1,539,468 |
| Expenses | | |
| <u>Mine operating costs (note 1)</u> | | |
| Changes in inventory (note 6) | (781,523) | (3,176,165) |
| Amortization of deferred mining costs | 1,696,222 | 699,315 |
| Depreciation of mine equipment | 197,992 | 164,229 |
| Consumables | 483,743 | 673,520 |
| Contractor payments | 51,918 | 519,415 |
| Employee salaries and benefits | 425,750 | 345,573 |
| Equipment hire | 398,103 | 40,126 |
| Repairs and maintenance | 176,759 | 154,018 |
| Travel and accommodation, including on-site | 153,593 | 132,321 |
| Other general mining costs | 103,860 | 56,905 |
| Total mine operating costs | 2,906,417 | (390,743) |
| Net profit/(loss) from mining operations | (1,491,694) | 1,930,211 |
| General and administrative costs | | |
| Depreciation not included in operating costs | 43,675 | 67,364 |
| Employee salaries and benefits | 229,514 | 147,392 |
| Financing costs (note 13) | 273,051 | 243,147 |
| Professional fees | 78,452 | 8,796 |
| Rent | 102,796 | 35,137 |
| Shareholder communications | 49,209 | 43,999 |
| Stock-based compensation (note 17) | - | 1,156,277 |
| Other general and administrative costs | 50,844 | 70,561 |
| Profit/(loss) from operations | (2,319,235) | 157,538 |
| Other income (expense) | | |
| Interest and other income | 159,452 | 108,254 |
| Gain on sale of investment (note 21) | 1,899,732 | - |
| Bad debts write back/(write off) (note 5) | 37,010 | (236,539) |
| Impairment loss on equity accounted investments (note 11) | - | (25,938) |
| Foreign exchange gain | 127,033 | 64,975 |
| Share equity accounted associate losses (note 11) | (58,658) | (42,285) |
| | 2,164,569 | (131,533) |
| Net profit/(loss) for the period | (154,666) | 26,005 |
| Deficit, beginning of period | (33,687,306) | (24,885,122) |
| Deficit, end of period | (33,841,972) | (24,859,117) |
| Loss per share – basic and diluted | \$ (0.00) | \$ 0.00 |
| Weighted average number of common shares outstanding for the period | 198,535,767 | 156,242,480 |

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

NEW GUINEA GOLD CORPORATION
Consolidated Statements of Comprehensive Profit or Loss
3 months ended March 31,

| | <u>2010</u> | <u>2009</u> |
|---|--------------------|---------------|
| | \$ | \$ |
| Net profit/(loss) for the period | (154,666) | 26,005 |
| Unrealized gain/(losses) on available-for-sale securities (note 7) | (880,648) | 33,800 |
| Comprehensive profit/(loss) for the period | <u>(1,035,314)</u> | <u>59,805</u> |

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

NEW GUINEA GOLD CORPORATION
Consolidated Statements of Cash Flows
3 months ended March 31,

| | 2010 | 2009 |
|--|-------------|-------------|
| Cash provided by (used in): | \$ | \$ |
| Operating Activities | | |
| Net profit/(loss) for the period | (154,666) | 26,005 |
| Adjustment for items not involving cash | | |
| Asset retirement accretion expense | 5,054 | 5,076 |
| Bad debts | (37,010) | 236,539 |
| Depreciation and amortization | 1,937,889 | 930,908 |
| Gain on sale of held for sale investment | (1,358,080) | - |
| Impairment loss on available for sale securities | - | 25,938 |
| Loss attributable to equity accounting of associates | 58,658 | 42,285 |
| Non-cash finance costs | 241,405 | 181,217 |
| Stock-based compensation | - | 1,156,277 |
| Unrealized foreign exchange on opening cash balance | 21,483 | 48,114 |
| Changes in non-cash working capital items: | | |
| Amounts receivable | (117,524) | (169,576) |
| Inventories | (781,523) | (3,176,165) |
| Prepaid expenses | - | 40,555 |
| Accounts payable and accrued liabilities | (92,997) | 146,779 |
| | (277,311) | (506,048) |
| Investing Activities | | |
| Purchase of equipment | (833,291) | (269,232) |
| Deferred mining costs | (207,558) | (259,152) |
| Mineral property exploration expenditures | (349,544) | (341,229) |
| | (1,390,393) | (869,613) |
| Financing Activities | | |
| Common shares issued for cash | 25,000 | - |
| Share issue costs | - | - |
| Proceeds of borrowings | 95,539 | 459,921 |
| Repayment of borrowings (note 13) | (707,649) | (490,630) |
| | (587,110) | (30,709) |
| Increase/(decrease) in cash during the period | (2,254,814) | (1,406,370) |
| Foreign exchange affect on opening cash balance | (21,483) | (48,114) |
| Cash - beginning of period | 3,627,136 | 3,530,818 |
| Cash - end of period | 1,350,839 | 2,076,334 |
| Supplementary cash flow information: | | |
| Interest paid - Bank and short-term debt (note 13) | 30,498 | 58,786 |

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

During the three months ended March 31, 2010, the Company:

- Issued 918,750 common shares with a fair value of \$110,250 in respect of share issue costs (note 17).

During the three months ended March 31, 2009, the Company:

- Issued 337,200 Agent's Warrants with a fair value of \$53,851 in respect of debenture issue costs (note 17).

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, 2008 \$ | Expenditures (Re- allocations) \$ | Balance December 31, 2009 \$ | Expenditures (Re- allocations) \$ | Balance December 31, 2010 \$ |
|--|---------------------------------------|--|---------------------------------------|--|---------------------------------------|
| Normanby | | | | | |
| Acquisition costs | 68,789 | 2,177 | 70,966 | - | 70,966 |
| Exploration costs: | | | | | |
| Drilling | 1,281,211 | 102,331 | 1,383,542 | 2,566 | 1,386,108 |
| Salaries, wages & fees | 1,458,043 | 151,794 | 1,609,837 | 137,289 | 1,747,126 |
| Travel & accommodation | 230,020 | 12,031 | 242,051 | 12,966 | 255,017 |
| Geological services & investigations | 464,055 | 55,228 | 519,283 | 31,390 | 550,673 |
| Field supplies & services | 1,476,594 | 96,731 | 1,573,325 | 43,898 | 1,617,223 |
| Community compensation | 19,055 | - | 19,055 | 65 | 19,120 |
| Field office | 492,838 | 21,106 | 513,944 | 10,355 | 524,299 |
| Impairment write-down | (1,047,629) | (86,914) | (1,134,543) | - | (1,134,543) |
| | <u>4,442,976</u> | <u>354,484</u> | <u>4,797,460</u> | <u>238,529</u> | <u>5,035,989</u> |
| Shulea | | | | | |
| Acquisition costs | 36,056 | 7,701 | 43,757 | 200 | 43,957 |
| Exploration costs: | | | | | |
| Drilling | 83,066 | 69,893 | 152,959 | - | 152,959 |
| Salaries, wages & fees | 124,252 | 259,489 | 383,741 | 6,647 | 390,388 |
| Travel & accommodation | 34,867 | 22,947 | 57,814 | - | 57,814 |
| Geological services & investigations | 98,760 | 94,225 | 192,985 | 1,055 | 194,040 |
| Field supplies & services | 205,474 | 113,479 | 318,953 | - | 318,953 |
| Community compensation | 9,381 | 569 | 9,950 | - | 9,950 |
| Field office | 106,768 | 19,270 | 126,038 | - | 126,038 |
| Impairment write-down | (259,387) | (115,697) | (375,084) | - | (375,084) |
| | <u>439,237</u> | <u>471,876</u> | <u>911,113</u> | <u>7,902</u> | <u>919,015</u> |
| Mt. Penck | | | | | |
| Acquisition costs | 8,174 | 3,022 | 11,196 | - | 11,196 |
| Exploration costs: | | | | | |
| Drilling | 123,713 | 31,377 | 155,090 | - | 155,090 |
| Salaries, wages & fees | 188,815 | 69,201 | 258,016 | - | 258,016 |
| Travel & accommodation | 41,590 | 7,801 | 49,391 | - | 49,391 |
| Geological services & investigations | 111,534 | 33,190 | 144,724 | - | 144,724 |
| Field supplies & services | 213,756 | 52,442 | 266,198 | - | 266,198 |
| Community compensation | 9,459 | 2,658 | 12,117 | - | 12,117 |
| Field office | 56,207 | 13,672 | 69,879 | - | 69,879 |
| Impairment write-down | (166,535) | (42,013) | (208,548) | - | (208,548) |
| Transfer to Assets held for sale | - | (758,063) | (758,063) | - | (758,063) |
| | <u>586,713</u> | <u>(586,713)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other | | | | | |
| Acquisition costs | 12,221 | 6,595 | 18,816 | 7,160 | 25,976 |
| Exploration costs: | | | | | |
| Drilling | 240,767 | 63,331 | 304,098 | - | 304,098 |
| Salaries, wages & fees | 72,223 | 9,276 | 81,499 | 7,646 | 89,145 |
| Travel & accommodation | 6,056 | 2,044 | 8,100 | - | 8,100 |
| Geological services & investigations | 17,944 | 3,386 | 21,330 | 58,531 | 79,861 |
| Field supplies & services | 128,808 | 6,606 | 135,414 | 3,467 | 138,881 |
| Community compensation | 975 | - | 975 | - | 975 |
| Field office | 21,761 | 153 | 21,914 | - | 21,914 |
| Joint venture recoveries | (34,530) | - | (34,530) | (8,347) | 7,123 |
| Impairment write-down | (121,825) | (17,996) | (139,821) | 41,653 | (139,821) |
| | <u>344,400</u> | <u>73,395</u> | <u>417,795</u> | <u>118,457</u> | <u>536,252</u> |
| Total deferred mineral property costs | <u>5,813,326</u> | <u>313,042</u> | <u>6,126,368</u> | <u>364,888</u> | <u>6,491,256</u> |

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

NEW GUINEA GOLD CORPORATION
Consolidated Schedule of Mine Development Costs

| | Balance, December 31, 2008 \$ | Expenditures (Re-allocations /income) \$ | Balance, December 31, 2009 \$ | Expenditures (Re-allocations /income) \$ | Balance, December 31, 2010 \$ |
|--|--|---|--|---|--|
| Mt. Sinivit mining lease | | | | | |
| 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 | 10,753,397 | - | 10,753,397 | - | 10,753,397 |
| Development income from gold sales | (652,429) | - | (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) | (4,235,473) | (6,216,636) | (1,132,041) | (7,348,677) |
| | <u>6,361,426</u> | <u>(4,235,473)</u> | <u>2,125,953</u> | <u>(1,132,041)</u> | <u>993,912</u> |
| Reallocation of costs | <u>(491,971)</u> | <u>-</u> | <u>(491,971)</u> | <u>-</u> | <u>(491,971)</u> |
| Total mine development costs | <u><u>5,869,455</u></u> | <u><u>(4,235,473)</u></u> | <u><u>1,633,982</u></u> | <u><u>(1,132,041)</u></u> | <u><u>501,941</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 March 31, 2010 the Company has an accumulated deficit of \$33,841,972, including a loss for the period then ended of \$154,666. 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.

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 period. 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 period in which they are incurred and revenue and expenses are translated at average rates in effect during the period, except for amortization, which is translated using historical rates. Gains and losses resulting from the fluctuations in foreign exchange rates are included in the determination of income.

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 period 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 March 31, 2010 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 period. 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 a short-term loan with the Bank of South Pacific Limited. The loan is repayable in PNG Kina within the next two years pursuant to the terms and conditions more fully described in note 13. Bank debt is recognized at amortized cost, with transaction costs included using an 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 required to pay a royalty of 2%. The Company also pays a 1% Net Smelter Royalty ("NSR") to Macmin Corporation Pty Ltd ("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. Accrued but unpaid royalties are included in Accounts payable and accrued liabilities. Macmin is trustee of a creditors trust set up pursuant to a deed of company arrangement for Macmin Silver Ltd.

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 period. 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.

Potentially dilutive common shares, relating to the options, warrants and convertible debentures outstanding at March 31, 2010 totalled 24,793,750 (March 31, 2009: 34,324,009). 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 March 31, 2009, and for the period then ended, have been reclassified to conform to the presentation used in the current period.

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) 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.

iii) 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 period ended March 31, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 January 2009 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 2010.

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 \$4,721,590 (December 31, 2009: \$6,532,215) 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 \$1,350,839 at March 31, 2010 (December 31, 2009: \$3,627,136); \$708,667 was held in Canadian bank accounts (December 31, 2009: \$1,450,661), \$446,589 in Australian bank accounts (December 31, 2009: \$1,680,638) and \$195,583 in PNG bank accounts (December 31, 2009: \$495,837). 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 March 31, 2010 are reimbursable amounts due from related companies for exploration managed by the Company on the related companies' properties in the amount of \$2,315 (December 31, 2009: \$16,930). 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 March 31, 2010 are amounts held in mining and exploration site cash-boxes and GST receivable due from the Canadian, Australian and PNG governments, totalling \$271,956 (December 31, 2009: \$218,003).

Long term amounts receivable at March 31, 2010 of \$3,037,599 (December 31, 2009: \$2,670,146) 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 March 31, 2010 or December 31, 2009.

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 1-24 months. The Company routinely prepares cashflow and expenditure budgets to monitor cash requirements on an ongoing basis. The Company budgets for mine operations to its fund liquidity requirements. 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 March 31, 2010 and December 31, 2009.

| | Carrying Value \$ | 1 – 6 months \$ | 7 – 12 months \$ | 1 – 2 years \$ | Over 2 years \$ |
|--|----------------------|--------------------|------------------------|-------------------|-----------------------|
| March 31, 2010 | | | | | |
| Financial assets | | | | | |
| Cash and equivalents | 1,350,839 | 1,350,839 | - | - | - |
| Amounts receivable | 333,152 | 333,152 | - | - | - |
| Financial liabilities | | | | | |
| Accounts payable and accrued liabilities | (1,335,440) | (1,335,440) | - | - | - |
| Bank debt | (1,041,149) | (318,636) | (275,128) | (447,385) | - |
| Convertible debentures | (3,043,346) | (3,043,346) | - | - | - |
| Embedded derivatives | (299,811) | (299,811) | - | - | - |
| | (4,035,755) | (3,313,242) | (275,128) | (447,385) | - |
| December 31, 2009 (Audited) | | | | | |
| | Carrying Value \$ | 1 – 6 months \$ | 7 – 12 months \$ | 1 – 2 years \$ | Over 2 years \$ |
| Financial assets | | | | | |
| Cash and equivalents | 3,627,136 | 3,627,136 | - | - | - |
| Amounts receivable | 235,270 | 235,270 | - | - | - |
| Financial liabilities | | | | | |
| 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) | - |

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 March 31, 2010 would have an effect on net income of approximately +/- \$44,600. A 10% change in the Canadian dollar to PNG kina exchange rate at March 31, 2010 would have an effect on net income of approximately +/- \$84,500.

Items exposed to foreign exchange risk:

| | Australian Dollar | PNG Kina |
|---------------------------|-------------------|-----------|
| Cash and cash equivalents | 446,589 | 195,583 |
| Bank debt | - | 1,041,149 |

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, on March 31, 2010, had differed by 10%, there would have been a change in other comprehensive income of approximately +/- \$133,500.

(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 March 31, 2010 balance of interest bearing cash equivalent investments, over the period, would result in a change to net income of approximately +/- \$600.

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 March 31, 2010 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 March 31, 2010 balance of bank debt, over the period, would result in a change to net income of approximately +/- \$1,300.

(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 values of other financial instruments are as follows:

| | Carrying Value | Fair Value |
|---------------------------------------|----------------|-------------|
| Long-term receivable ⁽¹⁾ | 3,037,599 | 3,037,599 |
| Bank debt ⁽²⁾ | (1,041,149) | (1,041,149) |
| Convertible debentures ⁽³⁾ | (3,043,346) | (3,043,346) |
| Embedded derivatives ⁽³⁾ | (299,811) | (299,811) |

(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 March 31, 2010 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 | 1,350,839 | - | - |
| Marketable securities | 1,334,295 | - | - |
| Embedded derivatives | - | (299,811) | - |

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% (December 31, 2009: 21.5%) of the share capital of Coppermoly after selling down its share holding during 2009 and Coppermoly raising additional capital. As at March 31, 2010 Coppermoly owed the Company \$2,109 (December 31, 2009: \$716) for exploration expenditures paid for by the Company on Coppermoly’s behalf.

Pacific Kanon Gold Corporation (“PKG”), a private company, acquired the Company’s interest in Kanon Resources Ltd (“Kanon”) for shares in 2007. During the 3 months ended March 31, 2010, the Company completed the sale of its interest in PKG to Vangold Resources Ltd in exchange for 6,046,122 Vangold common shares with a fair value of \$2,116,143 and \$500,000 cash. As part of the sale process all amounts owed by PKG to the Company at the time the sale was first negotiated were written off. At December 31, 2009, the total owed by PKG to the Company was \$1,297,829. 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 had provided for the non-collection of this receivable. PKG ceased to be a related party during the first quarter of 2010.

Frontier Resources Ltd (“Frontier”) is an ASX listed company. At January 1, 2010 Frontier had two common directors with the Company. Due to the resignation of Mr Peter McNeil from the Company’s board and the resignation of Mr Robert McNeil from Frontier’s board in January 2010 this is no longer the case and so Frontier ceased to be a related party during the quarter. As at March 31, 2010 Frontier owed the Company \$205 (December 31, 2009: \$16,214) 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 March 31, 2010 GMNH owed the Company \$3,037,599 (December 31, 2009: \$2,670,146). Refer to note 10 for further details.

All balances owing to the Company in relation to related party transactions at March 31, 2010 and December 31, 2009 were included in amounts receivable, long term receivables or accounts payable and accrued liabilities on the balance sheet.

6. INVENTORIES

| | March 31, 2010 | December 31, 2009 (Audited) |
|--------------------|---------------------------|--|
| | \$ | \$ |
| Work in progress | 6,348,114 | 5,594,372 |
| Consumables | 152,397 | 124,616 |
| Inventories | 6,500,511 | 5,718,988 |

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7. MARKETABLE SECURITIES

| March 31, 2010 | Number of Marketable Securities | Cost Base \$ | Impairment \$ | Accumulated Other Comprehensive Income \$ | Fair Market Value \$ |
|--|--|-------------------------|--------------------------|--|-------------------------------------|
| Vangold Resources Ltd ^{(1) & (2)} | 6,219,455 | 2,341,009 | (178,066) | (887,955) | 1,274,988 |
| Vanoil Energy Ltd ⁽¹⁾ | 61,110 | - | - | 36,666 | 36,666 |
| IBC Advanced Alloys Corp ⁽¹⁾ | 146,068 | - | - | 22,641 | 22,641 |
| Marketable securities | | <u>2,341,009</u> | <u>(178,066)</u> | <u>(828,648)</u> | <u>1,334,295</u> |

| December 31, 2009 (Audited) | Number of Marketable Securities | Cost Base \$ | Impairment \$ | Accumulated Other Comprehensive Income \$ | Fair Market Value \$ |
|--------------------------------------|--|-------------------------|--------------------------|--|-------------------------------------|
| Vangold Resources Ltd ⁽¹⁾ | 520,000 | 224,866 | (178,066) | 52,000 | 98,800 |
| Marketable securities | | <u>224,866</u> | <u>(178,066)</u> | <u>52,000</u> | <u>98,800</u> |

(1) The Company's original stockholding in TSX Venture Exchange listed company Vangold Resources Ltd. ("Vangold") was split after Vangold completed a Plan of Arrangement on January 4, 2010. As part of the arrangement:

- the Company received 0.1175 shares in new TSX Venture Exchange listed company Vanoil Energy Ltd for every Vangold common share held (520,000 x 0.1175);
- the Company received 0.2809 of a share in TSX Venture Exchange listed company IBC Advanced Alloys Corp for every Vangold common share held (520,000 x 0.2809); and
- Vangold common shares were consolidated on a 1 for 3 basis (520,000 ÷ 3).

(2) On January 29, 2010 the Company completed the sale of its interest in Pacific Kanon Gold Corporation. As part of the sale proceeds the Company received 6,046,122 common shares in Vangold. The shares were valued using the closing market price for January 29, 2010. These Vangold shares are subject to a hold period expiring May 30, 2010 (see note 21 for further details).

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 period.

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

| | March 31, 2010 | December 31, 2009 (Audited) |
|--|---------------------------|--|
| | \$ | \$ |
| Deferred grade control | 2,062,962 | 1,905,560 |
| Less: accumulated deferred grade control amortization | (2,015,962) | (1,537,558) |
| Vat leach preparation costs | 1,995,459 | 1,845,557 |
| Less: accumulated vat leach preparation costs amortization: | | |
| Expensed through statement of operations as amortization expense | (1,506,574) | (1,112,287) |
| Capitalised as mine development costs | (159,191) | (159,191) |
| Deferred mining costs | <u>376,694</u> | <u>942,081</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.

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10. LONG TERM RECEIVABLE

| | March 31, 2010 | December 31, 2009 (Audited) |
|--|---------------------------|--|
| | \$ | \$ |
| Goldmines of Niugini Holdings Limited (“GMNH”) | | |
| Balance at start of year | 2,670,146 | 1,879,325 |
| Interest charge | 89,884 | 335,167 |
| Additional advances | 277,569 | 455,654 |
| Balance at end of period | <u>3,037,599</u> | <u>2,670,146</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 March 31, 2010 plus applicable interest charges. At March 31, 2010 interest was being charged at 12.95% (March 31, 2009: 11.95%), the same rate as the Company’s cost of finance in PNG. The Company accrued \$89,884 of interest in the quarter ended March 31, 2010 (quarter ended March 31, 2009: \$69,162) 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.

11. INVESTMENTS

| | March 31, 2010 | December 31, 2009 (Audited) |
|--|---------------------------|--|
| | \$ | \$ |
| Investments carried at Cost | | |
| <i>Goldmines of Niugini Holdings Limited</i> | | |
| Investment at cost | - | 72,850 |
| Impairment loss ⁽¹⁾ | - | (72,850) |
| | <u>-</u> | <u>-</u> |
| Investment valued using Equity Accounting | | |
| <i>Coppermoly Limited</i> | | |
| Carrying value at start of year | 416,364 | 736,768 |
| Dilution gain ⁽²⁾ | - | 342,500 |
| Share of net loss for period | (58,658) | (662,904) |
| | <u>357,706</u> | <u>416,364</u> |
| Investments | <u>357,706</u> | <u>416,364</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 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.

Summary financial information for Coppermoly Limited as of March 31, 2010 and 2009 is provided below:

| | 2010 | 2009 |
|---|----------------|----------------|
| | \$ | \$ |
| Total assets | 3,900,514 | 2,912,126 |
| Total liabilities | 46,464 | 64,919 |
| Losses from operations for the period ended | <u>256,812</u> | <u>372,693</u> |

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12. EQUIPMENT

| | | March 31, 2010 | | |
|------------------------|-----------|------------------------------------|-----------------------------|-------------------|
| | | Cost | Accumulated Amortization | Net Book Value |
| | | \$ | \$ | \$ |
| Equipment | 8,268,972 | 3,878,592 | 4,390,380 | |
| Furniture and fixtures | 12,467 | 10,416 | 2,051 | |
| | 8,281,439 | 3,889,008 | 4,392,431 | |
| | | December 31, 2009 (Audited) | | |
| | | 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 | |
| | 7,339,166 | 3,649,798 | 3,689,368 | |

13. BANK AND SHORT-TERM DEBT

| | | Due to Bank of South Pacific Limited | | | | |
|--|-----------|--------------------------------------|---------------------------------|------------------------------|----------------------------------|--------|
| | | Business Asset Loan | Insurance premium funding | Fully drawn advance (FDA) | Vangold Short term funding | Totals |
| | | \$ | \$ | \$ | \$ | \$ |
| March 31, 2010 | | | | | | |
| Balance owing at start of year | 1,153,260 | - | - | 500,000 | 1,653,260 | |
| Additional funds borrowed | - | 95,539 | - | - | 95,539 | |
| Repayments/reclassifications | (172,779) | (34,869) | - | (500,000) | (707,649) | |
| Balance owing at end of period | 980,481 | 60,669 | - | - | 1,041,150 | |
| Classified as: | | | | | | |
| Current | 533,095 | 60,669 | - | - | 593,764 | |
| Long-term | 447,386 | - | - | - | 447,386 | |
| December 31, 2009 (Audited) | | | \$ | | | |
| Balance owing at start of year | - | 76,401 | 1,379,988 | - | 1,456,389 | |
| Additional funds borrowed | 1,153,260 | - | - | 500,000 | 1,633,260 | |
| Repayments | - | (76,401) | (1,379,988) | - | (1,456,389) | |
| Balance owing at end of year | 1,153,260 | - | - | 500,000 | 1,653,260 | |
| Classified as: | | | | | | |
| Current | 539,545 | - | - | 500,000 | 1,039,545 | |
| Long-term | 613,715 | - | - | - | 613,715 | |
| <u>Interest and other charges</u> | | | | | | |
| March 31, 2010 | | | | | | |
| Cash interest and other charges paid during period | 27,681 | 2,817 | - | - | 30,498 | |
| March 31, 2009 | | | | | | |
| Cash interest and other charges paid during year | - | 1,596 | 57,190 | - | 58,786 | |

Contractual maturities are disclosed in note 4.

13. BANK AND SHORT-TERM DEBT (continued)

The Business Asset Loan is a \$1,161,000 (3 million Kina) facility secured by a fixed and floating charge over the assets of the Company. As at March 31, 2010 the Company had drawn down \$1,103,366 (2,851,076 Kina). The variable interest rate charged is the Bank's prevailing indicator lending rate + 2%, for the 3 months ended March 31, 2010 this was calculated to be 12.95% per annum. The facility was taken up in December 2009 and is repayable in equal monthly instalments of \$52,430 (135,478 Kina) over 2 years.

The Insurance premium funding loan is unsecured with a term of 9 months and a fixed interest rate of 12.95% 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. The short-term loan was reclassified as sale proceeds in the current period (see note 21 for further details).

Financing Costs

Total interest and other charges paid during the period 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 non-cash amortized convertible debenture transaction costs of \$241,405 (quarter ended March 31, 2009: \$181,217) (note 15) and bank charges of \$1,148 (quarter ended March 31, 2009: \$3,144).

14. ASSET RETIREMENT OBLIGATIONS

At March 31, 2010 the estimated total undiscounted cash flows required to settle asset retirement obligations were \$203,256 (December 31, 2009: \$203,256). 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:

| | March 31, 2010 | December 31, 2009 (Audited) |
|----------------------|---------------------------|--|
| | \$ | \$ |
| Beginning of period | 196,206 | 175,818 |
| Liabilities incurred | - | - |
| Accretion expense | 5,054 | 20,388 |
| End of period | 201,260 | 196,206 |

The accretion expense incurred during the period 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. Up to March 31, 2010 the Company has made one payment of \$500,000 into the Debt Service Account. This amount is included in Cash and equivalents on the balance sheet at March 31, 2010, as it is still held in a bank account in the Company's name at balance date.

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 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.

New Guinea Gold Corporation
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15. CONVERTIBLE DEBENTURES (continued)

Details of the outstanding amounts of the debentures, embedded derivatives and conversion feature at March 31, 2010 and December 31, 2009 are summarized as follows:

| March 31, 2010 | Debentures | Embedded Derivative | Equity Component (conversion feature) | Totals |
|-----------------------------------|-------------------|--------------------------------|--|------------------|
| | \$ | \$ | \$ | \$ |
| Fair values at issue | 2,721,586 | 97,755 | 180,659 | 3,000,000 |
| Proportional transaction costs | (495,460) | (18,754) | (32,784) | (546,998) |
| | <u>2,226,126</u> | <u>79,001</u> | <u>147,875</u> | <u>2,453,002</u> |
| Financing costs | 1,106,568 | 60,336 | - | 1,166,904 |
| Fair value adjustment | - | 160,474 | - | 160,474 |
| Interest payments | (289,348) | - | - | (289,348) |
| Carrying values at March 31, 2010 | <u>3,043,346</u> | <u>299,811</u> | <u>147,875</u> | <u>3,491,032</u> |

| December 31, 2009 (Audited) | Debentures | Embedded Derivative | Equity Component (conversion feature) | Totals |
|--------------------------------------|-------------------|--------------------------------|--|------------------|
| | \$ | \$ | \$ | \$ |
| Fair values at issue | 2,721,586 | 97,755 | 180,659 | 3,000,000 |
| Proportional transaction costs | (495,460) | (18,754) | (32,784) | (546,998) |
| | <u>2,226,126</u> | <u>79,001</u> | <u>147,875</u> | <u>2,453,002</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>3,249,629</u> |

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (OCI)

| | March 31, 2010 | December 31, 2009 (Audited) |
|--|---------------------------|--|
| | \$ | \$ |
| Accumulated OCI - beginning of period | 52,000 | - |
| Total unrealized gains/(losses) for period | (880,648) | 52,000 |
| Accumulated OCI – end of period | <u>(828,648)</u> | <u>52,000</u> |

New Guinea Gold Corporation
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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, 2008 | 156,242,480 | 43,277,467 | 4,263,780 |
| Issued for: | | | |
| Private placements | 31,208,334 | 3,481,275 ⁽¹⁾ | - |
| Equity component of convertible debentures issued (note 15) | - | - | 23,824 |
| Stock-based compensation | - | - | 796,257 ⁽²⁾ |
| Fair value of agent's warrants issued on the convertible debentures (note 15) | - | - | 53,851 ⁽³⁾ |
| Balance, December 31, 2009 | 187,450,814 | 46,758,742 | 5,137,712 |
| Private placements | 14,252,083 | 1,710,250 ⁽¹⁾ | - |
| Balance, March 31, 2010 | 201,702,897 | 48,358,742 | 5,137,712 |

March 31, 2010 notes:

(1) Includes the issue of 918,750 common shares with a fair value of \$110,250 as commission payable at 7% of gross proceeds of the private placements. The shares were issued on January 20, 2010. The shares were valued using the closing share price for that day.

December 31, 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).

17. SHARE CAPITAL AND RELATED INFORMATION (continued)

e) 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. No stock options were granted during the quarter ended March 31, 2010. Of the 3,830,000 stock options issued during the year ended December 31, 2009 1,970,000 were granted to employees, 1,530,000 to directors and 330,000 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 quarter ended March 31, 2010 and the year ended December 31, 2009:

| | March 31, 2010 | | December 31, 2009 (Audited) | |
|-------------------------------|-----------------------|------------------------------------|------------------------------------|------------------------------------|
| | Number of Options | Weighted average exercise price | Number of Options | Weighted average exercise price |
| | | \$ | | \$ |
| Balance – beginning of period | 7,050,000 | 0.31 | 5,660,000 | 0.36 |
| Granted | - | - | 3,830,000 | 0.29 |
| Exercised | - | - | - | - |
| Cancelled / expired | - | - | (2,440,000) | 0.39 |
| Balance – end of period | <u>7,050,000</u> | <u>0.31</u> | <u>7,050,000</u> | <u>0.31</u> |
| Exercisable – end of period | <u>7,050,000</u> | <u>0.31</u> | <u>7,050,000</u> | <u>0.31</u> |

Details of the exercise prices and expiry dates of options outstanding at March 31, 2010 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 | 0.1 years | 740,000 | 0.1 years |
| February 2, 2011 | \$0.23 | 50,000 | 0.8 years | 50,000 | 0.8 years |
| July 25, 2011 | \$0.30 | 150,000 | 1.3 years | 150,000 | 1.3 years |
| December 11, 2011 | \$0.33 | 1,380,000 | 1.7 years | 1,380,000 | 1.7 years |
| April 14, 2013 | \$0.43 | 950,000 | 3.0 years | 950,000 | 3.0 years |
| February 3, 2014 | \$0.29 | 3,780,000 | 3.9 years | 3,780,000 | 3.9 years |
| | | <u>7,050,000</u> | <u>2.9 years</u> | <u>7,050,000</u> | <u>2.9 years</u> |

There have been no stock options granted so far in 2010. The stock options granted during 2009 were ascribed a fair value of \$796,257 using the Black-Scholes option pricing model with the following weighted average assumptions:

| | December 31, 2009 (Audited) |
|-------------------------|---------------------------------------|
| Risk-free interest rate | 2.1% |
| Estimated volatility | 78% |
| Expected lives | 5 years |
| Expected dividends | \$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.

New Guinea Gold Corporation
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17. SHARE CAPITAL AND RELATED INFORMATION (continued)

d) Warrants

Warrant activity for the quarter ended March 31, 2010 and the year ended December 31, 2009:

| | March 31, 2010 | | December 31, 2009 (Audited) | |
|-------------------------------|-----------------------|---------------------------------|------------------------------------|---------------------------------|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| | | \$ | | \$ |
| Balance – beginning of period | 8,200,000 | 0.48 | 10,580,404 | 0.52 |
| Granted | - | - | 337,200 | 0.20 |
| Exercised | - | - | - | - |
| Cancelled / expired | (5,456,250) | 0.55 | (2,717,604) | 0.60 |
| Balance – end of period | <u>2,743,750</u> | <u>0.32</u> | <u>8,200,000</u> | <u>0.48</u> |

Details of the exercise prices and expiry dates of the warrants outstanding at March 31, 2010 are as follows:

| Expiry Date | Exercise Price | Number of warrants | Weighted average remaining life |
|-------------------|----------------|--------------------|---------------------------------|
| April 19, 2010 | \$0.55 | 943,750 * | 0.1 years |
| December 22, 2010 | \$0.20 | 1,462,800 | 0.7 years |
| January 23, 2011 | \$0.20 | 337,200 | 0.8 years |
| | | <u>2,743,750</u> | <u>0.4 years</u> |

* On February 11, 2009 the Company was granted approval to amend the terms of these 943,750 outstanding \$0.55 warrants originally due to expire on April 19, 2009. These warrants now have a new expiry date of April 19, 2010. Agent warrants with the same original exercise price and expiry date were not eligible to have their expiry date extended. There were 209,009 of those \$0.55 agent warrants and they expired on April 19, 2009.

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

There have been no warrants granted so far in 2010. The fair value of warrants granted during 2009 were calculated using the Black-Scholes option pricing model with the following assumptions:

| | December 31, 2009 (Audited) |
|-------------------------|---------------------------------------|
| Risk-free interest rate | 1.24% |
| Estimated volatility | 110% |
| Expected lives | 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 March 31, 2010 the Company had various interests in five exploration projects in Papua New Guinea through its wholly-owned subsidiary New Guinea Gold Ltd and a joint venture arrangements with Vangold Resources Ltd . The Company had a 90% interest in one, a 100% interest in two of the projects, a 10% interest in another two properties and 5% interests in three projects.. 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.

The Company has optioned out the following projects:

Normanby and Sehulea

The Normanby Licence covers approximately 68 square kilometres on Normanby Island, Milne Bay Province. The Company submitted a feasibility study to the PNG government in April 2010 for the further development of the Normanby properties.. 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 March 31, 2010 the Company has already met its expenditure to maintain current rights of tenure to this exploration property for the next 12 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.

Further, on April 20, 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 \$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. This approval was granted on April 29, 2010.

Properties subject to free carried interests

Mt Penck, Fergusson, Allemata and Feni Island

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.

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 holds 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:

| | March 31, 2010 | | | |
|---------------------|------------------------------------|------------------|------------------|-------------------|
| | Papua New Guinea | Canada | Australia | Total |
| | \$ | \$ | \$ | \$ |
| Equipment | 4,388,431 | 4,000 | - | 4,392,431 |
| Mineral Properties | 6,993,197 | - | - | 6,993,197 |
| Other | 10,497,263 | 2,059,655 | 804,295 | 13,361,213 |
| Total Assets | 21,878,891 | 2,063,655 | 804,295 | 24,746,841 |
| | | | | |
| Revenues, net | 1,414,723 | - | - | 1,414,723 |
| | | | | |
| | December 31, 2009 (Audited) | | | |
| | 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 |
| Total Assets | 21,561,425 | 2,329,272 | 2,096,286 | 25,986,983 |
| | | | | |
| Revenues, net | 6,872,535 | - | - | 6,872,535 |

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. DISPOSAL OF PACIFIC KANON GOLD CORPORATION

On August 27, 2009 the Company entered into an agreement with Vangold Resources Ltd (Vangold) to sell 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. The agreement was completed on January 29, 2010. Under the agreement the Company received \$500,000 in cash and 6,046,122 common shares in Vangold. The Vangold shares have a fair value of \$2,116,143 using the closing market price for January 29, 2010. After accounting for the costs of all transferred assets, including reversing previous impairments, the transaction has resulted in a gain on disposal of \$1,899,732.

22. SUBSEQUENT EVENTS

The first part of the Agreement signed with NMC Mining Corporation (NMC) and its PNG subsidiary Normanby Mining PNG Ltd on April 16, 2010, i.e. a loan of \$3 million, is now expected to close in the first week of June. NMC have advised NGG that they expect to close the first tranche of a fund raising early this week and be in a position to pay out the \$3 million "Bolder Investment Partners" convertible note (see page 2, Management Discussion & Analysis for year ending December 31 2009) later this week. In the meantime the Company is continuing to pay interest to the note holders until such time as the payout is completed.