



# **NEW GOLD INC.**

*(A Development Stage Company)*

## **FINANCIAL STATEMENTS**

**December 31, 2007 and 2006**

## **Management's Responsibility for the Financial Statements**

The preparation and presentation of the accompanying audited financial statements for the fiscal year ended December 31, 2007 (the "Financial Statements") and Management's Discussion and Analysis ("MD&A") are the responsibility of management under the overall supervision of the Chief Financial Officer. The Financial Statements and MD&A have been reviewed and approved by the Board of Directors of the Company.

The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial statements, by nature, are not precise since they include certain amounts based upon estimates and judgments. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances.

Management, under the supervision of and the participation of the Chief Executive Officer and the Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting as required by Canadian and U.S. securities regulations. We, as Chief Executive Officer and Chief Financial Officer, will certify our annual filings with Canadian securities commissions and the U.S. Securities and Exchange Commission as required in Canada by Multilateral Instrument 52-109 and in the United States as required by regulations promulgated under the Securities Exchange Act of 1934 as amended.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee which is independent from management.

The Audit Committee is appointed by the Board of Directors annually and assumes the responsibilities set out in its mandate, including the following: (a) review of interim and annual financial statements and management discussion and analysis; (b) consideration of the report of the independent auditors; (c) assessment of the adequacy of the Company's internal controls, including management's assessment described below; (d) examination and approval of the fees and expenses for audit services provided by the independent auditors; (e) recommendation of the independent auditors to the Board for the appointment by the shareholders; and (f) oversight of the work of the independent auditors, as well as the other responsibilities required pursuant to applicable securities regulations and the rules of the American Stock Exchange and Toronto Stock Exchange. The independent auditors have full and free access to the Audit Committee and meet with it from time to time to discuss their audit work, the Company's internal control over financial reporting, and financial reporting matters. The Audit Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders and management's assessment of the internal control over financial reporting.

## **Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Management has assessed the effectiveness of our internal control over financial reporting as at December 31, 2007 using criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this

evaluation, management concluded that our internal control over financial reporting was effective as at December 31, 2007.

The effectiveness of our internal control over financial reporting as at December 31, 2007 has been audited by PricewaterhouseCoopers LLP, our independent auditors, as stated in their report which appears herein.

*(Signed) Cliff Davis*

*(Signed) Paul Martin*

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Clifford Davis  
Chief Executive Officer

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Paul Martin  
Chief Financial Officer

March 31, 2008

**Independent Auditors' Report**

**To the Shareholders of New Gold Inc.**

We have completed an integrated audit of New Gold Inc.'s 2007 financial statements and of its internal control over financial reporting as at December 31, 2007 and an audit of its 2006 financial statements. Our opinions, based on our audits, are presented below.

**Financial statements**

We have audited the accompanying balance sheets of New Gold Inc. as at December 31, 2007 and December 31, 2006, and the related statements of operations, comprehensive loss and deficit, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit of the Company's financial statements as at December 31, 2007 and for the year then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). We conducted our audit of the Company's financial statements as at December 31, 2006 and for the year then ended in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

## Internal control over financial reporting

We have also audited New Gold Inc.'s internal control over financial reporting as at December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2007 based on criteria established in *Internal Control - Integrated Framework* issued by the COSO.

*(Signed) PricewaterhouseCoopers LLP*

**Chartered Accountants**

Vancouver, British Columbia

March 31, 2008

**Comments by Auditors for U.S. Readers on Canada-U.S. Reporting Difference**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) where there are events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in note 1 to the financial statements. Our report to the shareholders dated March 31, 2008 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when they are properly accounted for and adequately disclosed in the financial statements.

*(Signed) PricewaterhouseCoopers LLP*

**Chartered Accountants**

Vancouver, British Columbia

March 31, 2008

New Gold Inc.  
(A Development Stage Company)

## BALANCE SHEETS

As at December 31, 2007 and December 31, 2006

(In thousands of Canadian dollars)

	2007	2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 190,176	\$ 68,054
Accrued interest receivables on cash equivalents	663	133
Amounts receivable	2,850	990
Prepaid expenses	485	80
	<u>194,174</u>	<u>69,257</u>
<b>Investments (Note 3)</b>	<b>120,065</b>	<b>-</b>
<b>Reclamation deposits (Note 17(d))</b>	<b>3,500</b>	<b>-</b>
<b>Mineral properties - schedule (Note 4 and 7)</b>	<b>116,924</b>	<b>61,440</b>
<b>Property and equipment (Note 5)</b>	<b>34,173</b>	<b>1,959</b>
	<u>\$ 468,836</u>	<u>\$ 132,656</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 11,013	\$ 3,786
Current portion of long-term debt (Note 7)	212,761	-
	<u>223,774</u>	<u>3,786</u>
<b>Long-term debt - Debentures (Note 7)</b>	<b>35,189</b>	<b>-</b>
<b>Future income taxes (Note 8)</b>	<b>2,368</b>	<b>10,004</b>
	<u>37,557</u>	<u>10,004</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 9)</b>	<b>213,278</b>	<b>117,858</b>
<b>Convertible debenture (Notes 7 and 10)</b>	<b>18,403</b>	<b>-</b>
<b>Share purchase warrants (Note 11)</b>	<b>41,122</b>	<b>5,959</b>
<b>Stock options (Notes 12 and 13)</b>	<b>5,647</b>	<b>4,546</b>
<b>Deficit</b>	<b>(70,945)</b>	<b>(9,497)</b>
	<u>207,505</u>	<u>118,866</u>
	<u>\$ 468,836</u>	<u>\$ 132,656</u>

Nature of Operations and Going Concern (Note 1)

Measurement Uncertainty (Note 3)

Commitments and Contingent Liabilities (Note 17)

Subsequent events (Note 18)

### APPROVED BY THE BOARD

(Signed) Cliff Davis

Cliff Davis  
Director

(Signed) Paul Sweeney

Paul Sweeney  
Director

New Gold Inc.  
(A Development Stage Company)

**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars, except for share amounts)

	2007	2006
<b>Income</b>		
Interest income	\$ 6,579	\$ 2,746
	<b>6,579</b>	<b>2,746</b>
<b>Expenses</b>		
Amortization	32	139
Foreign exchange (gain) loss	(58)	1
Loss on disposal of property and equipment	-	8
Administrative, office and miscellaneous	791	645
Professional and regulatory fees	2,946	944
Travel, conferences and promotion	638	651
Wages, benefits and stock-based compensation (Note 6)	2,716	4,449
Impairment of investments (Note 3)	50,120	-
Interest and accretion (Note 7)	22,125	-
	<b>79,310</b>	<b>6,837</b>
<b>Loss before taxes</b>	<b>(72,731)</b>	<b>(4,091)</b>
<b>Future income tax recovery (Note 8)</b>	<b>11,283</b>	<b>587</b>
<b>Loss and comprehensive loss for the year</b>	<b>(61,448)</b>	<b>(3,504)</b>
<b>Deficit, beginning of year</b>	<b>(9,497)</b>	<b>(5,993)</b>
<b>Deficit, end of year</b>	<b>\$ (70,945)</b>	<b>\$ (9,497)</b>
<b>Weighted average number of shares outstanding (thousands)</b>	<b>30,721</b>	<b>22,689</b>
<b>Loss per share (basic and diluted)</b>	<b>\$ (2.00)</b>	<b>\$ (0.15)</b>

See accompanying notes.

New Gold Inc.  
(A Development Stage Company)

**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2007 and 2006

(In thousands of Canadian dollars)

	2007	2006
<b>Cash provided by (used for)</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (61,448)	\$ (3,504)
Items not involving cash:		
Amortization	32	139
Stock-based compensation	850	2,487
Loss on disposal of property and equipment	-	8
Future income taxes (Note 8)	(11,388)	(645)
Impairment of investments (Note 3)	50,120	-
Accretion (Note 7)	13,731	-
Net change in non-cash working capital items	(1,678)	16
	(9,781)	(1,499)
<b>INVESTING ACTIVITIES</b>		
Reclamation deposits	(3,500)	-
Payments for mineral properties and exploration costs	(39,276)	(20,211)
Acquisition of property and equipment	(29,987)	(449)
Investments (Note 3)	(170,185)	-
	(242,948)	(20,660)
<b>FINANCING ACTIVITIES</b>		
Cash proceeds from the issuance of debt, net of issue costs	244,369	-
Cash proceeds from shares and share purchase warrants issued, net of issue costs	130,482	72,034
	374,851	72,034
<b>Increase in cash and cash equivalents</b>	<b>122,122</b>	<b>49,875</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>68,054</b>	<b>18,179</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 190,176</b>	<b>\$ 68,054</b>
<i>Cash and cash equivalents comprises</i>		
<b>Cash</b>	<b>1,510</b>	<b>20,637</b>
<b>Government of Canada Treasury Bills</b>	<b>188,666</b>	<b>-</b>
<b>Short-term investments</b>	<b>-</b>	<b>47,417</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 190,176</b>	<b>\$ 68,054</b>

See accompanying notes.

For supplemental disclosure of non-cash investing and financing activities, refer to Note 14.

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

*(In thousands of Canadian dollars)*

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

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New Gold Inc. (the "Company"), is in the business of exploring and developing mineral prospects in British Columbia, Canada. Its principal project, the New Afton copper-gold project (the "Project"), has been subject to exploration, an advanced scoping study and a feasibility study. These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they fall due.

As at December 31, 2007, the Company has negative working capital of \$29.6 million. The negative working capital position is primarily due to the classification of the Company's Notes as a current liability because of a provision in the Note Indenture which requires the Company to obtain all material permits related to its New Afton project on or before June 27, 2008 (See Note 7). Should these permits not be obtained or the Company is unable to negotiate a waiver, the Company is obligated to offer to redeem the Notes at par value (\$237 million). The negative working capital position is also due to the classification of the Company's investments in non-bank sponsored asset backed commercial paper ("ABCP") as non-current assets. The Company has \$120 million (\$170 million net of \$50 impairment) in investments subject to the ABCP restructuring in Canada (See Note 3). The financial impact of these two situations creates substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon obtaining the remaining permits for its New Afton project, resolving the liquidity situation surrounding its ABCP investments or obtaining the necessary financing to fund its debt obligations over the next year.

In recognition of these circumstances, and following the receipt of the major principal mine permit in October 2007, the Company is actively pursuing the remaining permits required to satisfy the debt requirements. The Company's ability to continue as a going concern is also dependent on the successful resolution of the ABCP restructuring which the Company anticipates will result in a limited market for the pooled assets to be created as a result of the new pooled assets credit rating, increased transparency about the underlying assets and the structure as well as the support of a margin facility which is expected to enable the Company to realize on its ABCP investments, as well as its ability to renegotiate its obligations in terms of the Note Indenture should they fall due. The Company's continuing operations are also dependent on the raising of additional financing to finance the remainder of the Project construction. The amount and timing of these raisings may be materially impacted by the resolution of the Company's investments in ABCP (See Note 3). There can be no assurance it will be able to raise sufficient funds as and when such funds are required. There can furthermore be no assurance that the Company will obtain the necessary permits or resolve its ABCP issues or obtain the necessary funding to continue with its Project construction.

The underlying value of the Company's mineral claims is dependent upon the existence and economic recovery of mineral reserves, and the ability of the Company to raise financing to

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

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complete the development of and operation of the Project. In addition, the Company's projects may be subject to a number of risks, including changes in government relations related to mining activities, economic instability and access rights disruption. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

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These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As described in note 19, accounting principles generally accepted in Canada differ in certain material respects from accounting principles generally accepted in the United States.

*a) Cash and Cash Equivalents*

Cash and cash equivalents are recorded at fair value and consist of cash on deposit with banks and highly liquid short-term interest bearing securities with maturities of three months or less at purchase dates.

*b) Mineral Properties and Related Deferred Costs*

The Company records its interests in mineral properties at cost. Exploration expenditures relating to properties that have resources or significant mineralization requiring additional exploration are deferred and will be amortized against future production following commencement of commercial production, or written off if the properties are impaired, sold, allowed to lapse, or abandoned.

Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. Where estimates of future net cash flows are available and the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value which is normally the discounted value of future cash flows. Where estimates of future net cash flows are not available, management assesses whether the carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired it is written down to its estimated fair value.

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the determination of the recoverability of deferred mineral property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the cash flows to be generated from its properties.

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

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The acquisition of title to mineral properties is a complicated and uncertain process. The Company has taken steps, in accordance with industry standards, to verify mineral properties in which it has an interest. Although the Company has made efforts to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

**c) *Property and Equipment***

Property and equipment are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method at a rate of 5% per annum for building, 20% per annum for mining equipment, transportation vehicles, office and computer equipment. Amortization is recorded when the asset is put into use.

**d) *Tax Credits***

Tax credits represent British Columbia Mining Exploration Tax Credit claim refunds of 20% of eligible exploration expenditures. These credits are for qualifying exploration expenditures at a grassroots level for mineral properties in the Province of British Columbia.

**e) *Loss Per Share***

Basic loss per common share is computed by dividing the loss by the weighted average number of common shares outstanding during the year. The treasury stock method is used to determine the dilutive effect of stock options, share purchase warrants and other dilutive instruments. For convertible debentures, the number of additional shares for inclusion in diluted earnings per share calculations is determined using the if converted method. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. In periods when a loss is incurred, the effect of potential issuances of shares under options and share purchase warrants would be anti-dilutive, and accordingly basic and diluted loss per share are the same.

**f) *Use of Estimates***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Significant areas where estimates are used relate to the impairment of investments, impairment of mineral properties and related deferred exploration costs, determinations as to whether costs are expensed or deferred, stock-based compensation and share purchase warrant valuation assumptions, applicable interest rate of a non-convertible compound feature debt to determine the debt and equity component of a compound financial instrument, future site restoration costs, and the future income tax asset valuation allowance. Actual results could differ from those estimates. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future changes in such estimates could be material.

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

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**g) *Income and Resource Taxes***

The Company recognizes and measures, as assets and liabilities, income and resource taxes currently payable or recoverable as well as future taxes which would arise from the realization of assets or the settlement of liabilities at their carrying amounts to the extent that these differ from their tax bases. Future income tax ("FITs") assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled. A valuation allowance is recognized to the extent the recoverability of FIT assets is not more likely than not.

**h) *Flow-Through Shares***

The Company applies the consensus of Abstract #146 of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants ("CICA") in respect to its accounting for all flow-through share renunciations. Under the Canadian *Income Tax Act* an enterprise may issue securities referred to as flow-through shares whereby the investor may claim the tax deductions associated with the related resource expenditures. The Company records future income tax liabilities on the date that the Company files the renouncement documents with the tax authorities to renounce the tax credits associated with the expenditures, provided there is reasonable assurance that the expenditures will be made. At the time of recognition of the future income tax liabilities a corresponding reduction to share capital is made.

**i) *Asset Retirement Obligations***

The Company recognizes a liability for any asset retirement obligations when it is determinable and calculates the liability based upon discounted future payments to be made. A corresponding amount is added to the carrying amount of the related long-lived asset, and this amount is subsequently amortized to expense over its expected life.

**j) *Stock-Based Compensation***

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. The fair value of stock options is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility and an expected life of the options. Forfeitures are recorded based on actual occurrences. The Company charges the costs related to stock-based compensation to the Statement of Operations or in the case of project-related personnel, the Company capitalizes the related amounts to mineral properties over their vesting periods which ranges between zero and 12 months.

**Accounting Policies Adopted in 2007**

**k) *Financial Instruments***

CICA Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

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financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost or amortized cost. Adoption of this policy had no material impact on the Company's previously reported or current year results.

**l) Comprehensive Income**

Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in the Statement of Operations such as unrealized gains or losses on available-for-sale investments.

**m) Interest Capitalization**

Interest expense allocable to the qualifying cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use. Interest will be allocated between expensing it to the Statement of Operations and capitalizing it to mineral properties by applying the weighted average effective interest rate of the Company's debt to the average deferred New Afton mine costs applicable for the year.

**n) Transaction Costs**

The Company records financial assets and liabilities net of transaction costs. Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are netted against the financial asset or financial liability on initial recognition and amortized using the effective interest method over the life of the related instrument.

**3. INVESTMENTS, IMPAIRMENT AND MEASUREMENT UNCERTAINTY**

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As at December 31, 2007 the Company had \$170 million invested in collateralized short term debt obligations (rated R1 high by Dominion Bond Rating Service), issued by limited purpose trusts sponsored and managed by non-bank entities. These obligations, commonly known as "Asset Backed Commercial Paper" ("ABCP"), typically had terms of less than 365 days and repayment of a maturing ABCP was dependent on the cash generated by the trusts' underlying assets and the ability of the trusts to issue new ABCP. In mid August 2007 a number of sponsors of non-bank managed ABCP, including those with which the Company had invested, announced that they could not place ABCP due to unfavourable conditions in the Canadian capital markets.

As a result, the non-bank ABCP market remains the subject of an agreement signed on August 16, 2007 amongst a number of affected parties. This agreement, referred to as the "Montreal Accord", contemplates a restructuring of ABCP on or before March 31, 2008 with the expressed intention of re-introducing the majority of the investments into a pool of long term floating rate senior and subordinate notes with the senior notes having a credit rating attached to them. The traditional asset pools and ineligible assets will have tracking notes associated with them. It is still uncertain how much of a market will be created as a result of the restructuring. While the

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

Company is not a signatory to the Montreal Accord, it is directly and through counsel monitoring the activities of a committee formed to implement the restructuring and is expected to be required to sign once the restructuring is implemented. However, the final terms of reference for the restructuring, while well advanced as detailed in a press release dated December 23, 2007 (the "December Press Release"), have not been made the subject of a definitive proposal and there is no certainty of a positive outcome.

As a result, there is presently no active market for the ABCP held by the Company and the funds cannot be accessed until such time as the restructuring contemplated by the Montreal Accord has been completed. The Company is unable to definitively determine when or if an appropriate resolution may occur, however, it believes that it is reasonable to anticipate that it will occur by the second quarter of 2008.

The Company has re-classified its holdings in ABCP from short-term investments to long-term assets and categorized such holdings as follows:

<b>Restructuring groupings</b>	<b>Total</b>	<b>Traditional assets</b>	<b>Synthetic assets</b>	<b>Ineligible assets</b>
<b>Trusts held - Series A</b>		\$ millions		
Aria	11.3	-	10.1	1.2
Aurora	22.8	-	22.8	-
Rocket	55.6	-	48.3	7.3
Gemini	9.5	9.5	-	-
SAT	6.9	-	6.9	-
SIT III	64.1	-	64.1	-
<b>Total investment</b>	<b>170.2</b>	<b>9.5</b>	<b>152.2</b>	<b>8.5</b>
<b>Estimated fair value <sup>*/**</sup></b>	<b>120.1</b>	<b>8.3</b>	<b>106.2</b>	<b>5.6</b>

\* - see the valuation methodology and valuation ranges below

\*\* - the range of fair values estimated by the Company varied between \$105.4 million and \$134.7 million

Based upon the December Press Release, the Company expects to receive floating rate notes ("FRNs") for the ABCP supported by synthetic assets and tracking notes for the ABCP supported by traditional and ineligible assets.

Management has estimated the fair value impairment on ABCP held as prescribed by CICA Section 3855 by using a probability weighted cash flow approach. Management has used the following methodology and made the following assumptions in its determination of the likely terms and characteristics of the FRNs:

- a) Modeled the FRNs and tracking notes (collectively, "the Restructured Notes") based upon the December Press Release as this remains the most objective and supportable assumption to use.
- b) Assumed that:

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

*(In thousands of Canadian dollars)*

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- (i) the Company will receive the average of the group for senior and junior notes from the pool of synthetic assets;
- (ii) the maturity date of the FRNs and the ineligible asset tracking notes will have an average life of 7 years from April 14, 2008 and the margin facility providers (applicable only to the synthetic pooled assets) will charge 160 basis points ("bps") to provide the facility. The traditional asset tracking notes are estimated to have a 5 year life ; and
- (iii) the underlying assets will generate returns above the collateral invested between 0.5% and 0.8% and that prospective purchasers will require yields between 6% and 15%, depending on the type of trust held, to purchase the FRNs.

As a result of these assumptions, the Company estimated that the Restructured Notes will generate returns in a range of between 3.74% and 4.90% and using the prospective buyers estimated yield to determine a range of recoverable values, present valued the FRNs and tracking notes.

No estimate of the restructuring costs, which have been stated as being immaterial by the Committee, nor interest income since August 13, 2007 has been included in the fair value assessment due to a lack of information.

Based upon a sensitivity analysis the assumptions which have the most significant impact on the valuation estimate includes: the expected yield required by a potential investor, the maturity of the FRNs (currently assumed at 7 years), the cost of the margin facility (currently assumed at 160 bps over the life of the trusts) and whether the restructuring is successful or not.

The resulting cash flows have then been discounted to December 31, 2007 based on the expected maturity of the FRNs. This analysis presumes a successful restructuring essentially on the terms described in the December Press Release and has been calculated without the benefit of full disclosure, review and analysis of the underlying assets of each of the trusts held by the Company as this information has not been provided by each trust. While management believes that it has utilized an appropriate methodology to estimate fair value, given the number of uncertainties there can be no assurance that this estimate of fair value is accurate.

Based on this fair value estimation the Company has recorded an impairment charge in the amount of \$50.1 million in the current year which is the mid-point between the best and worst case results of the analysis described above which management believes is the most appropriate indication of the fair value. There can be no assurance that this estimate will be realized or that it will be adequate. Subsequent adjustments, which could be material, may be required in future reporting periods. In addition, the Company has not accrued any interest due from these investments pending further information from the restructuring committee.

The Company has designated the investments as available-for-sale financial instruments.

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**4. MINERAL PROPERTIES**

*a) Kamloops, B.C. "Afton" Mineral Property*

Under the terms of two option agreements ("Option") dated September 22, 1999 to acquire the Afton Mineral Claims, the Company issued 2 million common shares and completed an aggregate work commitment totaling \$6.5 million over a period not to exceed nine years to earn the 100% rights to the mineral claims. The Company completed the work commitment and made the final share payment in 2005 and has a 100% interest in the mineral claims.

Under the terms of the Option agreement to acquire the mineral claims for the Afton Mineral Claims, the optionors retained a 10% net profit royalty (See Note 17 (b)).

*b) Kamloops, B.C., "Ajax" Mineral Property*

The Company owns a 100% interest in the Ajax - Python Claim Group, subject to a 2% net smelter royalty ("NSR"). The Company can purchase the NSR for \$100,000, payable in cash or common shares of the Company (See Note 17 (e)).

**5. PROPERTY AND EQUIPMENT**

*(in thousands)*

		<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$	16,338	\$ -	\$ 16,338
Building		105	21	84
Transportation vehicles		663	134	529
Equipment		17,982	1,064	16,918
Office and computer equipment		465	161	304
<b>Balance December 31, 2007</b>	<b>\$</b>	<b>35,553</b>	<b>\$ 1,380</b>	<b>\$ 34,173</b>

*(in thousands)*

		<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$	57	\$ -	\$ 57
Building		105	16	89
Transportation vehicles		101	80	21
Equipment		1,662	124	1,538
Office and computer equipment		345	91	254
<b>Balance December 31, 2006</b>	<b>\$</b>	<b>2,270</b>	<b>\$ 311</b>	<b>\$ 1,959</b>

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**6. WAGES, BENEFITS AND STOCK-BASED COMPENSATION** (in thousands)

The following table details the amounts included:

		2007		2006
Salaries, wages and benefits	\$	1,866	\$	1,962
Stock-based compensation		850		2,487
<b>Total</b>	<b>\$</b>	<b>2,716</b>	<b>\$</b>	<b>4,449</b>

**7. LONG-TERM DEBT**

Long-term debt consists of the following:

		2007		2006
Series D units - debt portion	\$	212,761	\$	-
Subordinated convertible debentures - debt portion		35,189		-
		247,950		-
Less: Portion due within one year		(212,761)		-
<b>Total</b>	<b>\$</b>	<b>35,189</b>	<b>\$</b>	<b>-</b>

On June 28, 2007, the Company completed an offering (the "Offering") and a subsequent agent's over allotment option on July 27, 2007 on the Series D Units, through a syndicate of underwriters, pursuant to which the following securities were issued:

**Series D units**

The Company has issued in total 237,000 Series D units ("Units") for an aggregate principal amount of \$237 million which includes the issuance of 17,000 additional Units issued as part of the over-allotment option granted to the agents and exercised on July 27, 2007. The Units, which were issued pursuant to a Note Indenture dated June 28, 2007 (the "Note Indenture"), consist of an unsecured note bearing interest at 10% per annum in the principal amount of \$1,000 (the "Note") and 100 common share purchase warrants (the "Warrants"). Each Warrant is exercisable to purchase one common share of the Company at a price of \$15 per share until June 28, 2017. The Notes and Warrants detached upon their listing and are traded separately on the Toronto Stock Exchange.

The Company has allocated the net proceeds, after deducting \$10.1 million in transaction costs, of the Series D units as follows: \$191.7 million to the Notes based on the fair value of a similar debt instrument without associated common share purchase warrants; and \$35.2 million to the Warrants using the residual value method. The value of the Notes is being accreted to its face value over the expected term of the debt using the effective interest method. During the year ending December 31, 2007 accretion costs of \$21.0 million were added to the Series D units debt amount balance.

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The Notes mature and become due and payable on June 28, 2017 and bear interest at the rate of 10% per annum. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year, starting January 1, 2008. The Company has the right to redeem the Notes in whole or in part at any time and from time to time from June 28, 2007 to June 27, 2017 at a price ranging from 120% to 100% (decreasing based on the length of time the Notes are outstanding) of the principal amount of the Notes to be redeemed.

The Note Indenture provides that in the event of a change of control of the Company or in the ownership of the Project, as defined therein, the Company may or must offer, depending on the circumstances, to redeem the Notes.

In addition, in terms of the Note Indenture, if the Company has not obtained all the necessary permits for construction, development and conducting mining operations before June 28, 2008 it must offer to redeem the Notes then outstanding at 100% of the principal amount of \$237 million plus accrued and unpaid interest. While the principal permit was received on October 31, 2007, the Company continues to classify the Notes as a current liability in recognition of the provisions of the Note Indenture as discussed above.

The Notes rank senior to the Debentures described below. If the Company secures any subsequent indebtedness, the Notes are required to be secured in the same manner. The Note Indenture subjects the Company to comply with certain reporting and other covenants that include limits on indebtedness and distributions subject to certain conditions.

***Subordinated Convertible Debentures***

The Company issued 55,000 Convertible Subordinated Debentures (“Debentures”) for an aggregate principal amount of \$55 million. The Debentures, which were issued pursuant to a Debenture Indenture dated June 28, 2007 (the “Debenture Indenture”), each have a principal amount of \$1,000, bear interest at a rate of 5% per annum and are convertible by the holders into common shares of the Company at any time up to June 28, 2014 at a conversion price of \$9.35 per share. The Debentures do not allow forced conversion by the Company prior to January 1, 2012 but after that date the Company may redeem the Debentures if the market price of the Company’s shares is at least 125% of the conversion price. The Debentures are classified as compound financial instruments for accounting purposes because of the holder conversion option.

Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year, starting January 1, 2008.

The Debenture Indenture provides that in the event of a change of control of the Company, as defined therein, where 10% or more of the aggregate purchase consideration is cash, the Company must offer to either (i) redeem the outstanding Debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest up to but excluding the date of redemption, or (ii) convert the outstanding Debentures into common shares at a

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conversion price ranging from \$7.48 to \$9.35, based on a time formula specified in the Debenture Indenture.

The Debentures are subordinate to the Notes and any secured indebtedness incurred subsequent to the issue of the Debentures.

The Company has allocated the \$52.6 million net proceeds, after deducting \$2.4 million in transaction costs, to the Debentures of \$34.2 million as a liability based on the fair value of a similar debt instrument without an associated conversion option. The fair value of the conversion option of the Debentures on June 28, 2007 was estimated using the residual value method at approximately \$18.4 million.

The debt component of the Debentures is being accreted over the expected term to maturity using the effective interest method. During the year accretion costs of \$0.9 million were added to the convertible debt balance.

The Debenture Indenture requires the Company to comply with certain reporting and other covenants.

The Company has allocated the costs associated with the financing against the component parts of the instruments issued, being the Notes, Warrants, Debentures and the fair value of the conversion option of the Debentures.

As a result of the Notes and Debentures debt financings the Company has incurred interest charges of \$13.4 million and recognized \$22.0 million in accretion costs for the year. These amounts were charged between the Statement of Operations and mineral properties in accordance with the Company's accounting policy as follows:

	<i>(in millions)</i>		
	<b>Accretion</b>	<b>Interest</b>	<b>Total</b>
Statement of Operations	13.7	8.4	22.1
Mineral Properties	8.3	5.0	13.3
	<u>22.0</u>	<u>13.4</u>	<u>35.4</u>

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**8. INCOME TAXES AND GRANT RECOVERIES**

The difference between the income tax expense and the provision obtained by applying the statutory rate is as follows:

	<i>(in thousands)</i>	
	As at December 31	
	2007	2006
Combined federal and provincial income tax rate	34.1%	34.1%
Expected income tax recovery at Canadian statutory tax rates	\$ 24,816	\$ 1,396
Increase (decrease) in tax recovery resulting from:		
Reduction in tax rates	(2,401)	645
Non-capital loss carry forward - prior periods	-	(1,014)
Change in valuation allowance	(3,341)	-
Stock-based compensation	(290)	(848)
Other non-temporary differences	(23)	467
Accretion	(4,685)	-
Fair value impairment	(8,550)	-
Share issue costs	5,862	-
Other	(105)	(59)
Income tax recovery	\$ 11,283	\$ 587

The temporary differences comprising the future income tax assets and liabilities are as follows:

	<i>(in thousands)</i>	
	As at December 31	
<b>Future income tax assets:</b>		
Non-capital loss carry forward	\$ 5,641	\$ 2,474
Capital loss carry forward	6,766	
Share issue costs	4,639	1,344
Valuation allowance	(7,159)	(3,818)
Future income tax assets	\$ 9,887	\$ -
<b>Future income tax liabilities:</b>		
Mineral properties	\$ (5,334)	\$ (5,639)
Deferred exploration expenditures flow-through	(3,802)	(4,365)
Capitalized accretion	(3,119)	-
Future income tax liabilities	(12,255)	(10,004)
Net long term future income tax liability	\$ (2,368)	\$ (10,004)

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As at December 31, 2007 the Company has income tax loss carryforwards of \$20.9 million which are available to reduce future years taxable income and expire as follows:

	<i>(in thousands)</i>
	<b>Non-capital losses</b>
2008	38
2009	499
2010	918
2014	861
2015	2,629
2026	2,908
2027	13,040

In addition, the Company has incurred resource expenditures, net of flow-through renunciations, of \$42.8 million (cumulative 2006 - \$28.3 million) which may be carried forward indefinitely and used to reduce taxable income in future years.

During the year, the Company has recognized future income tax assets. The Company has recognized future tax assets and recorded a future tax recovery of \$9.9 million relating to available loss carry forward amounts and share and debt issue costs.

In addition, the Company has recorded future income tax liabilities charges totaling \$3.5 million to mineral properties related to capitalized stock-based compensation and accretion charges.

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**9. SHARE CAPITAL**

*Authorized*

Effective June 1, 2005, the Company increased the authorized share capital to an unlimited number of common shares without par value from 40,000,000 common shares without par value.

*Issued and Outstanding*

	<i>(in thousands)</i>	
	<b>Shares</b>	<b>Amount</b>
Balance, December 31, 2005	15,576	\$ 54,752
For cash - pursuant to a prospectus offering, net (a)	8,334	64,608
For cash - exercise of stock options	235	1,467
Tax effect for flow-through shares (See note 8)	-	(3,303)
Transfer from stock options (See note 12)	-	334
Balance, December 31, 2006	24,145	\$ 117,858
For cash - pursuant to a prospectus offering, net (b)	12,755	94,985
For cash - exercise of stock options	50	335
Transfer from stock options (Note 12)	-	100
<b>Balance, December 31, 2007</b>	<b>36,950</b>	<b>\$ 213,278</b>

- a) On February 28, 2006, the Company completed a short form prospectus filing in Canada to issue, through a syndicate of underwriters, 8,334,000 units at \$9.00 per unit for gross cash proceeds of \$75.0 million (net proceeds \$70.6 million, prior to allocation of the fair value to the share purchase warrants (Note 11)). A commission of 5.25% was paid to the underwriters. Each unit consisted of one common share and one-half of a share purchase warrant. The gross proceeds have been allocated \$8.285 to each common shares and \$0.715 to each one-half of a share purchase warrant. The share purchase warrants were valued using a Black-Scholes pricing model using the following assumptions: weighted average risk free interest rate of 3.9%; volatility factor of the expected market price of the Company's common stock of 40%; and a weighted average expected life of the warrants of 2 years.
- b) On June 28, 2007, the Company completed a short form prospectus filing in Canada to issue, through a syndicate of underwriters, 10,700,000 Common Shares at \$7.50 per share and 2,055,000 Flow-Through Shares (Note 17(c)) at \$9.75 per share for gross proceeds of \$100.3 million (net proceeds after allocating transaction costs of \$95.0 million).

**10. CONVERTIBLE DEBENTURE**

	2007	2006
Subordinated convertible debentures - conversion option (Note 7)	\$ 18,403	\$ -

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**11. SHARE PURCHASE WARRANTS**

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As at December 31, 2007, the following share purchase warrants were issued and outstanding:

	<b>Number of Warrants</b>		<b>Amount</b>
	<i>(in thousands)</i>		<i>(in thousands)</i>
Balance, at December 31, 2006 (a)	4,167	\$	5,959
Issued pursuant to a prospectus, net (b) (Note 7)	23,700		35,163
<b>Balance, December 31, 2007</b>	<b>27,867</b>	<b>\$</b>	<b>41,122</b>

- a) Each whole warrant is exercisable to purchase one common share at a price of \$12.00 per share until February 28, 2008. The warrants have been listed for trading on the Toronto Stock Exchange (See Note 9 (c) for the fair value assumptions and Note 18(c)).
- b) Each whole warrant is exercisable to purchase one common share at a price of \$15.00 per share until June 28, 2017. The warrants have been listed for trading on the Toronto Stock Exchange (See Note 7 for the fair value assumptions).

**12. STOCK-BASED COMPENSATION**

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On May 4, 2005, at the Company's Annual General Meeting, the disinterested shareholders approved a change to the Company's Stock Option Plan ("Plan"). The approved change increased the number of options issuable from a fixed amount of 1,000,000 options to 10% of the outstanding capital of the Company on a reloading basis.

The reloading basis allows the number of options eligible to be issued to increase to the current 10% level of the then present outstanding capital of the Company. In addition, exercised options are also automatically reloaded into the Plan. The Plan also requires disinterested shareholders to renew their approval every three years.

In addition, the Company has issued under the 2% inducement rules available under the TSX regulations, a total of 450,000 stock options to two senior officers which are incremental to the 10% allowable issuable amount.

The options are priced at the closing price of the Company's share on the day prior to the grant date. The maximum term of all options is 10 years, however, all current outstanding stock option agreements have been issued with five year expiry terms.

As at December 31, 2007, the stock options held by directors, consultants and employees are as follows:

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	Options Outstanding <i>(in thousands)</i>		Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Balance, December 31, 2005	1,727	\$	6.04	4.5
Granted	715		10.64	4.0
Exercised	(185)		(6.69)	-
Terminated	(4)		(11.00)	-
Balance, December 31, 2006	2,253	\$	7.43	3.6
Granted	676		6.28	4.6
Exercised	(50)		6.69	-
Expired/Terminated	(467)		7.79	-
<b>Balance, December 31, 2007</b>	<b>2,412</b>	<b>\$</b>	<b>7.06</b>	<b>3.1</b>

Option Strike Price	<u>Exercisable</u>		<u>Outstanding</u>	
	Options <i>(in thousands)</i>	Weighted Average Remaining Life (Years)	Options <i>(in thousands)</i>	Weighted Average Remaining Life (Years)
\$4.60	600	1.8	600	1.8
\$4.61 to \$5.99	12	2.7	302	4.8
\$6.00 to \$6.99	528	3.0	701	3.4
\$7.00 to \$7.99	225	2.6	225	2.6
\$8.00 to \$11.00	584	3.4	584	3.4
	<b>1,949</b>	<b>2.7</b>	<b>2,412</b>	<b>3.1</b>

The compensation cost recorded for the period ended December 31, 2007 in respect of options granted in 2007 that were expensed to the Statement of Operations was \$850,236 (2006 - \$2,486,635) and capitalized to mineral properties was \$350,096 (2006 - \$665,927).

The fair value was calculated with the following assumptions: weighted average risk free interest rate of 4.45% (2006 - 3.86% to 4.42%); volatility factor of the expected market price of the Company's common stock of 41.6% (2006 - 40%); and a weighted average expected life of the options of 3.5 years (2006 - 2.5 years).

The resulting weighted average cost per option granted was \$2.23 (2006 - \$3.07). The estimated fair value of the options is expensed over the vesting period of 12 months.

The fair value of options issued has been estimated at the date of grant using a Black-Scholes option pricing model. The Black-Scholes pricing model requires the input of highly subjective assumptions that can materially affect the fair value estimate.

The exercise of the outstanding options in the loss per share calculation would be anti-dilutive.

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**13. STOCK OPTIONS**

(in thousands)

The following table identifies the changes in the stock options category within shareholders equity for the years presented:

Balance, December 31, 2005	\$	1,728
Additions:		
Charged to the Operations Statement		2,486
Capitalized to Mineral Properties		666
Transfer of exercised options to share capital		(334)
Balance, December 31, 2006	\$	4,546
Additions:		
Charged to the Operations Statement		850
Capitalized to mineral properties		351
Transfer to share capital		(100)
<b>Balance, December 31, 2007</b>	<b>\$</b>	<b>5,647</b>

**14. SUPPLEMENTARY CASH FLOW INFORMATION**

(in thousands)

a) The Company conducted non-cash investing and financing activities as follows:

	2007	2006
<b>Investing Activities</b>		
Mineral property expenditures included in amounts receivable and accounts payable	\$ (2,814)	\$ 1,878
Non-cash accretion costs included in mineral property expenditures	(8,253)	
Property and equipment expenditures included in amounts receivable and accounts payable	(3,298)	(1,109)

b) Net change in non-cash working capital:

	2007	2006
<b>Net non-cash working capital changes</b>		
Amounts receivable and interest receivable	\$ (925)	\$ (204)
Prepaid expenses	(405)	27
Accounts payable and accrued liabilities	(348)	193
	<b>(1,678)</b>	<b>16</b>

c) During 2007 the Company paid interest related to its Units and Debentures totaling \$13.4 million.

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**15. FINANCIAL INSTRUMENTS**

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The Company's financial instruments consist of cash and cash equivalents, short-term investments (See Note 3), amounts receivable, accounts payable and accrued liabilities and debt. Cash and cash equivalents are recognized at their fair value and the carrying values of all other financial instruments approximate their fair values due to the relatively short period to maturity of these instruments. The debt is a financial instrument and the fair market value of the Note debt is approximately \$191.9 million while the Debenture fair market value is approximately \$47.8 million which includes the value of the conversion option. The debt fair market values were derived from their publicly traded prices. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

**16. SEGMENTED INFORMATION**

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The Company operates in one industry segment, namely metals development in one geographic region, Canada.

**17. COMMITMENTS AND CONTINGENT LIABILITIES (NOT IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE SPECIFIED)**

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*Afton Project Commitments*

- a) The Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment necessary to commence development of the Project. These commitments totaled \$19.6 million. These commitments are expected to come due over the next 12 months.
- b) Under the terms of the Option agreements to acquire the mineral properties for the Afton Mineral Claims, the optionors retained a 10% net profit royalty which can be purchased on or before December 1, 2010 for \$2 million in cash or common shares of the Company.
- c) As per the terms of the June 28, 2007 equity financing the Company is obligated to renounce qualifying flow-through expenditures totaling \$20 million (see Note 18(a)). These qualifying expenditures can be derived from mine development expenditures and exploration incurred in 2007 plus qualifying exploration grass-roots expenditures incurred in 2008 but renounced in 2008.
- d) On October 31, 2007 the Company received the main mining permit for the New Afton project under the Mines Act (B.C.) which provides the approval to construct, operate and reclaim the New Afton Mine. The permit obligates the Company to provide a total security deposit in the amount of \$9.5 million over a five year period. The first deposit of \$3.5

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million was paid within 30 days of the receipt of the permit and the Company is obliged to fund an amount of \$1.5 million per year over the next four years.

***Other Royalties and Property Commitments***

- e) Under the terms of the Ajax - Python Claim option agreement the property is subject to a 2% net smelter royalty ("NSR"). The Company can purchase the NSR for \$100,000, payable in cash or common shares of the Company.
- f) On October 25, 2007 the Company completed the acquisition of the Teck surface rights including the payment of \$16 million plus applicable transfer taxes. As part of the transaction, Teck has been granted a 2% Net Smelter Return over the Project, which the Company has the option to repurchase at any time for \$12 million.
- g) In 2006 the Company completed two arm's length agreements with the owners (collectively, the "optionors") of two mineral claim groups, whereby for an aggregate payment to them of \$28,965 in cash, the Company acquired the exclusive right to explore the properties for one year. The exclusive exploration rights may, at the Company's option, be extended for two further one-year periods by making payments of \$50,000 to one optionor and \$43,020 to the other. Any further payments to the optionors are payable in cash or equivalent value in shares of the Company at the optionor's discretion in one case and at the discretion of the Company in the other.

The Company may, at any time during the option period, purchase the properties by paying the first optionor \$100,000 and reserving a 1.5% net smelter return royalty on the production from the property and paying the second optionor \$93,400 and reserving a 1% net smelter return royalty on the production from the property. The Company received transfer of title to both properties, which will be retransferred if the Company does not exercise the purchase option.

***Operating Leases***

- h) The Company is committed to operating leases in the aggregate of \$376,825. The future minimum lease payments as at December 31, 2007 are as follows:

	<i>(in thousands)</i>
2008	\$ 208
2009	118
2010	51
	<u>\$ 377</u>

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**18. SUBSEQUENT EVENTS**

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- a) Subsequent to December 31, 2007 the tax benefits associated with the \$20 million in flow-through share issuances were renounced to the purchasers of the shares based on approximately \$19 million of expenditures incurred in 2007 and \$1 million to be applied to look-back eligible expenditures in 2008.
- b) On January 22, 2008 the Company signed a binding letter of intent (the "Letter of Intent") which will form the basis of a formal agreement between the Kamloops Division of the Secwepemc Nation ("the Bands") and the Company (the "Participation Agreement") which provides the Bands with certain economic and social benefits and confirms the Bands' support for the New Afton Project. As contemplated by the Letter of Intent, the Company paid the Bands \$100,000 when the Letter of Intent was signed and a further \$50,000 on account of estimated legal fees to be incurred by the Bands in respect of the negotiation of the Participation Agreement and an additional \$150,000 when the Participation Agreement was signed. The Participation Agreement contemplates that the Company will pay to a socio-economic trust to be created for the benefit of Band members annual payments as follows:
- 1) 2009 - \$250,000;
  - 2) years after 2009 in which commercial production has commenced but the capital cost of developing and constructing the New Afton Project has not been repaid, an amount equal to the greater of a 0.5% Net Smelter Return ("NSR") or: (i) \$250,000 in respect of realized copper prices less than \$2.50 (US) a pound; or (ii) \$500,000 in respect of realized copper prices greater than \$2.50 (US) a pound;
  - 3) years after 2009 in which commercial production has commenced and the capital cost of developing and constructing the New Afton Project has been repaid, an amount equal to the greater of \$1,000,000 or (i) a 1.0% NSR in respect of realized copper prices less than \$2.50 (US) a pound; or (ii) a 1.5% NSR in respect of realized copper prices greater than \$2.50 (US) a pound; or (iii) a 2.0% NSR in respect of realized copper prices greater than \$3.00 (US) a pound.

The Participation Agreement also grants to the Bands a right of first refusal to purchase that portion of the Afton Surface Rights lying to the north of the Trans Canada Highway and south of Kamloops Lake in the event the Company decides to sell these lands in the future.

The definitive Participation Agreement was signed between the parties on March 20, 2008.

- c) On February 28, 2008 the 4,167,000 share purchase warrants with an exercise price of \$12 expired unexercised.

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- d) On March 17, 2008 the Pan-Canadian Investors Committee for Third-Party Structured ABCP announced it has filed an application in the Ontario Supreme Court of Justice under the Companies' Creditors Arrangement Act asking the Court to call a meeting of ABCP note holders to vote on the Committee's Plan to restructure the 20 trust covered by the Montreal Accord. The Plan was accepted by the court and a note holders meeting will be held on April 25, 2008 to vote on the Plan.
  
- e) The Company signed a letter of intent dated March 31, 2008 with Metallica Resources Inc. and Peak Gold Ltd. to complete a business combination whereby New Gold would be the surviving company. The business combination is subject to the completion of confirmatory due diligence, definitive documentation and obtaining the required regulatory approvals.

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

**19. DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND THE UNITED STATES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Material variations in the accounting principles, practices and methods are used in preparing financial statements under generally accepted practices in the United States ("U.S. GAAP"). The effects of the principal differences on the Company's financial statements under U.S. GAAP are quantified below and described in the accompanying notes:

	Year ended December 31 (in thousands)	
Statements of Operations	2007	2006
Loss for the year under Canadian GAAP	\$ (61,448)	\$ (3,504)
<b>Add/(deduct):</b>		
Issue of flow-through shares under US GAAP (b)	-	1,518
Property costs expenditures expensed under US GAAP (a)	(38,457)	(19,000)
Future income taxes (b and f)	(11,388)	(645)
Interest and accretion (a)	(11,658)	-
<b>Loss and comprehensive loss for the year under US GAAP</b>	<b>\$ (122,951)</b>	<b>\$ (21,631)</b>
Weighted average number of shares outstanding - in thousands	30,721	22,689
<b>Basic and diluted loss per share under US GAAP</b>	<b>\$ (4.00)</b>	<b>\$ (0.95)</b>
	Year ended December 31 (in thousands)	
Statements of Cash Flows	2007	2006
Cash flows from operating activities under Canadian GAAP	\$ (9,781)	\$ (1,499)
<b>Add/(deduct):</b>		
Mineral property interests and deferred exploration costs (a)	(38,972)	(20,212)
<b>Cash flows from operating activities under US GAAP</b>	<b>\$ (48,753)</b>	<b>\$ (21,711)</b>
Cash flows from investing activities under Canadian GAAP	\$ (242,948)	\$ (20,660)
<b>Add/(deduct):</b>		
Mineral property interests and deferred exploration costs (a)	38,972	20,212
<b>Cash flows from investing activities under US GAAP</b>	<b>\$ (203,976)</b>	<b>\$ (449)</b>

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

<b>Balance Sheets</b>	<b>As at December 31</b>	
	<i>(in thousands)</i>	
	<b>2007</b>	<b>2006</b>
<b>Shareholders' equity reported under Canadian GAAP</b>	\$ 207,505	\$ 118,866
Add/(Deduct):		
Mineral property interests and deferred exploration costs (a)	(103,649)	(61,440)
Capitalized interest and accretion (a)	(11,657)	-
Convertible debenture (d)	(18,403)	-
Flow-through shares (b)	(4,569)	-
Future income taxes (b)	2,368	10,004
<b>Shareholders' equity reported under US GAAP</b>	<b>71,595</b>	<b>\$ 67,430</b>
<b>Total assets reported under Canadian GAAP</b>	\$ 468,836	\$ 132,656
Add/(Deduct):		
Mineral property interests and deferred exploration costs (a)	(103,649)	(61,440)
Interest and accretion (a)	(12,457)	-
Transaction costs (e)	6,779	-
<b>Total assets reported under US GAAP</b>	<b>\$ 359,509</b>	<b>\$ 71,216</b>
<b>Total liabilities reported under Canadian GAAP</b>	\$ 261,331	\$ 13,790
Add/(Deduct):		
Flow-through shares (b)	4,569	-
Future income taxes (b and f)	(2,368)	(10,004)
Transaction costs (e)	4,571	-
Convertible debenture (d)	19,811	-
<b>Total liabilities reported under US GAAP</b>	<b>\$ 287,914</b>	<b>\$ 3,786</b>

*a) Mineral property interests and deferred exploration costs*

Under Canadian GAAP, costs to acquire property rights, including future income taxes related to shares issued to acquire mineral properties, including any related future income tax liabilities and interest and accretion costs capitalized, and related exploration costs incurred on those properties, may be deferred and subsequently carried at cost prior to a company having obtained the necessary data to complete a positive feasibility study, including the preparation of a cash flow projection in respect of the recoverability of those costs. Accordingly, while the Project has commenced initial development, under Canadian GAAP all costs incurred on it until the property is abandoned, sold, or upon management determining there to be an impairment in value are deferred. Under US GAAP, prior to the point in time that the Company can demonstrate economic viability of a property by completing a feasibility report and that the Company has the legal right to construct, operate and close a property these costs are expensed as incurred although acquisition costs can be capitalized under US GAAP. Management's assessment is that the legal and economic tests as at December 31, 2007 had not been fully met and all costs should be expensed for US GAAP purposes. For US GAAP purposes, as the capitalized

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

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amounts of development expenditures are lower than those under Canadian GAAP, consequently the Company capitalizes a significantly lower amount of interest and accretion to the balance sheet.

**b) *Flow-through shares***

Under Canadian income tax legislation, the Company is permitted to issue shares whereby the Company agrees to incur qualifying expenditures (as defined under the Canadian *Income Tax Act*) and renounce the related income tax deductions to the investors. Under Canadian GAAP, flow-through shares are accounted for as part of the issuance of capital stock at the price paid for the shares, net of any future income tax liability. Under U.S. GAAP, SFAS 109, "Accounting for Income Taxes" (SFAS109), the proceeds should be allocated between the offering of the shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the quoted price of the shares and the amount the investor pays for the flow-through shares. A liability is recognized initially for any premium paid by the investors.

Upon renouncing the income tax deductions, the Company records a future income tax liability with a corresponding reduction in share capital under Canadian GAAP. For US GAAP purposes, the difference between the future income tax liability on renunciation and the premium is recorded as a future income tax expense. For US GAAP purposes as a result of expensing costs related to mineral properties, the Company reports an income tax expense.

During December 31, 2007, the Company issued an aggregate of 2,055,000 flow-through shares at an average premium of approximately \$2.22 per share relative to the closing market prices of the Company's shares on the dates that the directors set the flow-through share issue prices. Subsequent to December 31, 2007 the Company renounced the expenditures related to these financings.

The reconciling items disclosed herein are in respect to both the recognition of the tax benefit sale under U.S. GAAP and to the reversal of the required Canadian GAAP treatment of flow-through share issuances and renunciations.

**c) *Stock-based compensation***

In 2004, the Company adopted FAS 123R which is consistent with the treatment under CDN GAAP. The Company has determined the amount of stock options forfeited is not material, therefore there are no differences on accounting for stock-based compensation under Canadian and US GAAP.

**d) *Convertible debenture***

In June 2007, the Company issued convertible debentures in the aggregate principal amount of \$55 million. Under CDN GAAP, the convertible debentures were bifurcated into a principal and an option component for accounting purposes in accordance with CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation* ("Section

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

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3861"). The principal component was recorded as debt with a portion, representing the estimated fair value of the conversion option feature at the date of issue, being allocated to equity. In addition, under Canadian GAAP a non-cash interest expense representing the effective yield of the debt component is recorded with a corresponding credit to the convertible debenture liability balance to accrete the balance to the principal due on maturity. Under U.S. GAAP, the convertible debentures, in their entirety, are classified as debt. The non-cash interest expense recorded under Canadian GAAP would not be recorded under U.S. GAAP.

*e) Deferred financing costs*

Under CDN GAAP the Company records the value of the debt component of the Notes and Debentures net of transaction costs. Under US GAAP, in accordance with APB 21 and EITF 95-13, the transactions costs are to be shown separately as an asset on the balance sheet.

*f) Recognition of loss carry-forwards*

Under Canadian GAAP and as a result of the Company receiving its primary mining permit to operate and reclaim the Afton mine on October 31, 2007, the Company has recognized future income tax assets and recorded a future tax recovery of \$9.9 million relating to available loss carry forward amounts and share and debt issue costs. As there is no Future Income Tax liability for US GAAP as all mineral properties costs and related costs as described in item a) have been expensed, there would be no future income tax recovery under US GAAP.

*g) New accounting pronouncements*

**Canadian GAAP**

***Capital disclosures and financial instruments – disclosures and presentation***

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures", and Handbook Section 3863, "Financial Instruments – Presentation". These standards are effective for interim and annual financial statements for the Company's reporting period beginning on December 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

(In thousands of Canadian dollars)

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increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

***Inventories***

In March 2007, the CICA issued the new Handbook Section 3031, "Inventories", which will replace Section 3030, "Inventories". This new Section mentions that inventories shall be measured at the lower of cost and the net realizable value. It provides guidelines on determining cost, prohibiting on a prospective basis the use of the last in, first out method (LIFO), and requires the reversal of a previous write-down when the value of inventories increases. The new standard will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently evaluating the impact of this new standard on the Company's results, financial position and cash flows.

***General standards on financial statement presentation***

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company disclosed in these financial statements in Note 1 its assessment as to whether the Company is a going concern or not.

***Goodwill and Intangible Assets***

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and startup costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its financial statements. Adoption of this standard will result in the withdrawal of EIC 27.

**US GAAP**

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Tax Positions, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 addresses the recognition and measurement of all tax positions. The recognition process involves determining whether it is more likely than not that a tax position would be sustained on audit based solely on its technical merits. The amount of benefit recognized in the financial statements is the maximum amount which is more likely than not to be

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2007 and 2006**

*(In thousands of Canadian dollars)*

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realized based on a cumulative probability approach. FIN 48 was effective from January 1, 2007. The adoption of this standard did not have a material impact on the financial statements.

In September 2006, the FASB issued FAS Statement No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 provides guidance on how to use fair values to measure assets and liabilities and applies whenever other standards require or permit assets or liabilities to be measured at fair value. Expanded disclosures about the use of fair value to measure assets and liabilities are also required. FAS 157 is effective for the Company on January 1, 2008 and is applied on a prospective basis. The Company is currently assessing the impact of FAS 157 on its financial statements.

In September 2006, the FASB issued FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities". The FSP permits companies to account for planned major maintenance activities using either the direct expensing method, the built-in overhaul method or the deferral method. The FSP will be effective for the Company January 1, 2008 and is to be adopted on a retrospective basis. The Company is currently assessing the alternative accounting treatments available under the FSP.

In February 2007, the FASB issued FAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement applies to all entities, including not-for-profit organizations. Most of the provisions of this Statement apply only to entities that elect the fair value option. FAS No. 159 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, and is applicable beginning in the Company's first quarter ended March 31, 2008. The Company is currently evaluating the impact that FAS 159 will have on its financial statements.

**SCHEDULES OF MINERAL PROPERTIES**

For the years ended December 31, 2007 and 2006

(In thousands of Canadian Dollars)

	2007		2006	
<b>ACQUISITION COSTS</b>				
Kamloops Afton		\$ 18,841	\$	18,841
Kamloops Ajax		49		49
		\$ 18,890	\$	18,890
<b>DEFERRED EXPLORATION COSTS</b>				
	<b>Afton</b>	<b>Ajax and Optioned Properties</b>		
<b>Balance, beginning</b>	\$ 41,861	\$ 689	\$ 42,550	\$ 23,551
<b>Afton mine development costs</b>				
Consultants and subcontractors	17,307	-	17,307	-
Other	13,742	-	13,742	10
	31,049	-	31,049	10
<b>Feasibility study</b>	1,456	-	1,456	7,859
<b>Capitalized interest, accretion and future income taxes</b>	16,575	-	16,575	-
<b>Surface Exploration Costs</b>				
Option payment	-	40	40	29
Drilling and assaying	4,044	1,033	5,077	2,817
Overhead and general	410	179	589	(226)
Wages and benefits	643	55	698	382
	5,097	1,307	6,404	3,002
<b>Underground exploration costs</b>				
Drilling and assaying	-	-	-	5,746
Overhead and general	-	-	-	634
Wages and benefits	-	-	-	1,748
	-	-	-	8,128
<b>Balance, end</b>	\$ 96,038	\$ 1,996	\$ 98,034	\$ 42,550
<b>Mineral Properties</b>			\$ 116,924	\$ 61,440

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2007**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION**  
**AT DECEMBER 31, 2007**

*This Management Discussion and Analysis ("MD&A") is intended to supplement the Company's audited financial statements and notes thereto for the year ended December 31, 2007 (the "Statements") and compares the financial results with those of the comparative year. The reader is encouraged to review the Statements in conjunction with this document. This report is dated March 31, 2008 and the Company's public filings, including its most recent Annual Information Form, can be viewed on the SEDAR website ([www.sedar.com](http://www.sedar.com)).*

*The Company prepares and files its financial statements and MD&A in Canadian ("CDN") dollars and in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Note 19 to the annual audited financial statements for the year ended December 31, 2007 describes the difference between GAAP and United States Generally Accepted Accounting Principles ("USGAAP") and reconciles certain items contained in the Statements. All amounts presented in this MD&A are in Canadian dollars and tabular dollar amounts are in thousands unless otherwise indicated.*

**BUSINESS OVERVIEW**

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New Gold Inc. ("New Gold" or the "Company") is a Canadian based resource company engaged in the exploration and development of base and precious metals properties. The current principle area of focus is the New Afton Copper Gold project (the "Project") located approximately 10 kilometres west of Kamloops, British Columbia.

*Corporate*

On June 28, 2007, the Company completed an offering (the "Offering") and subsequent agent's over allotment option on July 27, 2007, pursuant to which the following securities were issued:

- 237,000 Series D units at a price of \$1,000 per unit;
- 55,000 5% subordinated convertible debentures at a price of \$1,000 per debenture;
- 2,055,000 flow-through shares at \$9.75 per share; and
- 10,700,000 at \$7.50 per common shares

The total financing generated gross cash proceeds of \$392.3 million (net proceeds \$374.5 million).

*Asset-backed Commercial Paper ("ABCP") and measurement uncertainty*

As at December 31, 2007 the Company had \$170 million invested in collateralized short term debt obligations (rated R1 high by Dominion Bond Rating Service), issued by limited purpose trusts sponsored and managed by non-bank entities. These obligations, commonly known as "Asset Backed Commercial Paper" ("ABCP"), typically had terms of less than 365 days and

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2007**

repayment of a maturing ABCP was dependent on the cash generated by the trusts' underlying assets and the ability of the trusts to issue new ABCP. In mid August 2007 a number of sponsors of non-bank managed ABCP, including those with which the Company had invested, announced that they could not place ABCP due to unfavourable conditions in the Canadian capital markets.

As a result, the non-bank ABCP market remains the subject of an agreement signed on August 16, 2007 amongst a number of affected parties. This agreement, referred to as the "Montreal Accord", contemplates a restructuring of ABCP on or before March 31, 2008 with the expressed intention of re-introducing the majority of the investments into a pool of long term floating rate senior and subordinate notes with the senior notes having a credit rating attached to them. The traditional asset pools and ineligible assets will have tracking notes associated with them. It is still uncertain how much of a market will be created as a result of the restructuring. While the Company is not a signatory to the Montreal Accord, it is directly and through counsel monitoring the activities of a committee formed to implement the restructuring and is expected to be required to sign once the restructuring is implemented. However, the final terms of reference for the restructuring, while well advanced as detailed in a press release dated December 23, 2007 (the "December Press Release"), have not been made the subject of a definitive proposal and there is no certainty of a positive outcome.

As a result, there is presently no active market for the ABCP held by the Company and the funds cannot be accessed until such time as the restructuring contemplated by the Montreal Accord has been completed. The Company is unable to definitively determine when or if an appropriate resolution may occur, however, it believes that it is reasonable to anticipate that it will occur by the second quarter of 2008.

The Company has re-classified its holdings in ABCP from short-term investments to long-term assets and categorized such holdings as follows:

<b>Restructuring groupings</b>	<b>Total</b>	<b>Traditional assets</b>	<b>Synthetic assets</b>	<b>Ineligible assets</b>
<b>Trusts held - Series A</b>		\$ millions		
Aria	11.3	-	10.1	1.2
Aurora	22.8	-	22.8	-
Rocket	55.6	-	48.3	7.3
Gemini	9.5	9.5	-	-
SAT	6.9	-	6.9	-
SIT III	64.1	-	64.1	-
<b>Total investment</b>	<b>170.2</b>	<b>9.5</b>	<b>152.2</b>	<b>8.5</b>
<b>Estimated fair value <sup>*/**</sup></b>	<b>120.1</b>	<b>8.3</b>	<b>106.2</b>	<b>5.6</b>

\* - see the valuation methodology and valuation ranges below

\*\* - the range of fair values estimated by the Company varied between \$105.4 million and \$134.7 million

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2007**

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Based upon the December Press Release, the Company expects to receive floating rate notes ("FRNs") for the ABCP supported by synthetic assets and tracking notes for the ABCP supported by traditional and ineligible assets.

Management has estimated the fair value impairment on ABCP held as prescribed by CICA Section 3855 by using a probability weighted cash flow approach. Management has used the following methodology and made the following assumptions in its determination of the likely terms and characteristics of the FRNs:

- a) Modeled the FRNs and tracking notes (collectively, "the Restructured Notes") based upon the December Press Release as this remains the most objective and supportable assumption to use.
- b) Assumed that:
  - (i) the Company will receive the average of the group for senior and junior notes from the pool of synthetic assets;
  - (ii) the maturity date of the FRNs and the ineligible asset tracking notes will have an average life of 7 years from April 14, 2008 and the margin facility providers (applicable only to the synthetic pooled assets) will charge 160 basis points ("bps") to provide the facility. The traditional asset tracking notes are estimated to have a 5 year life ; and
  - (iii) the underlying assets will generate returns above the collateral invested between 0.5% and 0.8% and that prospective purchasers will require yields between 6% and 15%, depending on the type of trust held, to purchase the FRNs.

As a result of these assumptions, the Company estimated that the Restructured Notes will generate returns in a range of between 3.74% and 4.90% and using the prospective buyers estimated yield to determine a range of recoverable values, present valued the FRNs and tracking notes.

No estimate of the restructuring costs, which have been stated as being immaterial by the Committee, nor interest income since August 13, 2007 has been included in the fair value assessment due to a lack of information.

Based upon a sensitivity analysis the assumptions which have the most significant impact on the valuation estimate includes: the expected yield required by a potential investor, the maturity of the FRNs (currently assumed at 7 years), the cost of the margin facility (currently assumed at 160 bps over the life of the trusts) and whether the restructuring is successful or not.

The resulting cash flows have then been discounted to December 31, 2007 based on the expected maturity of the FRNs. This analysis presumes a successful restructuring essentially on the terms described in the December Press Release and has been calculated without the benefit of full disclosure, review and analysis of the underlying assets of each of the trusts held by the

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2007**

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Company as this information has not been provided by each trust. While management believes that it has utilized an appropriate methodology to estimate fair value, given the number of uncertainties there can be no assurance that this estimate of fair value is accurate.

Based on this fair value estimation the Company has recorded an impairment charge in the amount of \$50.1 million in the current year which is the mid-point between the best and worst case results of the analysis described above which management believes is the most appropriate indication of the fair value. There can be no assurance that this estimate will be realized or that it will be adequate. Subsequent adjustments, which could be material, may be required in future reporting periods. In addition, the Company has not accrued any interest due from these investments pending further information from the restructuring committee.

Management will continue to seek all avenues to recover the maximum value from the original investments and interest due.

The Company has also amended its previous investment policy to further restrict the list of permitted investments while removing asset-backed securities as an allowable investment. Under the revised investment policy, the Company must invest the majority of its funds in short-term debt issued by the Government of Canada or the Provinces of British Columbia, Alberta or Ontario. The remainder must be held in Bankers' Acceptances, Bank Bearer Deposit Notes or Bank Term Deposits, issued by Authorized Canadian Banks, or in cash on deposit with any of these same banks.

The investment in ABCP and resulting impairment charge and re-classification from current asset to long-term asset does not have any implications on the debt covenants under the Company's current debt indentures. However, as discussed in the Liquidity and Outlook sections of this MD&A, it may have implications on the Company's ability to continue as a going concern when considered with other factors.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2007**

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*New Afton Copper-Gold Project*

During 2007 the Company commenced development activities on the Project, including the engagement of the underground contractor who initially commenced the expansion of the existing two kilometer exploration decline, enlarging it to accommodate the equipment necessary to facilitate the mine development. Following this, development has now expanded to five development faces including commencement of the surface portal which began shortly after December 31, 2007. Previous to this, long lead time mill components were ordered as well as the mine development fleet necessary to conduct the underground development. Initial deliveries of the mobile fleet occurred during the third quarter and fourth quarters of 2007 and the majority of all the deliveries have been received by February 2008.

On July 5, 2007 the Company announced that it had appointed AMEC Americas Limited ("AMEC") based in Vancouver, British Columbia as the Engineering and Procurement contractor for the design of the mill and related surface facilities. AMEC has commenced the detailed engineering phase of the project as well as the procurement of the surface facility components. Subsequently, AMEC's mandate was expanded to include Construction Management. The Company has also now finalized an agreement with the contractor who will complete the surface works construction. As a part of its mandate as the EPCM contractor, AMEC Americas is undertaking a further review of the capital costs of the project. Costs of building mining projects world-wide have been increasing as a result of higher labour and material costs. As a result of a comprehensive review completed subsequent to December 31, 2007 and overseen by AMEC, and including input from the other consultants and contractors involved in the Project, the Project costs are now projected to total \$592 million (which includes a contingency of \$48.6 million), 19.6% over the projected costs contained in the Feasibility Study. The Company is presently completing its review of the financial and operational consequences of reducing the ramp up period to less than 12 months from the presently disclosed 27 months and any corresponding effect on funding requirements.

On October 25, 2007 the Company completed the acquisition of the property surface rights including the payment of \$16 million plus applicable transfer taxes. As part of the transaction, the seller was granted a 2% Net Smelter Return over the Project which the Company has the option to repurchase at any time for \$12 million.

On October 31, 2007 the Company received from the Ministry of Energy, Mines and Petroleum Resources (British Columbia) a permit issued pursuant to Section 10 of the Mines Act approving the work system and reclamation program in respect of the Project. The Company now requires the water and tailings disposal permits, necessary to commence production of the mine. The Project will have a water source for the start-up of the mine as a result of the de-watering of the New Afton pit into an adjacent pit for storage and use during the start-up of the mill.

The Company has also continued to explore at and around the existing resource through a surface drilling campaign which targeted the deep extension of the project; however, these holes are costly and difficult to complete and for the time being have been curtailed. Once the

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2007**

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underground development has sufficiently progressed the Company will be able to drill these deep targets from underground at a much lower cost.

*Annual Summary*

The annual tabular results of operations are summarized in the following tables which have been prepared in accordance with Canadian GAAP and extracted from the Company's audited financial statements:

	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
Loss	\$ 61,448	\$ 3,504
Loss per share – basic and diluted	\$2.00	\$0.15
Total assets	468,836	132,656
Cash investments in exploration and development	39,276	20,211
Cash flows from financing activities	374,851	72,304

**RESULTS OF OPERATIONS**

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*New Afton*

The Company's operating activities for the preceding two fiscal years ended December 31, 2007, have evolved from an exploration based focus in prior years towards the current development focus which commenced in the latter portion of 2006 and continued throughout 2007. The level of spending activity has correspondingly increased in 2007 as a result of the commencement in 2007 of the new mine underground development. In 2006, the primary project spending was focused on the feasibility study required to define the potential of an economic deposit and these results were issued in April 2007.

As a result of these activities, the Company expended \$39.3 million, including capitalized financing costs, on the Project and its Ajax property in 2007 as compared to \$20.2 million on the Project in 2006. In 2007 the primary expenditures related to \$25.7 million on the underground development related to the expansion of the existing 2 kilometer decline and commencement of new development faces, \$5.0 million on interest capitalized and paid in 2007, \$3.0 million in payments to complete the feasibility study, \$4.5 million on surface exploration in and around the New Afton deposit and \$0.8 million on exploration at the Company's Ajax property and optioned properties. In 2006, the Company spent \$6.3 million on the feasibility study, \$6.1 million on underground exploration, including support services for the underground exploration and \$2.3 million for tunneling costs, expended in 2005 but paid in 2006.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2007**

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In addition, the Company spent \$30.0 million on property, plant and equipment in 2007 as compared to only \$0.4 million in the comparative year. The significant increase relates to the receipt of the initial portion of the mine development fleet (\$11.2 million) and installment payments made on long lead mill equipment orders (\$1.6 million). Additionally, the Company completed the acquisition of the surface rights for the Project in the fourth quarter of 2007 by paying \$16.3 million to secure these rights.

*Corporate*

The Company incurred a loss of \$61.4 million or \$2.00 per share in 2007 as compared to a loss of \$3.5 million or \$0.15 per share in 2006.

As discussed above, the Company incurred an impairment charge on its investments in non-bank sponsored ABCP investments totaling \$50.1 million during the current year which forms the major variance year over year.

The Company has also expensed \$22.1 million related to interest and accretion charges which do not qualify for capitalizing to the project costs. The Company allocates the interest and accretion charges arising as a result of the Note and Debenture debt financings between mineral properties and the Statement of Operations based upon the weighted average effective interest rate of the borrowings times the average capitalized value of the Project during the period. The accretion charges component of these costs, which are non-cash in nature, totaled \$13.7 million in 2007 and are high due to the short accretion period used in the debt accounting due to the June 2008 permit test which were expensed as a period cost.

Wages, benefits and stock-based compensation costs related to corporate staffing have decreased to \$2.7 million in 2007 as compared to \$4.4 million in 2006 mainly as a result of lower stock-based compensation charges which mirror the vesting period of the options issued.

Professional and regulatory fees have increased in 2007 to \$2.9 million as compared to \$0.9 million in 2006 due to amending the Company's bank advisory agreement and incurring project financing related costs totaling \$1.4 million and which was subsequently stopped, incurring consulting fees to advise the Company on its initial year of full Sarbanes-Oxley compliance and higher legal fees in part due to the Company's investigation into the ABCP restructuring.

As a result of the Company receiving its primary permit to operate and reclaim the New Afton mine on October 31, 2007, the Company has commenced recognizing its previously unrecognized future income tax assets. The Company has recognized future tax assets and recorded a future tax recovery of \$9.9 million in 2007 relating to available loss carry forward amounts and share and debt issue costs that have been incurred in 2007 and in prior periods. The balance has been set-off against the Company's future tax liabilities, resulting in a net future tax liability of \$2.4 million at December 31, 2007.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**SELECTED QUARTERLY INFORMATION**

The results of operations summarized in the following tables have been prepared in accordance with Canadian GAAP:

*Comparative Periods*

<i>\$Cdn</i>	2007 4 <sup>th</sup> Quarter	2007 3 <sup>rd</sup> Quarter	2007 2 <sup>nd</sup> Quarter	2007 1 <sup>st</sup> Quarter
<b>Statements of Operation and Deficit</b>				
Loss	\$ 42,576	\$ 16,448	\$ 1,962	\$ 462
Loss per share	1.15	0.45	0.08	0.02
<b>Balance Sheets</b>				
Working Capital	(29,600)	183,513	228,066	56,783
Total Assets	468,835	502,636	489,143	133,238
<b>Statements of Cash Flows</b>				
Payments for mineral properties exploration costs	20,406	5,957	7,046	5,867
<i>\$Cdn</i>	2006 4 <sup>th</sup> Quarter	2006 3 <sup>rd</sup> Quarter	2006 2 <sup>nd</sup> Quarter	2006 1 <sup>st</sup> Quarter
<b>Statements of Operation and Deficit</b>				
Loss	\$ 1,375	\$ 750	\$ 60	\$ 1,318
Loss per share	0.06	0.03	0.00	0.07
<b>Balance Sheets</b>				
Working Capital	65,471	71,442	76,460	80,308
Total Assets	132,656	131,040	130,531	130,223
<b>Statements of Cash Flows</b>				
Payments for mineral claim interest and exploration costs	5,449	4,544	5,442	4,776

During the fourth quarter of 2007, the Company invested approximately \$20.4 million on its mineral properties as compared to \$5.5 million in the comparative quarter in 2006. During the current quarter, expenditures on the New Afton project included \$13.3 million on underground development and infrastructure, \$5.0 million on interest payments which were capitalized to the project costs, \$1.3 million on surface exploration in around the New Afton project and \$0.8 million on the Company's Ajax claims. In the comparative quarter, the Company spent \$1.0

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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million on underground exploration and support, \$2.3 million on the feasibility study and \$1.7 million on the surface exploration programs primarily related to the New Afton deep targets.

In addition, the Company spent \$23.5 million on property, plant and equipment in the fourth quarter as compared to \$0.1 million in the comparative quarter in 2006. The significant increase relates to the acquisition of the mine development fleet, installment payments made on long lead mill equipment orders plus sundry capital assets required for the development of the New Afton Mine which totaled \$7.3 million. Additionally, the Company completed the acquisition of the surface rights for the project in the fourth quarter of 2007 and paid \$16.3 million to secure these rights.

For the fourth quarter, the Company incurred a loss of \$42.6 million or \$1.15 per share as compared to a loss of \$1.4 million or \$0.06 per share in the prior comparative three month period. The increase in the loss is primarily related to:

- The Company incurred an additional impairment charge on its investments in non-bank sponsored ABCP investments which totaled \$32.9 million in the current quarter.
- The Company has expensed \$10.8 million related to interest and accretion charges which do not qualify for capitalizing to the Project costs. The Company allocates the interest and accretion charges arising as a result of the Note and Debenture debt financings between mineral properties and the Statement of Operations based upon the weighted average effective interest rate of the borrowings times the average capitalized value of the Project during the period. The accretion charge on a quarterly basis will reduce in future periods once the obligation of the Company to offer to redeem the Note prior to maturity is met; therefore the Company has been accreting the debt over a 12 month period to its face value. The Company expects to be changing the accretion period to the expected life of the debt in June 2008, not as previously reported in the third quarter MD&A, once the remaining permits are received. In addition, as the carrying value of the New Afton property increases the proportionate amount of interest and accretion charged to mineral properties as compared to operations will increase.

The loss was partially offset by an increase of \$1.4 million in higher interest income from the net proceeds from the June and July 2007 financings excluding those investments tied up in the ABCP restructuring for which no interest has been accrued pending clarification from the Committee. In addition, wages, benefits and stock-based compensation costs were lower in the current quarter than in the comparative quarter due primarily to lower stock-based compensation charges.

***Previous Eight Quarters***

Over the eight preceding quarters, the following significant events have occurred which has impacted the trends over that period:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### December 31, 2007

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- **Financings** - On June 28, 2007 and subsequent agent's over allotment option on July 27, 2007, the Company completed a short form prospectus filing generating gross cash proceeds of \$392.3 million (net proceeds \$374.5 million) (see Liquidity and Capital Resources). In February 2006 the Company raised \$75 million from the issuance of units comprised of one share with a half warrant. In addition, the Company raised approximately \$3 million in flow through financing during the fourth quarter of 2005.

As a result total assets and working capital, until the fourth quarter of 2007, has increased significantly since the second quarter of 2007. Once the Company receives its remaining permits, working capital will improve further as the Note debt will be re-classified from a current to long-term liability.

- The Company commenced a Feasibility Study in December 2005 (the results of which were published in the second quarter 2007) at a total cost of \$9.3 million over the preceding six quarters.
- The Company has recognized an impairment charge against its ABCP investments in the third quarter of 2007 in the amount of \$17.2 million and an additional \$32.8 million in the fourth quarter of 2007, as management's best estimate of the likely loss that may be realized on the resolution of the ABCP restructuring.
- The Company also expensed \$11.4 million in the third quarter of 2007 and \$10.7 million in the fourth quarter of 2007 related to interest and accretion charges based on its interest capitalization policy.
- The Company has recorded a tax recovery of \$10.6 million at September 30, 2007 related to available loss carry forward amounts and share and debt issue costs as discussed in the third quarter comparative.

## LIQUIDITY & CAPITAL RESOURCES

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As at December 31, 2007, the Company had negative working capital of \$29.6 million versus positive working capital of \$65.5 million as at December 31, 2006. The primary reason for this change relates to accounting for the Notes as current debt and categorizing the illiquid ABCP investments as long-term assets. Once the Company meets its permit test on the debt the Company expects to return to a positive working capital position.

On June 28, 2007, the Company completed an offering (the "Offering") and a subsequent agent's over allotment option on July 27, 2007 for 17,000 additional Series D Units, through a syndicate of underwriters, pursuant to which the following securities were issued:

- 237,000 Series D units at a price of \$1,000 per unit;
- 55,000 5% subordinated convertible debentures at a price of \$1,000 per debenture;
- 2,055,000 flow-through shares at \$9.75 per share; and
- 10,700,000 at \$7.50 per common shares

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The total financing generated gross cash proceeds of \$392.3 million (net proceeds \$374.5 million).

*Series D units*

The Company has issued in total 237,000 Series D units ("Units") for an aggregate principal amount of \$237 million which includes the issuance of 17,000 additional Units issued as part of the over-allotment option granted to the agents and exercised on July 27, 2007. The Units, which were issued pursuant to a Note Indenture dated June 28, 2007 (the "Note Indenture"), consist of an unsecured note bearing interest at 10% per annum in the principal amount of \$1,000 (the "Note") and 100 common share purchase warrants (the "Warrants"). Each Warrant is exercisable to purchase one common share of the Company at a price of \$15 per share until June 28, 2017. The Notes and Warrants detached on their listing on the Toronto Stock Exchange.

The Company has allocated the net proceeds, after deducting \$10.1 million in transaction costs, of the Series D units as follows: \$191.7 million to the Notes based on the fair value of a similar debt instrument without associated common share purchase warrants; and \$35.2 million to the Warrants using the residual value method. The value of the Notes will be accreted to its face value over the expected term of the debt using the effective interest method. During the year ending December 31, 2007 accretion costs of \$21.0 million were added to the Series D units debt amount balance.

The Notes mature and become due and payable on June 28, 2017 and bear interest at the rate of 10% per annum. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year, starting January 1, 2008. The Company has the right to redeem the Notes in whole or in part at any time and from time to time from June 28, 2007 to June 27, 2017 at a price ranging from 120% to 100% (decreasing based on the length of time the Notes are outstanding) of the principal amount of the Notes to be redeemed.

The Note Indenture provides that in the event of a change of control of the Company or in the ownership of the Project, as defined therein, the Company may or must offer, depending on the circumstances, to redeem the Notes.

In addition, if the Company has not obtained all the necessary permits for construction, development and conducting mining operations before June 28, 2008 it must offer to redeem the Notes then outstanding at 100% of the principal amount of \$237 million plus accrued and unpaid interest. While the principal permit was received on October 31, 2007, the Company continues to classify the Notes as a current liability pending the receipt of any subsequent material permits.

The Notes rank senior to the Debentures described below. If the Company secures any subsequent indebtedness, the Notes are required to be secured in the same manner. The Note Indenture subjects the Company to comply with certain reporting and other covenants that include limits on indebtedness and distributions subject to certain conditions.

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*Subordinated Convertible Debentures*

The Company issued 55,000 Convertible Subordinated Debentures ("Debentures") for an aggregate principal amount of \$55 million. The Debentures, which were issued pursuant to a Debenture Indenture dated June 28, 2007 (the "Debenture Indenture"), each have a principal amount of \$1,000, bear interest at a rate of 5% per annum and are convertible by the holders into common shares of the Company at any time up to June 28, 2014 at a conversion price of \$9.35 per share. The Debentures do not allow forced conversion by the Company prior to January 1, 2012 but after that date the Company may redeem the Debentures if the market price of the Company's shares is at least 125% of the conversion price. The Debentures are classified as compound financial instruments for accounting purposes because of the holder conversion option.

Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year, starting January 1, 2008.

The Debenture Indenture provides that in the event of a change of control of the Company, as defined therein, where 10% or more of the aggregate purchase consideration is cash, the Company must offer to either (i) redeem the outstanding Debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest up to but excluding the date of redemption, or (ii) convert the outstanding Debentures into common shares at a conversion price ranging from \$7.48 to \$9.35, based on a time formula specified in the Debenture Indenture.

The Debentures are subordinate to the Notes and any secured indebtedness incurred subsequent to the issue of the Debentures.

The Company has allocated the \$52.6 million net proceeds, after deducting \$2.4 million in transaction costs, to the Debentures totalling \$34.2 million as a liability based on the fair value of a similar debt instrument without an associated conversion option. The fair value of the conversion option of the Debentures was estimated using the residual value method at approximately \$18.4 million.

The debt component of the Debentures is being accreted over the expected term to maturity using the effective interest method. During the year accretion costs of \$0.9 million were added to the convertible debt balance.

The Debenture Indenture requires the Company to comply with certain reporting and other covenants.

The Company has allocated the costs associated with the financing against the component parts of the instruments issued, being the Notes, Warrants, Debentures and the fair value of the conversion option of the Debentures.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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As a result of the Notes and Debentures debt financings the Company has incurred interest charges of \$13.4 million and recognized \$22.0 million in accretion costs for the year. These amounts were charged between the Statement of Operations and mineral properties in accordance with the Company's accounting policy as follows:

	<i>(in millions)</i>		
	<b>Accretion</b>	<b>Interest</b>	<b>Total</b>
Statement of Operations	13.7	8.4	22.1
Mineral Properties	8.3	5.0	13.3
	<b>22.0</b>	<b>13.4</b>	<b>35.4</b>

In the 2007 Prospectus related to the equity and debt financing, the Company stated that the use of proceeds from the financing would be used for the development of the Company's New Afton project in accordance with the recommendations contained in the Company's National Instrument 43-101 Technical Report. To December 31, 2007, the Company had expended approximately \$30 million on property, plant and equipment and \$26 million on direct project development, the bulk of which was incurred subsequent to the financing.

As at December 31, 2007, the Company has negative working capital of \$29.6 million. The negative working capital position is primarily due to the classification of the Company's Notes as a current liability because of a provision in the Note Indenture which requires the Company to obtain all material permits related to its New Afton project on or before June 27, 2008 (See Note 7 to the financial statements). Should these permits not be obtained or the Company is unable to negotiate a waiver, the Company is obligated to offer to redeem the Notes at par value (\$237 million). The negative working capital position is also due to the classification of the Company's investments in non-bank sponsored asset backed commercial paper ("ABCP") as non-current assets. The Company has \$170 million in investments subject to the ABCP restructuring in Canada (See Note 3 to the financial statements). The financial impact of these two situations creates substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon obtaining the remaining permits for its New Afton project, resolving the liquidity situation surrounding its ABCP investments or obtaining the necessary financing to fund its debt obligations over the next year.

In recognition of these circumstances, and following the receipt of the major principal mine permit in October 2007, the Company is actively pursuing the remaining permits required to satisfy the debt requirements. The Company's ability to continue as a going concern is also dependent on the successful resolution of the ABCP restructuring which will provide a market to enable the Company to realize some of its ABCP investments, as well as its ability to renegotiate its obligations in terms of the Note Indenture should they fall due. The Company's continuing operations are also dependent on the raising of additional financing to finance the remainder of the Project construction. The amount and timing of these raisings may be materially impacted by the resolution of the Company's investments in ABCP. There can be no assurance it will be able to raise sufficient funds as and when such funds are required. There

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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can furthermore be no assurance that the Company will obtain the necessary permits or resolve its ABCP issues or obtain the necessary funding to continue with its Project construction.

**NEW ACCOUNTING POLICIES**

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During 2007 the Company adopted the following accounting policies:

*Financial Instruments*

Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost or amortized cost. Adoption of this policy had no material impact.

*Comprehensive Income*

Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in the Statement of Operations such as unrealized gains or losses on available-for-sale investments.

*Interest Capitalization*

Interest expense allocable to the qualifying cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use. Interest will be allocated between expensing it to the Statement of Operations and capitalizing it to mineral properties by applying the weighted average effective interest rate of the Company's debt to the average deferred New Afton mine costs applicable for the year.

*Transaction Costs*

The Company records financial assets and liabilities net of transaction costs. Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are netted against the financial asset or financial liability on initial recognition and amortized using the effective interest method over the life of the related debt instrument.

**CRITICAL ACCOUNTING ESTIMATES**

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Mineral Properties

The Company records its interests in mineral properties at cost. Exploration expenditures relating to properties that have resources or significant mineralization requiring additional exploration are deferred and will be amortized against future production following commencement of commercial production, or written off if the properties are impaired, sold, allowed to lapse, or abandoned.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. Where estimates of future net cash flows are available and the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value which is normally the discounted value of future cash flows. Where estimates of future net cash flows are not available, management assesses whether the carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired it is written down to its estimated fair value.

Management's estimates of mineral prices, mineral resources, operating costs, capital costs and reclamation costs are subject to certain risks and uncertainties that may affect the determination of the recoverability of deferred mineral property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the cash flows to be generated from its properties.

Income and Resource Taxes

The Company recognizes and measures, as assets and liabilities, income and resource taxes currently payable or recoverable as well as future taxes which would arise from the realization of assets or the settlement of liabilities at their carrying amounts to the extent that these differ from their tax bases. Future income tax ("FITs") assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled. A valuation allowance may be recognized to the extent the recoverability of FIT assets is not likely.

The Company commenced recording future tax assets to offset its FIT liabilities in the third quarter of 2007.

Stock-based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. The fair value of stock options is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility and an expected life of the options. Forfeitures are recorded based on actual occurrences.

The Black-Scholes pricing model requires the input of highly subjective assumptions that can materially affect the fair value estimate.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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Compound Financial Instruments

The Company has allocated the initial net proceeds of the Series D units and the debenture based on the fair value of a similar debt instrument without associated common share purchase warrants or convertible feature.

Asset-backed Commercial Paper ("ABCP") and Measurement Uncertainty

For the assumptions used in the valuation of the Company's ABCP see "*Asset-backed Commercial Paper ("ABCP") and measurement uncertainty*".

**COMMITMENTS AND CONTINGENT LIABILITIES**

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*Afton Project Commitments*

- a) The Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment necessary to commence development of the Project. These commitments totaled \$19.6 million. These commitments are expected to come due over the next 12 months.
- b) Under the terms of the Option agreements to acquire the mineral properties for the Afton Mineral Claims, the optionors retained a 10% net profit royalty which can be purchased on or before December 1, 2010 for \$2 million in cash or common shares of the Company.
- c) As per the terms of the June 28, 2007 equity financing the Company is obligated to renounce qualifying flow-through expenditures totaling \$20 million (see Note 18(a) of the financial statements). These qualifying expenditures can be derived from mine development expenditures and exploration incurred in 2007 plus qualifying exploration grass-roots expenditures incurred in 2008 but renounced in 2007.
- d) On October 31, 2007 the Company received the main mining permit for the New Afton project under the Mines Act (B.C.) which provides the approval to construct, operate and reclaim the New Afton Mine. The permit obligates the Company to provide a total security deposit in the amount of \$9.5 million over a five year period. The first deposit of \$3.5 million was paid within 30 days of the receipt of the permit and the Company is obliged to fund an amount of \$1.5 million per year over the next four years.

*Other Royalties and Property Commitments*

- e) Under the terms of the Ajax - Python Claim option agreement the property is subject to a 2% net smelter royalty ("NSR"). The Company can purchase the NSR for \$100,000, payable in cash or common shares of the Company.
- f) On October 25, 2007 the Company completed the acquisition of the Teck surface rights including the payment of \$16 million plus applicable transfer taxes. As part of the

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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transaction, Teck has been granted a 2% Net Smelter Return over the Project, which the Company has the option to repurchase at any time for \$12 million.

- g) In 2006 the Company completed two arm's length agreements with the owners (collectively, the "optionors") of two mineral claim groups, whereby for an aggregate payment to them of \$28,965 in cash, the Company acquired the exclusive right to explore the properties for one year. The exclusive exploration rights may, at the Company's option, be extended for two further one-year periods by making payments of \$50,000 to one optionor and \$43,020 to the other. Any further payments to the optionors are payable in cash or equivalent value in shares of the Company at the optionor's discretion in one case and at the discretion of the Company in the other.

The Company may, at any time during the option period, purchase the properties by paying the first optionor \$100,000 and reserving a 1.5% net smelter return royalty on the production from the property and paying the second optionor \$93,400 and reserving a 1% net smelter return royalty on the production from the property. The Company received transfer of title to both properties, which will be retransferred if the Company does not exercise the purchase option.

***Operating Leases***

- h) The Company is committed to operating leases in the aggregate of \$376,825. The future minimum lease payments as at December 31, 2007 are as follows:

	<i>(in thousands)</i>	
2008	\$	208
2009		118
2010		51
	<u>\$</u>	<u>377</u>



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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*The Company may not be able to Refinance the Notes or Debentures if Required or if it so Desires*

As at December 31, 2007, the Company has negative working capital of \$29.6 million primarily due to the requirement that the Notes be classified as a current liability because of a provision in the Note Indenture which requires the Company to obtain all material permits related to the Project test on or before June 27, 2008. Should these permits not be obtained or the Company is unable to negotiate a waiver of such requirement or an extension of the date for compliance from the holders of the Notes, the Company is obligated to offer to redeem the Notes at their par value, \$237 million. The Company received its principal permit under the *Mines Act* of B.C. in October 2007 but requires the remaining permits to satisfy the test. The Company is actively pursuing the remaining permits required to satisfy the permit requirement referred to above.

The Company's continuing operations will be dependent on obtaining the remaining permits for the Project (or obtaining a waiver from such requirement under the Note Indenture or an extension of the date for compliance) or the raising of additional financing to finance the remainder of the Project construction. The amount and timing of these raisings may be materially impacted by the resolution of the Company's investments in non-bank sponsored asset backed commercial paper referred to below under "Asset Backed Commercial Paper". There can be no assurance it will be able to raise sufficient funds as and when such funds are required.

The Company may need or desire to refinance all or a portion of the Notes, the Debentures or any other future indebtedness that it incurs on or before the maturity of the Notes or the Debentures. There can be no assurance that the Company will be able to refinance any of its indebtedness or incur further indebtedness necessary for its pre-construction, construction or operative phases on commercially reasonable terms, if at all.

***Asset Backed Commercial Paper***

As at December 31, 2007 the Company had \$170 million invested in collateralized short term debt obligations (rated R1 high by Dominion Bond Rating Service), issued by limited purpose trusts sponsored and managed by non-bank entities. These obligations, commonly known as "Asset Backed Commercial Paper" ("**ABCP**"), typically had terms of less than 365 days and repayment of a maturing ABCP was dependent on the cash generated by the trusts' underlying assets and the ability of the trusts to issue new ABCP. In mid August 2007 a number of sponsors of non-bank managed ABCP, including those with which the Company had invested, announced that they could not place ABCP due to unfavourable conditions in the Canadian capital markets. As a result, the non-bank ABCP market remains the subject of an agreement signed on August 16, 2007 amongst a number of affected parties called the "Montreal Accord" which contemplates a restructuring of ABCP on or before March 31, 2008 under the direction of the Pan-Canadian Investors Committee (the "**Committee**") with the expressed intention of re-introducing the majority of the investments into a pool of long term

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2007**

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floating rate notes which will have credit ratings attached to them. The Company understands that a market for trading the restructured investments is expected to develop. While the Company is not a signatory to the Montreal Accord, it is directly and through counsel monitoring the activities of the Committee. However, the final terms of reference for the restructuring, while well advanced as detailed in a press release from the Committee dated December 23, 2007 have not been made the subject of a definitive proposal and there is no certainty of a positive outcome. As a result, there is presently no active market for the Company's ABCP and the funds cannot be accessed until such time as the restructuring contemplated by the Montreal Accord has been completed. The Company is unable to definitively determine when or if an appropriate resolution may occur.

The Company has re-classified its holdings in ABCP from short-term investments to long term assets and has recorded an impairment charge in the amount of \$50.1 million in the current year. There can be no assurance that this estimate will be realized or that it will be adequate. Subsequent adjustments, which could be material, may be required in future reporting periods. In addition, the Company has not accrued any interest due from these investments pending further information from the Committee.

***Financing Risks***

The Company has limited financial resources, no source of operating cash flow and no assurance that additional funding, equity or debt based, will be available for further exploration and development of its projects. The Company will require additional financing from external sources to meet its operating and capital requirements. There can be no assurance that it will obtain adequate financing in the future or that the terms of such financing will be favourable. In addition, the price of shares of developing mining companies can be volatile due in part to changes in metals prices, actual development results differing from expected development results, changes in metal companies' valuations or the departure of key employees. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of our projects or the possible loss of such properties.

The mineral exploration and development industry in general is intensely competitive and there is no assurance that, even if commercial quantities of proven reserves and probable reserves are discovered, a profitable market may exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. Mineral prices have fluctuated widely, particularly in recent years. The marketability of minerals is also affected by numerous other factors beyond the control of the Company, including government regulations relating to price, royalties, allowable production and importing and exporting of minerals, the effect of which cannot accurately be predicted.

The standards employed in estimating the resources differ significantly from the requirements of the SEC and the resource information reported may not be comparable to similar information reported by United States companies. The term "**resources**" does not equate to "**reserves**" and normally may not be included in documents filed with the SEC. "**Resources**" are sometimes referred to as "**mineralization**" or "**mineral deposits**".

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*Operating Hazards and Risks*

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risk normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. Although the Company has obtained liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable against, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Development projects have no operating history upon which to base estimates of future cash operating costs. Particularly for development projects, estimates of mineral resources and mineral reserves and cash operating costs are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques, feasibility studies which derive estimates of capital costs and cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates of copper and gold, estimated operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual capital costs, cash operating costs and economic returns will differ significantly from those estimated for a project prior to production. It is not unusual in new mining operations to experience unexpected problems during the start-up phase, and delays often can occur in the commencement of production.

*Fluctuating Metal Prices*

The Company's revenues, if any, are expected to be derived from the extraction and sale of copper and gold contained in concentrates. The price of these metals has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of metals, and therefore the economic viability of any of the Company's exploration projects, cannot accurately be predicted. The Company does not presently have a metals hedging policy nor has it conducted any metals hedging in the past.

*Title To Some Of the Company's Mineral Properties May Be Challenged Or Defective*

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of such properties will not be challenged or impaired. Third parties may have valid claims underlying portions of our interest, including prior unregistered liens, agreements, transfers or

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claims, including aboriginal land claims, and title may be affected by, among other things, undetected defects. As a result, we may be constrained in our ability to operate our properties or unable to enforce our rights with respect to our properties. An impairment to or defect in our title to our properties could have a material adverse effect on our business, financial condition or results of operations.

*Exploration, Development and Resource and Reserve Estimates*

The exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. Although the mineral resource and reserve figures set out herein have been carefully prepared and reviewed or verified by independent mining experts, these amounts are estimates only and no assurance can be given that an identified mineral resource will ever qualify as a commercially mineable (or viable) ore body which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions.

Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in reserves or resources, grades, dilution estimates or recovery rates may affect the economic viability of the Project. The estimated reserves and resources described in this Annual Information Form should not be interpreted as assurances of mine life or of the profitability of future operations. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish mineral resources through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

*Environmental and other Regulatory Requirements*

The activities of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the

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submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The current activities of the Company, including any development activities and commencement of production on its properties, require permits from various governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There can be no assurance that all permits which the Company may require for exploration, construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any mining project that the Company may undertake. The Company believes it is in substantial compliance with all material laws and regulations which currently apply to its activities.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

***Retention of Key Personnel***

The Company's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the directors and senior management and the loss of one or more could have a materially adverse effect on the Company.

***Limited Experience with Development-Stage Mining Operations***

The Company has limited experience in placing resource properties into production, and their ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide

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such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if it places its resource properties into production.

*Competition*

The Company will compete with many international companies that have substantially greater financial and technical resources than it for the recruitment and retention of qualified employees.

**Disclosure Controls and Internal Control over Financial Reporting**

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The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings required by the U.S. Securities and Exchange Commission and Canadian Securities Administration requirements are recorded, processed, summarized and reported in the manner specified by the relevant securities laws applicable to the Company. The Chief Executive Officer and the Chief Financial Officer have evaluated the Company's disclosure control procedures as of December 31, 2007 through inquiry and review, as well as by drawing upon their own relevant experience. The Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2007, the Company's disclosure control procedures were effective.

The Company also maintains a system of internal controls over financial reporting designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detections of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Board of Directors approves the financial statements and ensures that management discharges its financial responsibilities. The Board's review is accomplished principally through the audit committee, which is composed of independent non-executive directors.

The audit committee meets periodically with management and auditors to review financial reporting and control matters. The Board of Directors has also appointed a compensation

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committee composed of non-executive directors whose recommendations relating to executive compensation and other matters are considered by the Board of Directors.

During the year ended December 31, 2007, the Company effected material changes in internal control over financial reporting. These changes were in part necessitated by the expanding operational activity, especially in the latter two quarters of the year, at the Company's development Project. The Company contracted a third party firm to assist the Company in enhancing its internal controls and to test the enhanced controls as part of management's assessment of internal controls over financial reporting as required by Rules 13a-15(c) and 15d-15(c) promulgated under the U.S. Securities Exchange Act of 1934, as amended. The Company has a) in general, enhanced its internal control processes across the material financial cycles; b) more specifically, improved its financial controls over period end closing, and procurement processes; and c) implemented compensating procedures around the segregation of duties in the information technology area due to limited staffing.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, and evaluating the effectiveness of the Company's internal control over financial reporting as at each fiscal year end. Management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to assess the effectiveness of the Company's internal control over financial reporting as at December 31, 2007. Based on this assessment, management has concluded that as at December 31, 2007, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as at December 31, 2007 has been audited by PricewaterhouseCoopers LLP as stated in their report which appears herein.

**AMEX Corporate Governance**

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The Company's common shares are listed on the American Stock Exchange ("AMEX"). Section 110 of the AMEX company guide permits AMEX to consider the laws, customs and practices of foreign issuers in relaxing certain AMEX listing criteria, and to grant exemptions from AMEX listing criteria based on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which the Company's governance practices differ from those followed by domestic companies pursuant to AMEX standards is posted on the Company's website at [www.newgoldinc.com](http://www.newgoldinc.com) and a copy of such description is available by written request made to the Company.

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**OUTLOOK**

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Advancement of the Project remains the Company's primary focus as it is the key to the Company's success. With the financing in June of 2007, the purchase of the surface rights and issuance of the primary permit under the Mines Act in October, the Company is now in a position to proceed with the significant development activities required to construct a new mine. Management's operating efforts over the near-term will be primarily focused on:

Advancement of the development of the underground which is the critical path item on the project timeline;

Completion of detailed engineering of the Project plus secure the remaining permits necessary for the Project. Further updates to the capital costs and schedule for construction will occur as detailed engineering progresses;

Commencement of the surface facilities which is expected to occur in March or April of 2008;

Continued procurement of the mill components and structures and development mobile fleet, for the Project; and

Continued expansion of the Company's work force to meet the personnel requirements of the Project.

In addition, the Company continues to assess its exploration opportunities primarily around the existing Afton resource but also on the Ajax and at its optioned properties.

The Company, however, faces significant financial challenges in the short to medium term. As at December 31, 2007, the Company has negative working capital of \$29.6 million due to the classification of the Company's Notes as a current liability because of a provision in the Note Indenture which requires the Company to comply with a permit test on or before June 27, 2008. Should the Company fail to meet the test, it is obligated to offer to redeem the Notes at par value (\$237 million). The Company also has \$170 million in illiquid Asset Backed Commercial Paper ("ABCP") and while there are initiatives being undertaken to restructure ABCP market generally through the Pan-Canadian Investors Committee, there can be no assurance that these initiatives will succeed or, if they do, that the Company will realize a meaningful amount on its ABCP.

The Company's ability to advance the Project will be dependent on the receipt of the remaining permits required to satisfy the permit test, a satisfactory resolution to the ABCP situation and the raising of additional financing to finance the remainder of the Project construction. In connection with the financing requirements of the Company, the Company signed a letter of intent dated March 31, 2008 with Metallica Resources Inc. and Peak Gold Ltd. to complete a business combination whereby New Gold would be the surviving company. The business

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combination is subject to the completion of confirmatory due diligence, definitive documentation and obtaining the required regulatory approvals.

As at March 31, 2008, the Company's outstanding capital was:

Common shares	36,949,717
Warrants	23,700,000
Common stock options	2,462,500

**FORWARD-LOOKING STATEMENT**

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Certain of the statements made and information contained herein is "forward- looking information" within the meaning of the Ontario Securities Act or "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 of the United States. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the interpretation of drill results and the estimation of mineral resources and reserves, the geology, grade and continuity of mineral deposits, the possibility that future exploration, development or mining results will not be consistent with the Company's expectations, metal recoveries, accidents, equipment breakdowns, title matters and surface access, labour disputes or other unanticipated difficulties with or interruptions in production, the potential for delays in exploration or development activities or the completion of feasibility studies, the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations, currency fluctuations, failure to obtain adequate financing on a timely basis and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Annual Information Form and in each management's discussion and analysis. Forward-looking information is, in addition, based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of copper and gold, that the feasibility study will confirm that a technically viable and economic operation exists, that the Company will receive required permits and access to surface rights, that the Company can access financing, appropriate equipment and sufficient labour and that the political environment within British Columbia and Canada will continue to support the development of environmentally safe mining projects so that the Company will be able to commence the development of the Afton project within the timetable to be established by the feasibility study. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

### **Cautionary Note Concerning Reserves and Resource Estimates**

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United States investors are advised that while the terms "reserves" and "resources" are recognized and required by Canadian securities laws, the United States Securities and Exchange Commission (the "SEC") does not recognize them. Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Mineral resources that are not mineral reserves do not have demonstrated economic viability. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Inferred resources are in addition to measured and indicated resources. Further, inferred resources have a greater amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the inferred resources will ever be upgraded to a higher category. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically.

National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") is a rule developed by the Canadian Securities Administrators which established standards for all public disclosure of scientific and technical information concerning mineral projects. Unless otherwise indicated, all reserve and resource estimates have been or will be prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum Classification System. The requirements of NI 43-101 are not the same as those of the SEC, and reserves reported by New Gold Inc. in compliance with NI 43-101 may not qualify as reserves under the SEC's standards.