

# NEW GUINEA GOLD CORPORATION

## Management Discussion & Analysis For the Quarter Ended March, 2010

### INTRODUCTION

The following Management Discussion and Analysis of the Company's financial position is for the three month period ended March 31, 2010 compared to March 31, 2009. This discussion should be read in conjunction with the attached annual consolidated financial statements and related "Notes to the Consolidated Financial Statements" which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

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

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

The information in this part of the report is current to May 21, 2010 unless otherwise indicated.

### DISCUSSION

Overall Operational Performance, Resource Statement, Exploration Targets, Business Development Strategy and Project Development have not materially changed since the Management Discussion and Analysis for 2009 (and subsequent events) lodged on Sedar on April 30, 2010.

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.

#### Sinivit Gold Production

First Quarter 2010 gold production from the Sinivit Mine was 1,423.28 ozs (silver 264.01 ozs). Since the end of the quarter NGG has added additional mining equipment to the project and the additional crusher arrived on site on May 9, 2010 (after delays due to weight limits and ongoing repairs on an access bridge).

In 2010 NGG has adopted a revised procedure of reporting gold production. Previously gold had been reported for the month in which it had been predominantly processed to dore bars. This has led in the past to inconsistencies between quarterly accounts and announced gold production. As from January 1, 2010, the company will report gold in the month in which it is sold.

The gold and silver production by month was as follows:

	Gold (ozs)	Silver (ozs)
January	590.15	119.58
February	347.58	80.50
March	485.55	63.93

#### Process Enhancement

As at the date of this report the Company, on expert advice, is trialling heap leaching on top of an existing vat. If this provides similar or better recoveries than the present vat leach processing, further heap leaching will be carried out. In this event, the Company's capacity to process mineralisation in a more timely fashion will be greatly increased. Heap leaching also has lower operating costs than vat leaching.

In addition to the heap leach trial the Company has new vat capacity available at today's date of some 40,000 tonnes. On expert advice we will also be trialling revised methods of fluid circulation in these vats which may increase recovery.

Crushing capacity has improved significantly over the past Quarter with approximately 11,000/12,000 tonnes/month being achieved. The Company, in the near future, will implement extended crushing shifts under lights. This, together with the new crusher, is expected to allow a finer crushed product (100% minus 6-8 mms) and achieve as much as 20,000 tonnes/month of crushed product.

#### Tellurium Recovery

In respect to tellurium, World Industrial Minerals of Denver, Colorado, have indicated interest in proceeding to further evaluation of the potential to extract tellurium at Sinivit. Representatives will visit the Operations Office in Queensland Australia in early June, and then proceed to the Sinivit Mine for further evaluation.

### **RESULTS OF OPERATIONS**

The Company's net loss for the quarter ended March 31, 2010 was \$154,666 or \$0.0008 per common share compared to a net profit of \$26,005, or \$0.0002 per common share, for the same period last year. The Company received \$95,708 in interest payments on cash balances, deposits and long term receivables. Interest revenues fluctuate according to the amount of funds held in deposit and the interest rates attained during the period. The net profit for the quarter ended March 31, 2010 includes the result from mining operations which produced a net operating loss of \$1,491,694. This net operating loss included metal sales, net of refining and royalty costs, of \$1,539,468 and non-cash deferred mining costs amortization and equipment depreciation charges totalling \$1,894,214.

The difference between the net loss for the quarter ended March 31, 2010 and the net profit for the same period in 2009 was \$180,671 and was mainly attributable to the net loss from mining operations mentioned above, a net turn around from profit to loss of \$3,421,905. The decline in the mining operation's net result included \$142,083 less in net metal sales, an overall decrease in mining inventories of \$2,394,642, and increase in deferred mining costs amortization of \$996,907, compared to the same period last year. Mine operations also included \$189,777 less in consumables and \$467,497 less in contractor payments, since the mine contractor has not been contracted since June 2009. The lower contractor payments were offset by \$357,977 more in equipment hire charges and \$80,177 more in total employee benefits for mine employees.

The Company's general and administrative costs included an increase of \$82,122 for employee benefits, \$69,656 more in professional fees and \$67,659 more in rent, compared to the same period last year. Offsetting these increased costs in the March 2010 quarter were higher interest and other income of \$51,198, \$273,549 less in bad debts and a larger foreign exchange gain by \$62,058 because of fluctuations in foreign currency rates. Other differences in the current quarter include the inclusion this quarter of a gain on the sale of the Company's interest in Pacific Kanon Gold Corporation. There was also no share based payments made in the current quarter, compared to fair valued share based payments of \$1,156,277 made in the March 2009 quarter.

Significant non-cash costs, totalling \$2,111,058 (quarter ended March 31, 2009: \$2,488,460), were included in the Company's net profit for the quarter ended March 31, 2010. The non-cash costs included non-cash financing costs associated with convertible debentures of \$241,405 (quarter ended March 31, 2009: \$181,217), total amortization and depreciation expenses of \$1,937,889 (quarter ended March 31, 2009: \$930,908) and share of losses from equity accounted associates of \$58,658 (quarter ended March 31, 2009: \$42,285). Non-cash items from the quarter ended March 31, 2009 with no equivalent amounts in the current quarter included stock-based compensation expense of \$1,156,277 and impairments of \$25,938. The net profit for the current period also includes \$89,884 interest income accrued and not received during the quarter (quarter ended March 31, 2009: \$84,704) and bad debt write back related to the sale of PKGC of \$37,010 (quarter ended March 31, 2009: bad debt write-off of \$236,285). Non-cash income and expenditure does not affect the financial condition of the Company.

During the quarter ended March 31, 2010 the Company completed \$364,888 (quarter ended March 31, 2009: \$400,438) in exploration and evaluation on its mineral property interests, but no expenditure on mine development for quarters ended March 31, 2010 and 2009. During the current quarter the Company had \$1,449,078 of metal sales (quarter ended March 31, 2009: \$1,591,161).

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<b>Reconciliation of Net Loss to EBITDA <sup>1</sup></b>	<b>Quarter ended March 31, 2010</b>	<b>Quarter ended March 31, 2009</b>
	\$	\$
Net loss for the year	(154,666)	26,005
Financing costs	273,051	243,147
Interest income	(95,708)	(84,267)
Total impairments	-	25,938
Total amortization and depreciation expenses	1,937,889	930,908
<b>EBITDA</b>	<b>1,960,566</b>	<b>1,141,731</b>

**Summary of Quarterly Results (Unaudited) for the quarters ended June 30, 2008 to March 31, 2010:**

	2010		2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
	\$	\$	\$	\$	\$	\$	\$	\$	
Gross revenue	1,449,078	1,638,374	1,426,246	2,450,745	1,591,161	3,373,622	975,414	1,542,346	
Interest & other income	159,452	118,591	132,963	272,968	108,254	207,104	90,748	195,168	
Net profit/(loss)	(154,666)	(4,008,201)	(1,176,398)	(3,643,591)	26,005	(971,121)	(3,392,807)	(2,296,050)	
Basic/diluted profit/(loss) per share	(0.00)	(0.02)	(0.01)	(0.02)	0.00	(0.01)	(0.02)	(0.01)	

**FINANCIAL CONDITION**

At March 31, 2010, the Company had working capital of \$4,256,436 (March 31, 2009: \$8,112,996). The change in working capital between the two periods is principally due to a decrease in mining inventories to \$6,500,511 (March 31, 2009: \$8,397,140) and the inclusion of debentures and embedded derivatives as current liabilities. The debentures and embedded derivatives mature in April 2010 (and, as stated earlier, will now be repaid in June 2010, see page 1) and had a combined fair value of \$3,343,157 (at March 31, 2009 the debentures and embedded derivatives had a combined fair value of \$2,541,052 but were classified as non-current liabilities). Cash was also lower at the end of the current quarter at \$1,350,839 (March 31, 2009: \$2,076,334). Offsetting these lower working capital items was an increase in marketable securities to \$1,334,295 at period end (March 31, 2009: \$80,600) and decreases in accounts payable and accrued liabilities to \$1,335,440 (March 31, 2009: \$1,807,243) and bank and short-term debt to \$593,764 at March 31, 2010 (March 31, 2009: \$965,759). Amounts receivable and prepayments remained static at \$343,152 as at March 31, 2010 compared to \$331,924 at March 31, 2009.

The Company's long-term obligations at March 31, 2010 included \$447,386 of non-current bank debt (March 31, 2009: \$nil) and asset retirement obligations of \$201,260 (March 31, 2009: \$180,894).

At May 21, 2010 the Company is committed to paying approximately \$645,000 for accounts payable and payroll liabilities and approximately \$582,000 in short-term bank debt.

<sup>1</sup> EBITDA represents an indication of the entity's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before interest expense, capital asset amortization and impairment charges, and income taxes.

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**CAPITAL RESOURCES AND LIQUIDITY**

Capital resources of the Company consist primarily of cash and liquid short-term deposits of approximately \$1,351,000 at March 31, 2010 and \$224,000 at May 21, 2010. The Company expects to receive up to \$1.750,000 in the next 2 months from various sources, including \$1,000,000 from Normanby Mining Corp on renewal of EL 1091 by the PNG government. The rest of the \$1.75M will come from the sale of a surplus drill rig and reimbursement of costs incurred by the Company on behalf of Normanby Mining Corp and Vangold Resources Ltd.

The Company's cash requirements include funding its ongoing mining and exploration operations, as well as its administration and corporate activities. The Company also needs to be able service its bank debt and convertible debentures over the next 1-24 months. The Company routinely prepares cashflow and expenditure budgets to monitor cash requirements on an ongoing basis. The Company has budgeted for mine operations to fund liquidity requirements for at least the next 12 months. Capital markets may need to be accessed again to fund the Company's operations. There is however no certainty that the Company will be able to obtain funding from capital markets in the future.

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

**CASH FLOWS**

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

Cash used for operating activities in the quarter ended March 31, 2010 decreased to \$277,311 from \$506,049 for the same period in 2009. This decrease in operating cash used was mainly due to lower costs for mine operations, including less cash used for work in progress inventories. The decrease in cash used for operating activities during the March 2010 quarter was offset by increases in cash used for other working capital items.

Cash used in investing activities increased to \$1,390,393 in the quarter ended March 31, 2010 from \$869,613 in the quarter ended March 31, 2009. The difference is primarily due to the purchase of additional equipment for the Mt Sinivit mine.

Cash flows from financing activities increased in the quarter ended March 31, 2010 to \$587,110 compared to \$30,709 in the quarter ended March 31, 2009. The difference is primarily due to additional debt repayment in the current quarter. Proceeds from the issue of the second tranche of convertible debentures were also included in the cash flows financing activities for the quarter ended March 31, 2009.

**SHARE CAPITAL**

The Company's authorized share capital consists of an unlimited number of common shares without par value. Shares issued January 1, 2009 to March 31, 2010 and to the date of this report are as follows:

	<b>Number of Shares</b>	<b>Share Capital</b>
		<b>\$</b>
Balance, January 1, 2009	156,242,480	43,277,467
Private placements	31,208,334	3,481,275
Balance, December 31, 2009	<hr/> 187,450,814	46,758,742
Private placements	14,252,083	1,710,250
Balance, March 31, 2010 and May 21, 2010	<hr/> 201,702,897	<hr/> 48,358,742

## **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.

### **Off-Balance Sheet Arrangement**

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

### **Financial and Other Instruments**

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

### **Legal Proceedings**

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 Court for damages totalling 5,161,389 Kina or approximately \$2,000,000.

HBS have made a counter claim against the Company for alleged unpaid hire fees for 2,928,430 Kina or approximately \$1,100,000. NGG disputes the amount of the counter claim.

### **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 period 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.

### **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.

### **OUTSTANDING SHARE DATA**

The Company has one class of shares and there were 201,702,897 shares issued as at May 21, 2010 (201,702,897 shares issued as at March 31, 2010) and 224,812,897 on a fully diluted basis (March 31, 2010: 226,496,647).

The Company has a stock option plan and at the date of this report there were 6,310,000 options outstanding exercisable into one common share between \$0.23 and \$0.43 (7,050,000 options outstanding as at March 31, 2010).

The Company has 1,800,000 warrants outstanding at the date of this report exercisable into one common share at \$0.20 (2,743,750 warrants outstanding as at March 31, 2010).

**BUSINESS RISK ASSESSMENT**

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

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

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

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

**SUBSEQUENT EVENTS**

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.

**DISCLOSURE CONTROLS**

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the quarter ended March 31, 2010. The Corporation makes no assessment relating to the establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at March 31, 2010.