

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION
AT DECEMBER 31, 2005

This Restated Management Discussion and Analysis ("MD&A") is intended to supplement the Company's restated financial statements and notes ("Restated Statements") thereto and compares the financial results of 2005 with those of the two preceding years. The reader is encouraged to review the Restated Statements in conjunction with this document. This report has been restated as at March 24, 2006 and amended and restated as discussed below as at November 9, 2006. The Company's public filings, including its most recent Annual Information Form can be reviewed via the SEDAR website (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"). A note to the financial statements reconciling the figures to United States Generally Accepted Accounting Principles ("US GAAP") is included in the annual audited Statements.

Effective June 1, 2005 the Company changed its name from DRC Resources Corporation to New Gold Inc. and aligned its stock symbol to NGD on both the TSX and AMEX Exchanges.

AMENDMENTS AND RESTATEMENTS

As a result of the restatement of the Company's previously issued financial statements, the following information is provided.

Annual disclosures

Previous and restated disclosure	Year ended Dec 31, 2005	Year ended Dec 31, 2004	Year ended Dec 31, 2003
Loss – previous	\$3,399,340	1,249,545	1,218,371
Loss – restated	2,858,946	1,202,805	456,202
Loss per share - previous	\$0.24	\$0.09	\$0.13
Loss per share - restated	0.20	0.09	0.05
Total assets – previous	41,751,593	31,795,645	28,470,396
Total assets – restated	61,631,182	50,079,229	44,890,047

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Quarterly disclosures

Previous and restated disclosure	2005			
	4 th quarter	3 rd quarter	2 nd quarter	1 st quarter
Loss – previous	\$1,279,500	\$490,854	\$803,078	\$825,908
Loss – restated	1,231,587	140,125	662,113	825,121
Loss per share – previous	\$0.08	\$0.04	\$0.06	\$0.06
Loss per share – restated	0.08	0.01	0.05	0.06
Total assets – previous	\$41,751,593	\$34,180,290	\$34,986,982	\$31,639,796
Total assets – restated	61,631,182	53,127,807	53,270,566	49,923,380
Previous and restated disclosure	2004			
	4 th quarter	3 rd quarter	2 nd quarter	1 st quarter
Loss/(Income) – previous	\$1,144,892	\$146,626	\$20,422	\$(62,395)
Loss/(Income) – restated	1,115,097	140,903	18,310	(71,505)
Loss/(Income) per share – previous	\$0.09	\$0.01	\$0.01	\$(0.01)
Loss/(Income) per share – restated	0.08	0.01	0.00	(0.01)
Total assets – previous	\$31,795,645	\$30,729,760	\$29,456,408	\$29,313,654
Total assets – restated	50,079,229	47,149,411	45,876,059	45,733,305

During 2006 the Company undertook a review of its previously-issued financial statements for: the accounting treatment for the recognition of future income taxes related to flow-through share offerings, the valuation method used for assigning value for share payments, stock-based compensation costs related to project personnel and the reporting of non-cash working capital changes reported in the Statement of Cash Flow. Management thereafter determined that the following amendments should be reflected in these restated financial statements:

- a) The Company has adopted the recommendations of EIC146 of the Emerging Issues Committee of the CICA with respect to its accounting for all flow-through share renunciations. Previously the Company had recognized the future income tax liability and corresponding reduction in share capital at the earlier of the renunciation date or the balance sheet date following the flow through share offering provided management had reasonable expectation of completing the expenditures. This practice has now been changed whereby the future income tax liability is recognized at the balance sheet date following the filing of the renunciations, provided management has a reasonable expectation of completing the expenditures. The Company has taken the same approach to account for flow-through shares in prior periods.

As a result, future income liability for 2005 has been decreased and share capital increased by \$3.5 million from amounts previously recorded in 2005. These amounts will now be recognized in 2006. Additionally the Company has reversed prior future income tax expenses relating to renouncements for 2003 and prior years.

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- b) The Company previously valued the two million shares issued between July 2000 and August 2005 to purchase the Afton mineral claims at the price of the shares on the day the agreement was signed. This practice has been changed to value these payments at the fair market value of the shares at each issuance based upon the previous 5 day weighted average price.

As a result, mineral properties and share capital have been increased by \$11.8 million as at December 31, 2005. All share issuances prior to 2003 have been recorded in the opening balance of the Statement of Changes in Shareholders' Equity in the amount of \$8.1 million as a cumulative adjustment while the measurement of the 2003 to 2005 payments have been restated to their fair value amounts.

Future income tax liabilities have been adjusted to reflect the increase in temporary differences created as a result of the difference between the tax and book value of the option payment and the resultant amounts have been capitalized to mineral properties. As a result, mineral properties and future income tax liabilities have increased by \$6.5 million at December 31, 2005 and \$6.0 million at December 31, 2004 which includes charges resulting from periods prior to 2004.

The Company's policy is to recognize income tax rate changes in the Statement of Operations in the period they are substantively enacted.

- c) The Company previously expensed all of its stock-based compensation to the Statement of Operations. In accordance with the revised accounting treatment (See Note 2) a reduction in the amount of \$47,913 has been made related to employees who work directly on the Company's mineral properties.
- d) The Statement of Cash Flow for 2005 reflected accrued property expenditures within the reported change in accounts payable related to operating activities. A net amount of \$1,656,138 has been reclassified from the reported change in non-cash working capital items applicable to decrease cash payments for mineral properties under the investing activities.

This MD&A reflects all amounts as restated to address the items discussed above.

BUSINESS OVERVIEW

Afton Copper-Gold Project

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 in British Columbia Canada. The current principle area of focus is the New Afton copper/gold project ("Project") located in Kamloops, British Columbia.

The Company continues to move the development of the Project beyond the February 2004 Advanced Scoping Study ("Scoping Study") by conducting an underground exploration program, which commenced in late 2004, and completing an extensive in-fill drilling program. The

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underground program commenced in late 2004 and by the end of 2005 the Company had completed 2,200 metres of drifting including cross-cutting into the mineralized zones. In-fill drilling commenced in February 2005 and 24,864 metres, from 66 holes, was completed during the year. As at the December 31, 2005 the Company had virtually completed the program. The Company has announced the results of 9 sections of the in-fill program and the results can be viewed on the company website (www.newgoldinc.com) or on SEDAR.

In December 2005, New Gold announced the commencement of a feasibility study ("FS"). The FS will be carried out by a team including, and coordinated by, Hatch Ltd. ("Hatch") who will be responsible for the processing and engineering components of the study. Mining method and reserves will be the responsibility of Australian Mining Consultants Pty Ltd. ("AMC"), and Roscoe Postle Associates Inc. ("RPA") will complete the geology and resource sections. Environmental services and permitting will be the responsibility of Rescan Environmental Services Ltd. ("Rescan"). In addition, BGC Engineering Inc. ("BGC") will maintain responsibility for tailings disposal analysis study. With the exception of AMC (who are based in Australia) all of these engineering companies are based in Vancouver, British Columbia, Canada.

The scope of the FS includes an updated resource estimation (which will incorporate the 2005 underground in-fill drilling results), mining method selection, reserves and mine production scheduling, process plant design, tailings deposition, all infrastructure requirements and the preparation of the project economic analysis. Once complete, the FS will replace the prior Scoping Study completed on the Project (in 2003, and updated in 2004), and will establish the technical and economical potential of developing a new underground mine at the New Afton Project.

During the third quarter of 2005, the Company completed the final payment under the two Afton option agreements by issuing 200,000 common shares while previously the Company had completed the expenditure commitment. As a result, the Company has a 100% interest in the mineral claims covering the Company's current mineral resources at Afton. The Optionors, one of whom was a Director and had a one-half interest in the agreement, maintain a 10% net profits royalty which the Company holds an option to purchase for \$2 million on or before December 1, 2010.

Afton and Ajax Exploration Properties

The Company commenced in 2005 a review of surface exploration potential designed to look at the entire Afton and Ajax property claim blocks. The Company also contracted for an airborne survey in the fourth quarter of 2005 which included a high resolution magnetometer, electro-magnetics and radio metrics. The Ajax property is connected via a 10km road to the Afton mineral claims. The Company intends to prioritize the most prospective drilling targets as part of an expanded regional exploration program planned to commence in early 2006.

The near-term key performance drivers for the Company are focused predominantly on the ultimate development of the Project, and which will require the successful completion of the FS, completion of the permitting process, securing surface rights and acquiring the necessary financing to be able to commence development of the Project. The capital requirements of the Project are under increasing cost pressures as many other mining companies have seen increases in their capital and operating costs due to the current economic environment and will

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therefore form a critical component of the overall project economics. To a lesser extent, the Company sees the growth of the resource base as a priority and has allocated funds in 2006 to explore in and around the existing resource at the Project. On a more macro scale, the price of copper and gold continue at relatively high levels and is the single most important factor in the future project economics and will have a direct impact on the Company's ability to raise funds towards the Project's ultimate development.

Annual Summary

The annual tabular results of operations are summarized in the following tables which have been prepared in accordance with Canadian Generally Accepted Accounting Principles:

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
	(Restated)	(Restated)	(Restated)
Loss	\$ 2,858,946	\$ 1,202,805	\$ 456,202
Loss per share – basic and diluted	\$0.20	0.09	\$0.05
Total assets	61,631,182	50,079,229	44,890,047
Investments in exploration and development including working capital changes	14,910,945	2,386,636	1,742,663
Cash flows from financing activities	9,901,436	2,534,886	22,860,250

RESULTS OF OPERATIONS

Afton

The Company's operating activities for the preceding three fiscal years ended December 31, 2005, have primarily focused on the exploration activities on the Project. The level of activity dramatically increased in late 2004 with the change from surface focused exploration to a more expensive underground based program. As a result of these activities, the Company expended \$14.3 million on the Project in 2005, as compared to \$2.2 million in 2004 and \$1.1 million in 2003. In 2005, tunneling and related costs totaled \$9.7 million as compared to \$1.5 million in 2004 and \$nil in 2003 due to the ramp up of this activity in late 2004. Drilling and assaying increased in 2005 to \$1.9 million versus \$0.1 million in 2004 and \$1.1 million in 2003 as a result of drilling more metres in 2005 from underground at a higher cost per metre. In 2004 the Company did not conduct any exploration drilling as it was preparing for the underground exploration program while in 2003 a significant program was conducted in support of the Scoping Study.

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Corporate

The Company incurred a loss of \$2.9 million or \$0.20 per share in 2005, a loss of \$1.2 million or \$0.09 per share in 2004 and \$0.5 million or \$0.05 per share in 2003. The expenditure level in 2005 has increased significantly from that of the prior two years primarily as a result of the growth of the organization and its management team with its related costs and increased corporate activity marketing the Company. The compensation cost for staffing has increased to

\$1.7 million in 2005 as compared to \$0.3 million and \$0.1 million in the respective 2004 and 2003 years. Travel and promotional costs have shown a similar increase to \$0.6 million in 2005 as compared to \$0.2 million in 2004 and \$0.1 million in 2003. In 2005 the Company recorded a tax recovery of \$0.6 million due to reduction in tax rates as compared to \$nil in 2004 and \$0.04 million for capital taxes in 2003.

The expense in 2003 primarily relates to the then applicable accounting treatment of renounced flow through expenditures which were tax affected and expensed.

Stock based compensation costs in 2005 were \$0.8 million as compared to \$0.9 million in 2004 and \$nil in 2003 when no options were issued. The similar level of costs in 2005 and 2004 is a result of the amounts of stock options vesting, although more options were issued in 2005 than in 2004, as the expensing of costs is based upon the vesting terms of the options. In addition, the calculated cost of the stock option compensation cost issued in 2005 was higher at a weighted average of \$2.00 per option as compared to \$1.34 per option in 2004 principally as a result of the increase in the Company's share price.

SELECTED QUARTERLY INFORMATION

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

\$Cdn	2005			
	4 th Quarter (Restated)	3 rd Quarter (Restated)	2 nd Quarter (Restated)	1 st Quarter (Restated)
Income Statement				
Loss	\$1,231,587	\$140,125	\$662,113	\$825,121
Loss per share	\$0.08	\$0.01	\$0.05	\$0.06
Balance Sheet				
Working Capital ⁽¹⁾	14,814,376	13,099,254	17,784,732	20,566,933
Total Assets	61,631,182	53,127,807	53,270,566	49,923,380
Statement of Cash Flows				
Payments for mineral properties exploration costs	3,154,268	4,422,861	4,252,999	3,080,817
Cash flow from (used for) financing activities	6,944,830	(5,668)	2,967,941	(5,667)

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<i>\$Cdn</i>	2004			
	4 th Quarter (Restated)	3 rd Quarter (Restated)	2 nd Quarter (Restated)	1 st Quarter (Restated)
Income Statement				
(Income)	\$1,155,097	\$ 140,903	\$ 18,310	\$ (71,505)
(Earnings) per share	\$ 0.08	\$ 0.01	\$ 0.00	\$ 0.01
Balance Sheet				
Working Capital ⁽¹⁾	24,166,554	26,185,696	25,346,309	25,427,062
Total Assets	50,079,229	47,149,411	45,876,059	45,733,305
Statement of Cash Flows				
Payments for mineral claim interest and exploration costs	1,699,439	375,412	234,459	77,326
Cash flow from (used for) financing activities	169,323	1,362,332	155,735	915,500

(1) – See Non-GAAP measure of working capital

Comparative Periods

During the fourth quarter of 2005, the Company invested approximately \$3.2 million on its mineral properties as compared to \$1.7 million in the comparative quarter in 2004 for an increase of \$1.5 million. The increase is primarily the result of spending \$1.4 million on tunneling and decline development and \$0.9 million on an in-fill drilling program and related assaying costs. In the comparative quarter, the Company spent \$1.3 million on tunneling as it had just starting commencing the underground tunnelling program and no drilling had yet commenced. The other significant difference between the comparative quarters related to road construction in 2004 for site and pit access totalling \$0.2 million.

The Company incurred a loss of \$1.2 million or \$0.08 per share in the fourth quarter of 2005 versus a loss of \$1.1 million or \$0.08 per share in the comparative quarter of 2004. In the fourth quarter of 2005 the Company incurred an increase of \$0.5 million in wages and benefits costs due to the increase in the management team as well as increases related to higher travel and promotional costs of \$0.2 million due to increased activity in marketing the Company. These increases were partially offset by \$0.6 million in lower stock based compensation charges due to fewer stock options vesting during the fourth quarter of 2005 than in the comparative quarter in 2004.

Interest income was \$0.1 million for both the current 2005 quarter and the comparable quarter in 2004.

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LIQUIDITY & CAPITAL RESOURCES

As at December 31, 2005, the Company had working capital of \$14.8 million versus \$24.2 million as at December 31, 2004. During 2005 the Company completed three flow-through, non-brokered private placement financings by issuing 1,330,000 flow-through common shares at prices ranging from \$7.00 to \$8.00 per share for gross proceeds of \$10 million (net proceeds of \$9.2 million). Proceeds from these private placements are planned to be used to expand and accelerate the Company's exploration efforts at the Project and at Ajax. As at December 31, 2005 the Company had completed the expenditures on the first two financings (\$6 million) and has until the end of 2006 to expend qualifying amounts for the third financing.

The Company plans to complete its FS in 2006 at an estimated cost of \$5.3 million plus undertake a significant exploration program both from the underground and surface locations at and around the Project as well as at the Ajax property. The ultimate cost of the 2006 exploration program, presently budgeted at \$6.5 million, will be determined once the initial six month program results are received.

The Company's current working capital level is sufficient to meet its presently planned funding requirements for this stage of the Project up to the middle of 2006. Subsequent to December 31, 2005 the Company issued by way of a short form prospectus in Canada, through a syndicate of underwriters, 8,334,000 units priced at \$9.00 per unit for gross cash proceeds of \$75 million. Each unit consists of one common share and one-half of a share purchase warrant. Each whole warrant will be exercisable to purchase one common share at a price of \$12.00 per share for a period of two years from the date of closing. The financing closed on February 28, 2006 and it is planned that the proceeds will be predominantly used as the Company's equity portion towards the ultimate financing for the development of the Project. The Company will be looking at the availability of project debt financing for the project during the second half of 2006, in parallel with the FS and permitting processes.

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Related Party Transactions

During the year ended December 31, 2005 the following related party transactions occurred:

	2005	2004
	(Restated)	(Restated)
a) For consulting, administration and exploration costs charged by a Director of the Company. Effective January 1, 2005, these services ceased to be provided by a related party.	\$ -	\$ 46,460
b) For wages and consulting services charged by a related person of a Director	96,000	72,600
c) For wages and consulting services charged by the President/Director of the Company. Effective January 1, 2005, these services ceased to be provided by a related party.	-	153,000
d) For geological consulting services on mineral properties charged by an Officer of the Company. Effective January 1, 2005, these services ceased to be a related party.	-	101,060
e) For 100,000 shares issued in payment pursuant to the Afton mineral claim option agreement to a Director of the Company.	537,000	630,000
f) For secretarial and administrative services charged by a Director of the Company. Effective January 1, 2005, these services ceased to be a related party.	-	72,600

Subsequent to December 31, 2005, item b) and e) ceased to be a related party.

New Accounting Policies

In January 2005, the CICA issued four new accounting standards in relation to financial instruments: Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", Section 1530 "Comprehensive Income and Section 3251 "Equity".

Section 3855 expands on Section 3860 "Financial Instruments – Disclosure and Presentation," by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13/"Hedging Relationships", and the hedging guidance in Section 16500 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Section 1530 "Comprehensive Income" introduces a new requirement to temporarily present certain gains and losses outside net income. Consequently, Section 3250 "Surplus" has been revised as Section 3251 "Equity".

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Sections 3855, 3865 and 1530 apply to fiscal years beginning on or after October 1, 2006. The impact of these standards has not been determined by the Company's financial management.

Critical Accounting Estimates

The Company has not yet determined whether the Project or the Ajax property contains economically recoverable reserves. The recoverability of the \$42.2 million Project carrying value at December 31, 2005 plus related capital assets of this exploration property is dependent upon the ultimate confirmation of economically recoverable reserves, the ability of the Company to obtain necessary permits, financing to complete the development and future profitable production there from or alternatively upon the Company's ability to dispose of its interests in the license on an advantageous basis.

Changes in future conditions could require material write-downs of the Project.

Senior Officer Changes

The Company announced on May 2, 2005 the appointment of Paul Martin as the new Chief Financial Officer and Vice President, Finance effective May 18, 2005 following the resignation of Ian Beardmore. Mr. Martin has more than 20 years of finance experience, including 15 years in the mining industry.

The Company announced on December 5, 2005 the appointment of Kevin Ross as Chief Operating Officer (COO) who commenced his employment on January 9, 2006. Mr. Ross graduated as a Mining Engineer from the Royal School of Mines in London, England and also has an MBA. He has almost 30 years experience in the mining industry, most of it in executive and senior mine management positions, predominantly in underground hard rock mines.

Subsequent to December 31, 2005 the founder and Chairman of the Board, John Kruzick, and the Corporate Secretary and Director, Sharon Ross, a long standing executive, retired. At the same time they both resigned their seats on the Board.

Risks and Uncertainties

The Company's business is subject to a number of risks related to the exploration and development plans as well as risks related to the mining industry in general. The following risk factors should be given special consideration when evaluating trends, risks and uncertainties relating to the Company's business.

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Surface Rights

The Afton Lands on which the Afton Claims are situated, consists of Crown land, some of which is subject to grazing leases, and land held in fee simple, principally by Afton Mining Corporation. The Company holds certain surface rights with respect to the Crown land but will be required to obtain all necessary surface rights for the construction and operation of a new mining operation on the Afton Property. There can be no certainty that the Company will be able to acquire all such surface rights.

Under Section 14(1) of the *Mineral Tenure Act*, R.S.B.C. 1996, c. 292 ("*MTA*") a mineral title holder may, subject to the requirements in the *MTA*, including permitting, notice and compensation requirements, use, enter and occupy the surface of its mineral claim for the purpose of exploration, development and production and to carry out other activities related to the business of mining. This right may be exercised despite the fact that the land may be Crown land or fee simple land which is privately owned. A mineral title holder's right to use the surface of their claims is, however, also subject to, among other things, the Minister's power under section 17 of the *MTA* to restrict the use of surface where he/she considers that the surface area should be used for purposes other than mining. Also, under Section 16 of the *MTA*, if an application to acquire surveyed land is received under the *Land Act* R.S.B.C. 1996, C.245 (the "*Land Act*") before a mineral claim is registered on that land, or if an application to acquire unsurveyed land is received under the *Land Act* and such land is staked under the *Land Act* before a mineral claim is registered on that land, the rights with respect to the acquisition of the surface of the land under the *Land Act* have priority over the rights with respect to a mineral claim subsequently registered on that land.

If there is a dispute between the parties regarding use of the surface or compensation, the Chief Gold Commissioner will use his or her best efforts to resolve the issues between the parties. If this fails then the matter may be resolved through a process of mediation and arbitration by the Mediation and Arbitration Board (the "PNGA Board") under the *Petroleum and Natural Gas Act*, R.S.B.C. 1996, c.361. The PNGA Board may set conditions for the use of the surface as well as specify the compensation payable to the owner. In a conflict between rights acquired under the *MTA* and rights to Crown land acquired under the *Land Act* the PNGA Board will give consideration to who applied for the rights first and, unless an injustice would result, must give the holder of those rights due priority in its consideration of the dispute between the parties.

Section 15 of the *MTA* sets out situations where the government may dispose of surface rights on Crown land to the holder of a mining lease. To acquire these rights the recorded holder must first obtain certification from the Minister that the land is or will be required for the purpose of mining. Such land must also be unreserved land, it must not be lawfully occupied for a purpose other than mining and it must not be protected heritage property. If these conditions are met the surface rights may be transferred subject to conditions determined by the Ministers responsible for the *MTA* and *Land Act* and payment based on the unimproved value of the land.

As a result, the Company may be required to enter into direct negotiations with the owners of fee simple property to obtain surface rights to those portions of the Afton Lands that are held in fee simple. There can be no certainty that such negotiations will be successful and as a result mediation and arbitration under the *MTA* may become necessary. With respect to Crown lands,

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the Company may be required to enter negotiations or apply to obtain surface rights from the Government of British Columbia. There can be no certainty of how long such negotiations, potential mediation and arbitration or applications may take or whether they will ultimately be successful, and therefore may have a material impact on the overall development and timeline of the Afton Project. The extent of compensation to surface owners that may be required also cannot be assessed at this time.

Access to the Afton Claims

On May 1, 2004, the Company entered into the Access Agreement with Afton Operating Corporation, the fee-simple owner of some of the Afton Lands and the former operator of the Afton Mine. Under the Access Agreement, the Company has the right to enter upon the portion of the Afton Lands held by Afton Operating Corporation to conduct exploration until June 30, 2007. The Access Agreement requires the Company to compensate Afton Operating Corporation for any disruption or damage to any surface facilities, to reclaim areas disturbed by the Company's operations, to post bond against any failure to reclaim, to be responsible for any hazardous substances introduced to the lands and to insure and indemnify the owner against liabilities arising from any activities of the Company in and about the lands.

Access to mineral claims is governed by the *Mining Right of Way Act*, R.S.B.C. 1996, c. 294 (the "MRWA"). Under the MRWA, a mineral tenure holder may, subject to certain limitations, take a right of way across private or Crown land to enable it to access its mineral claims for the purpose of the exploration and development. Where private land is taken without the consent of the owner the *Expropriation Act*, R.S.B.C. 1996, c. 125 (the "Expropriation Act") applies. Compensation under the *Expropriation Act* is based on the principle that the owner should be put in the same economic position post-expropriation as pre-expropriation.

There is no certainty that should the Company need to extend the Access Agreement that it will be successful in doing so. If the Access Agreement is not extended, the Company would have to attempt to obtain access rights under the provisions of the MRWA noted above, which could result in delay and/or increased cost to compensate the surface owner for use of the area or the Company could be forced to use more costly, less convenient access over Crown lands.

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 operating results differing from expected operating 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 and probable reserves are

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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.

Scoping Study is Preliminary

The Scoping Study is preliminary in nature as it is based in part upon inferred resources. As required under National Instrument 43-101, the reader is cautioned that these resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that any of the results predicted in the Scoping Study will be realized. The inferred resources considered in the Scoping Study were estimated by Behre Dolbear according to the requirements of National Instrument 43-101, who are independent of New Gold. Details of these estimates, a description of the calculation method employed and a description of New Gold's assaying and analytical techniques and methodology are set out in the text of the Scoping Study, which may be found in New Gold's filings at www.sedar.com. The estimates are based on the assumptions and methods, and are subject to the limitations and qualifications, described in the Scoping Study.

The standards employed in estimating the resources differ significantly from the requirements of the United States Securities and Exchange Commission 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 United States Securities and Exchange Commission. "Resources" are sometimes referred to as "mineralization" or "mineral deposits."

The Scoping Study is intended to be read as a whole and sections should not be read or relied upon out of context. The quality of the information, conclusions and estimates contained in the Scoping Study are consistent with the intentions of the Scoping Study, as well as the circumstances and constraints under which the Scoping Study was prepared which are also set out therein.

The Scoping Study includes certain forward-looking statements within the meaning of the US Private Securities Legislation Reform Act of 1995. Other than statements of historical fact, all statements in the Scoping Study, including without limitation, statements regarding potential mineralization and resources and estimated or potential future production potential, are forward-looking statements that involve various known and unknown risks, uncertainties and other factors. There can be no assurance that such statements will prove to be accurate. Results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date of the Scoping Study.

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Scoping Study Estimates Subject to Change

The estimates contained in the Scoping Study are based on capital costs and exchange rates as at the third quarter of 2003 and do not include provisions for inflation. Fluctuations in such capital costs, exchange rates or inflation factors could have a significant effect on the estimates.

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.

Fluctuating Metal Prices

The Company's revenues, if any, are expected to be derived from the extraction and sale of copper and gold. 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 conducted any metals hedging in the past.

Title To Some Of Our 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 we believe we have taken reasonable measures to ensure proper title to our properties, there is no guarantee that title to any of our 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 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 or 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

Exploration, Development and Resource 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 figures set out herein have been carefully prepared and reviewed or verified by an independent mining expert, 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. Also, there has been a significant amount of drilling on the Afton Project since the resource figures set out herein were calculated. Accordingly, the mineral resource estimates may be subject to change. The Company intends to recalculate the resource estimates in the upcoming Feasibility Study as described under the heading "Exploration and Development" below. 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, stripping ratios or recovery rates may affect the economic viability of projects. 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 reserves 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

The current exploration 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. The Company has obtained a permit issued by the Chief Inspector of Mines under Section 10 of the *Mines Act*, R.S.B.C. 1996, c. 293 allowing development of an underground access to allow an exploration diamond drilling program to be carried out. The Company has commenced the permitting required to develop and operate a mine in parallel with the completion of the Feasibility Study. This process requires consultation with stakeholders who may comment on the Company's plans. The Chief Inspector may take concerns into account in the granting of our development and operating permit. Companies engaged in exploration activities and in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

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 acquisition of mineral concessions as well as for the recruitment and retention of qualified employees.

Contractual Obligations

The following is a summary of the material contractual obligations of the Company including payments due for each of the next five years and thereafter.

Contractual Obligation	Total	Less than 1 year	1- 3 years	3 – 5 years	Thereafter
	\$ million				
Professional Service Agreements ⁽¹⁾	\$3.7	\$3.7	Nil	Nil	Nil
Total Contractual Obligations	\$3.7	\$3.7	Nil	Nil	Nil

(1) – the FS engineering contract has been awarded and is active and the definitive agreement is expected to be signed subsequent to December 31, 2005.

Non-GAAP Measure of Working Capital

The working capital item is furnished to provide additional information and is not a generally accepted accounting principle (GAAP) measure. This measurement should not be considered in isolation as a substitute for measures of performance prepared in accordance with GAAP. This information is intended to provide investors with information about the Company's liquidity; the Company issues this information for the same purpose.

Disclosure Controls

As of December 31, 2005, an evaluation was carried out by the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. That evaluation was updated in connection with the preparation of the Financial Statements referred to above. Based on the updated evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were not wholly effective as of December 31, 2005 to ensure that information required to be disclosed by the Company in reports that it files or submits under securities legislation. In view of the restatement of the Financial Statements described above, the Chief Executive Officer and the Chief Financial Officer have concluded that a material weakness

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

existed in the Company's disclosure controls and procedures as of December 31, 2005. As a result, the Company now requires all senior financial personnel to attend professional development training on current and new developments in regulatory and accounting issues in Canada and the United States in order to improve the monitoring of financial regulations. In addition, the Company has retained new auditors with a view to engaging a chartered accounting firm with the extensive depth and experience in financial reporting matters in Canada and the United States which management believes is necessary to reflect the Company's growth and development. Subsequent to year end the Company hired a Controller and a Senior Accountant to provide further support in financial reporting matters and a General Counsel to advise management in respect of the legal aspects of disclosure controls and procedures. The CEO and CFO have concluded that with these enhancements the Company's disclosure controls and procedures are sufficiently effective to ensure material information will be accumulated and communicated to senior management in sufficient time for senior management to make decisions regarding the Company's disclosure record as required by securities legislation.

2006 OUTLOOK

The Company's previously stated priorities remain the focus for 2006. The Company will focus its main attention on the advancement of the Afton Project through the feasibility stage in 2006 in parallel with the advancement of the permitting and financing efforts. The Company is well funded to advance the Project to the completion of the Feasibility Study and will also assess the potential of its overall land package through a regional exploration program in 2006. The Company will seek to finance the Project in 2006 as well as continue to review its exploration requirements and may consider additional flow-through financings. In addition, the Company will be proceeding with the permitting process requirements of the Project, including both the environmental and social requirements.

As at March 24, 2006, the Company's outstanding capital stood at:

Common shares	23,910,217
Warrants	4,167,000
Common stock options	1,786,500
Compensation options	50,000

Forward-Looking Statement

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

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 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. The Company does not intend to and assumes no obligations to up-date forward-looking statements and information.

US Investors Should Note

The U.S. Securities and Exchange Commission ("SEC") permits mining companies, in their filings with the SEC to disclose only those mineral deposits that a company can economically and legally extract or produce. The Company may use certain terms in its publications such as "resources" that are prescribed by Canadian regulatory policy and guidelines but are not provided for in the SEC guidelines on publications and filings.



NEW GOLD INC.
(formerly DRC Resources Corporation)
(an Exploration Stage Company)

RESTATED FINANCIAL STATEMENTS

December 31, 2005

DE VISSER GRAY

CHARTERED ACCOUNTANTS

401 - 905 West Pender Street
Vancouver, BC Canada
V6C 1L6

Tel: (604) 687-5447
Fax: (604) 687-6737

AUDITORS' REPORT

To the Shareholders of New Gold Inc.

We have audited the balance sheets of New Gold Inc. as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards ("GAAS") in Canada and the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and cash flows for each of the years in the two-year period ended December 31, 2005 in conformity with Canadian generally accepted accounting principles.

Our previous report in respect to these financial statements, dated March 15, 2006, was withdrawn on November 6, 2006; the financial statements have now been restated to reflect the changes described in note 18 to these financial statements.

The financial statements as at and for the year ended December 31, 2003 were audited by other auditors who expressed an opinion without reservation on those financial statements in their report to the shareholders dated February 20, 2004.

"De Visser Gray"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

March 15, 2006, except as to Note 18 which is as at November 14, 2006

New Gold Inc. (formerly DRC Resources Corporation)
(An Exploration Stage Company)

BALANCE SHEETS

As at December 31, 2005 and 2004

(Canadian dollars)

	2005	<i>(Note 15)</i>
	Restated (Note 18)	2004 Restated (Note 18)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,178,820	\$ 25,029,585
Accrued interest receivable	19,763	71,912
Amounts receivable	305,810	170,636
Prepaid expenses	107,686	81,442
	18,612,079	25,353,575
Mineral Properties – Schedule <i>(Note 3)</i>	42,440,604	24,217,516
Property and Equipment <i>(Note 4)</i>	578,499	508,138
	\$ 61,631,182	\$ 50,079,229
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,767,475	\$ 1,164,350
Current portion of capital lease payable <i>(Note 5)</i>	30,228	22,671
	3,797,703	1,187,021
Capital lease payable <i>(Note 5)</i>	-	30,228
Future income taxes <i>(Note 6)</i>	7,346,588	7,373,644
	11,144,291	8,590,893
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 7)</i>	54,752,468	43,754,361
Contributed surplus <i>(Note 10)</i>	1,727,584	868,190
Deficit	(5,993,161)	(3,134,215)
	50,486,891	41,488,336
	\$ 61,631,182	\$ 50,079,229

Commitments and Contingent Liabilities *(Note 13)*

Subsequent Events *(Note 16)*

See accompanying notes.

APPROVED BY THE BOARD

"Chris Bradbrook"

Chris Bradbrook
Director

"Paul Sweeney"

Paul Sweeney
Director

New Gold Inc. (formerly DRC Resources Corporation)
(An Exploration Stage Company)

STATEMENTS OF OPERATIONS AND DEFICIT
For the years ended December 31, 2005, 2004 and 2003

(Canadian dollars)

	2005 Restated (Note 18)	(Note 15) 2004 Restated (Note 18)	(Note 15) 2003 Restated (Note 18)
Income			
Interest and other income	\$ 487,893	\$ 560,615	\$ 182,839
Gain on sale of marketable security	-	8,290	-
Gain on sale of investment property	-	32,801	-
	487,893	601,706	182,839
Expenses			
Amortization	95,496	40,518	12,536
BC capital tax	-	-	30,945
Consulting and management fees	58,032	270,848	118,155
Foreign exchange	2,950	36,689	74,929
Insurance	157,031	36,794	14,000
Office and miscellaneous	105,808	131,667	83,163
Professional fees	185,805	116,328	109,007
Regulatory and filing fees	98,508	84,088	66,871
Rent	83,967	39,631	22,103
Stock-based compensation (Note 8(a))	811,481	868,190	-
Telephone	19,730	5,114	4,541
Transfer agent	12,583	9,632	9,031
Travel, conferences and promotion	604,638	165,012	53,259
Wages and benefits	1,666,958	-	-
Write-off of mineral property	-	-	1
	3,902,987	1,804,511	598,541
Loss before income taxes	(3,415,094)	(1,202,805)	(415,702)
Income taxes recovery/(expenses) (Note 6)	556,148	-	(40,500)
Loss for the year	(2,858,946)	(1,202,805)	(456,202)
Deficit, beginning of year	(3,134,215)	(1,931,410)	(1,475,208)
Deficit, end of year	\$ (5,993,161)	\$ (3,134,215)	\$ (1,931,410)
Weighted average number of shares outstanding	14,435,573	13,390,604	9,746,722
Loss per share (basic and diluted)	\$ (0.20)	\$ (0.09)	\$ (0.05)

See accompanying notes.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2005, 2004 and 2003

(Canadian dollars)

	2005 Restated (Note 18)	(Note 15) 2004 Restated (Note 18)	(Note 15) 2003 Restated (Note 18)
Cash provided by (used for)			
OPERATING ACTIVITIES			
Loss for the year	\$ (2,858,946)	\$ (1,202,805)	\$ (456,202)
Items not involving cash:			
Amortization	95,496	40,518	12,536
Stock-based compensation	811,481	868,190	-
Gain on sale of marketable security	-	(8,290)	-
Gain on sale of investment property	-	(32,801)	-
Write-off of mineral properties	-	-	1
Future income taxes (Note 6)	(561,148)	-	-
	(2,513,117)	(335,188)	(443,665)
Net change in non-cash working capital items	837,718	777,548	191,095
Cash (used for) provided by operating activities	(1,675,399)	442,360	(252,570)
INVESTING ACTIVITIES			
Proceeds on sale of marketable security	-	9,790	-
Proceeds on sale of investment property	-	143,668	-
Payments for mineral properties and exploration costs	(14,910,945)	(2,386,636)	(1,742,663)
Acquisition of property and equipment	(165,857)	(451,644)	-
Cash used for investing activities	(15,076,802)	(2,684,822)	(1,742,663)
FINANCING ACTIVITIES			
Payments on capital lease	(22,671)	(15,114)	-
Cash proceeds from shares issued	10,010,000	2,550,000	24,510,000
Share issue costs paid	(85,893)	-	(1,649,750)
Cash provided by financing activities	9,901,436	2,534,886	22,860,250
(Decrease) Increase in cash and cash equivalents	(6,850,765)	292,424	20,865,017
Cash and cash equivalents, beginning of year	25,029,585	24,737,161	3,872,144
Cash and cash equivalents, end of year	\$ 18,178,820	\$ 25,029,585	\$ 24,737,161
Cash and cash equivalents comprises:			
Cash	\$ 2,883,130	\$ 60,461	\$ 27,760
Term deposits and short-term discount notes	15,295,690	24,969,124	24,709,401
	\$ 18,178,820	\$ 25,029,585	\$ 24,737,161

See accompanying notes.

*Supplemental disclosure of non-cash investing and financing activities, refer to Note 11.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2005, 2004 and 2003

(Canadian Dollars)

	Common Stock		Contributed	Deficit	Total
	Shares	Amount Restated (Note 18)	Surplus	Restated (Note 18)	Shareholders' Equity Restated (Note 18)
Balance as at December 31, 2002	9,131,766	\$ 16,138,803	\$ -	\$ (1,475,208)	\$ 14,663,595
Issued for cash					
Exercise of stock options	50,000	150,000	-	-	150,000
Broker warrants	70,000	210,000	-	-	210,000
Issued by private placement for cash	3,450,000	24,150,000	-	-	24,150,000
Share issue costs	-	(1,649,750)	-	-	(1,649,750)
Tax effect on flow-through shares	-	(608,692)	-	-	(608,692)
Issued for mineral properties	200,000	1,554,000	-	-	1,554,000
Loss for the year	-	-	-	(456,202)	(456,202)
Balance as at December 31, 2003	12,901,766	39,944,361	-	(1,931,410)	38,012,951
Issued for cash					
Exercise of stock options	840,000	2,550,000	-	-	2,550,000
Issued for mineral properties	200,000	1,260,000	-	-	1,260,000
Value assigned to options granted	-	-	868,190	-	868,190
Loss for the year	-	-	-	(1,202,805)	(1,202,805)
Balance as at December 31, 2004	13,941,766	43,754,361	868,190	(3,134,215)	41,488,336
Issued by private placement for cash	1,330,000	10,010,000	-	-	10,010,000
Issued for finders' fees	103,951	669,788	-	-	669,788
Share issue costs	-	(755,681)	-	-	(755,681)
Issued for mineral properties	200,000	1,074,000	-	-	1,074,000
Value assigned to options granted	-	-	859,394	-	859,394
Loss for the year	-	-	-	(2,858,946)	(2,858,946)
Balance as at December 31, 2005	15,575,717	\$ 54,752,468	\$ 1,727,584	\$ (5,993,161)	\$ 50,486,891

See accompanying notes.

New Gold Inc. (formerly DRC Resources Corporation)
(An Exploration Stage Company)

SCHEDULES OF MINERAL PROPERTIES

For the years ended December 31, 2005 and 2004

(Canadian Dollars)

			2005 Restated (Note 18)	2004 Restated (Note 18)
ACQUISITION COSTS				
Kamloops Afton Claims			\$ 18,841,345	\$ 17,233,253
Kamloops Ajax-Python Claims			48,732	48,732
Timmins, Ontario Claims			1	1
Balance, End of Year			\$ 18,890,078	\$ 17,281,986
DEFERRED EXPLORATION COSTS				
	Afton Claims Restated (Note 18)	Ajax-Python Claims		
Balance, Beginning of Year	\$ 6,710,112	\$ 225,418	\$ 6,935,530	\$ 4,548,894
Aboveground Exploration Costs				
Assays and testing	13,430	-	13,430	11,019
Drilling	217,441	-	217,441	131,944
Engineering	-	-	-	37,380
Geological consulting	219,780	-	219,780	51,615
Miscellaneous	16,975	-	16,975	7,278
Staking and filing fees	443	1,684	2,127	4,781
Supplies and equipment rental	67,130	-	67,130	3,829
Travel and accommodation	16,020	-	16,020	10,529
Wages and benefits	121,207	-	121,207	9,348
Grant recoveries (Note 2(d))	-	-	-	(40,311)
	672,426	1,684	674,110	227,412
Underground Exploration Costs				
Assays and testing	306,938	-	306,938	1,049
Drilling	1,942,818	-	1,942,818	59,556
Engineering	46,943	-	46,943	184,494
Geological consulting	680,515	-	680,515	233,552
Insurance	6,111	-	6,111	36,161
Miscellaneous	6,485	-	6,485	6,728
Road construction and maintenance	45,115	-	45,115	221,240
Staking and filing fees	10,406	-	10,406	-
Supplies and equipment rental	197,777	-	197,777	49,636
Travel and accommodation	94,941	-	94,941	24,990
Tunneling and decline costs	11,981,887	-	11,981,887	1,319,167
Utilities	191,462	-	191,462	-
Wages and benefits	429,488	-	429,488	22,651
	15,940,886	-	15,940,886	2,159,224
Balance, End of Year	\$ 23,323,424	\$ 227,102	23,550,526	6,935,530
Mineral Properties			\$ 42,440,604	\$ 24,217,516

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

(Canadian dollars)

1. NATURE OF OPERATIONS

New Gold Inc., which changed its name from DRC Resources Corporation on June 1, 2005 (the "Company"), is in the process of exploring and developing mineral prospects in British Columbia, Canada. Its principal project, the Afton copper-gold project, has previously been subject to exploration, an advanced scoping study and has not yet been confirmed to have economically viable copper/gold reserves. The Company's intention is to proceed to complete a feasibility study in 2006 to confirm whether economical reserves exist.

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 complete the development of and operation of the project. In addition, the investments may be subject to changes in government relations related to mining activities, economic instability and access rights disruption.

The Company believes it has adequate funds available to meet its corporate and administrative obligations plus its funding requirement to complete the feasibility study for the Afton copper/gold project, administration while having surplus funds available for exploration. Management will have to pursue additional financing upon the completion of a positive feasibility to finance the projects construction. There can be no assurance it will be able to raise sufficient funds when these funds are required. *(See Note 16(a))*

2. SIGNIFICANT ACCOUNTING POLICIES (RESTATED - Note 18)

a) Cash and Cash Equivalents

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

b) Mineral Properties

The Company records the acquisition cost of mineral rights and all related exploration expenditures at cost. Expenditures relating to mineral properties that have economically recoverable reserves or significant mineralization, which in the view of management justify further exploration, are deferred until such time as such properties are brought into production, sold, allowed to lapse or abandoned. Mineral property option proceeds, if received, are credited against the deferred costs incurred by the Company on the property or properties being optioned. The balances of costs deferred in respect to the Company's mineral property interests at any point in time represent actual historical costs incurred and are not meant to be indicative of present or future fair values.

The Company reviews quarterly the capitalized costs on its mineral property interests on property-by-property basis and will recognize an impairment in value based upon current exploration results and management's assessment of the probability of achieving the recovery of the costs incurred to date, whether by profitable commercial production or by the sale of the property in question. Management's assessment of a particular mineral

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

(Canadian dollars)

property's estimated current fair value may also be based upon a review of other property transactions that have occurred in the same geographical area as that of the property under review.

The Company has accounted for its mineral property interests as tangible assets in accordance with Section 3061 of the Accounting Recommendations issued by the Canadian Institute of Chartered Accountants ("CICA 3061"). This standard states that "mining properties are items of property, plant and equipment represented by the capitalized costs of acquired mineral rights and the costs associated with exploration for and development of mineral reserves." Under CICA 3061 the amortization of such mining assets will be over their estimated useful life upon the achievement of commercial production.

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 transportation vehicles and 20% per annum for mining, office and computer equipment. Amortization is recorded when the asset is fully operational.

d) *Grant Recoveries*

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

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 period. 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. The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. The effect of potential issuances of shares under options 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 of estimate relate to the recoverability of mineral properties and related deferred exploration costs, determinations as to whether costs are expensed or deferred, stock compensation valuation assumptions, 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, 2005 and 2004

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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 tax assets and liabilities ("FITs") are measured using the enacted or substantially 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 future income tax assets is not likely.

To date the Company has not recorded any future tax assets to offset its FIT liabilities. If it were to do so, the Company would report an FIT recovery in its Statement of Operations and Deficit to the extent of the asset recognized.

h) *Foreign Currency Translation*

The Company's former foreign wholly-owned subsidiary operation, which was wound-up effective January 1, 2005, was considered fully integrated with the Company and was translated into Canadian dollars using the weighted average rates for the year for items included in the statement of operations and deficit, except for amortization which was translated at historical rates, the rate prevailing at the balance sheet date for monetary assets and liabilities, and historical rates for all other items. Exchange gains or losses on translation were included in the current year's operations.

i) *Asset Retirement Obligations*

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon undiscounted 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 allocated to expense over its expected life. Adjustments will also be made in subsequent periods to changes on asset retirement

obligations due to changes in regulations or cost estimates. As at December 31, 2005, the Company has not recorded any asset retirement obligations.

j) *Stock-Based Compensation (Restated Note 18)*

The Company adopted the recommendations of CICA Handbook Section 3870, stock-based compensation and other stock-based payments, effective to all awards granted on or after January 1, 2003. The new standard requires that all stock-based awards made to employees and non-employees be 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 factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of share capital is determined by the quoted market price of the Company's shares. The Company charges the costs related

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

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to stock-based compensation to the Statement of Operations or in case of project related personnel capitalizes the related amounts to mineral properties.

k) *Flow-Through Shares (Restated Note 18)*

The Company applies the consensus of Abstract #146 of the Emerging Issues Committee of the CICA in respect to its accounting for all flow-through share renunciations occurring subsequent to March 19, 2004. 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 liability an offsetting reduction to share capital is made.

3. MINERAL PROPERTIES

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

The Afton mineral properties consist of nine new mineral claims staked under the new mineral tenure system in British Columbia and fourteen heritage claims, covering a total area of 4,011.1 hectares.

Under the terms of two option agreements ("Option") dated September 22, 1999 to acquire the Afton Mineral Claims, the Company agreed to issue 2 million common shares and complete an aggregate work commitment totaling \$6.5 million over nine years to earn the rights to 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 13(a)).

The Company made the final common share payment of 200,000 common shares on August 22, 2005 and now has completed its commitment under the Option agreement. The Company has a 100% interest in the mineral claims subject to the 10% net profit royalty maintained by the optionors.

A director of the Company had a one-half interest in the Option agreement as one of the optionors (See Note 9(d)).

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, consisting of fifteen new mineral claims staked under the new mineral tenure system in British Columbia and fifteen heritage claims.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

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c) Timmins, Ontario, Mineral Property

The Company owns a 100% interest in eleven mineral claims located in the Porcupine Mining Division of Ontario. The mineral claims are in good standing until October 14, 2006.

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value 2005
Land	\$ 56,900	\$ -	\$ 56,900
Building	104,700	10,470	94,230
Transportation vehicles	130,071	58,434	71,637
Mining equipment	304,296	43,845	260,451
Office and computer equipment	146,146	50,865	95,281
	\$ 742,113	\$ 163,614	\$ 578,499

	Cost	Accumulated Amortization	Net Book Value 2004
Land	\$ 56,900	\$ -	\$ 56,900
Building	104,700	5,235	99,465
Transportation vehicles	130,071	32,420	97,651
Mining equipment	212,926	-	212,926
Office and computer equipment	77,741	36,545	41,196
	\$ 582,338	\$ 74,200	\$ 508,138

5. CAPITAL LEASE PAYABLE

	2005	2004
GMAC, 0%, repayable in monthly installments of \$1,889, matures April 30, 2007	\$ 30,228	\$ 52,899
Less: current portion due within one year	(30,228)	(22,671)
	\$ -	\$ 30,228

In January 2006, the Company sold a transportation vehicle to a former director of the Company who took over the related capital lease payments totaling \$30,228.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

(Canadian dollars)

6. INCOME TAXES (RESTATED - Note 18)

a) *Loss before income taxes are as follows:*

	2005 Restated (Note 18)	2004 Restated (Note 18)	2003 Restated (Note 18)
Canada	\$ (3,415,094)	\$ (1,222,186)	\$ (415,736)
U.S.A.	-	19,381	34
Total	\$ (3,415,094)	\$ (1,202,805)	\$ (415,702)

b) *The provision for income taxes consist of the following:*

	2005 Restated (Note 18)	2004 Restated (Note 18)	2003 Restated (Note 18)
Future Taxes (Recovery)			
Canada	\$ (561,148)	\$ -	-
Ontario Capital Tax	5,000		
Large Corporation Tax			
Canada	-	-	40,500
Total	\$ (556,148)	\$ -	\$ 40,500

Temporary differences that give rise to future income taxes are as follows:

	2005 Restated (Note 18)	2004 Restated (Note 18)
Long-term future tax liability		
Mineral Properties	\$ 7,346,588	\$ 7,373,644

c) *A reconciliation of expected and actual income tax expense at statutory rates is as follows:*

	2005 Restated (Note 18)	2004 Restated (Note 18)
Loss before income taxes	\$ (3,415,094)	(1,202,805)
Expected income tax recovery	\$ (1,126,981)	(439,024)
Net effect of non-deductible amounts	92,093	271,907
Unrecognized benefit of tax pools carried forward	1,034,888	167,117
Recognition of tax recovery relating to rate reduction	556,148	-
Income tax recovery	\$ 556,148	-

The tax expense in 2003 relates to capital taxes.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

(Canadian dollars)

Temporary differences that could give rise to future income tax assets:

	2005	2004
Long-Term Future Income Tax Assets		
Loss carry forwards	\$ 1,969,520	\$ 948,462
Share issue costs	456,888	403,265
Total Long-Term Future Income Tax Assets	2,426,408	1,351,727
Less valuation allowance	(2,426,408)	(1,351,727)
Net long-term future income tax assets	\$ -	\$ -

d) *Subject to confirmation by the income tax authorities, the Company has the following undeducted tax pools:*

	2005	2004
Canadian Exploration Expenses	\$ 9,421,165	\$ 2,866,209
Canadian Development Expenses	713,607	651,480
Undepreciated Capital Costs	462,989	451,039
Share Issue Costs	1,300,933	1,071,942
Non-Capital Losses, expiring at various dates to 2015	5,607,974	2,532,071

7. SHARE CAPITAL (RESTATED - Note 18)

Authorized

Unlimited number of common shares without par value. 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

	Number of Shares	Amount Restated (Note 18)
Balance, December 31, 2003	12,901,766	\$ 39,944,361
Issued for cash		
Exercise of stock options	840,000	2,550,000
Issued for mineral properties	200,000	1,260,000
Balance, December 31, 2004	13,941,766	43,754,361
Issued for cash		
Private placements, net of share issue costs (a)	1,330,000	9,254,319
Issued for finders' fee (a)	103,951	669,788
Issued for mineral properties (b)	200,000	1,074,000
Balance, December 31, 2005	15,575,717	\$ 54,752,468

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

(Canadian dollars)

- a) On April 22, 2005, the Company completed a non-brokered private placement by issuing 400,000 flow-through common shares at a price of \$7.50 per share for gross proceeds of \$3 million (net proceeds \$2,793,809). The Company issued 29,000 shares, at a market value of \$6.20 per share, as a finders' fee for the placement of common shares.

On October 6, 2005, the Company completed a non-brokered private placement by issuing 430,000 flow-through common shares at a price of \$7.00 per share for gross proceeds of \$3.01 million. The Company issued 36,331 shares, at a market value of \$5.78 per share, as a finders' fee for placement of the common shares.

On December 22, 2005, the Company completed a non-brokered private placement by issuing 500,000 flow-through common shares at a price of \$8.00 per share for gross proceeds of \$4.0 million. The Company issued 38,620 shares, at a market value of \$7.25 per share, as a finder's fee for placement of the common shares.

- b) The Company issued the final share commitment of 200,000 common shares at the fair market value of \$5.37 per share in accordance with the Afton mineral claim agreement.

8. STOCK OPTIONS (RESTATED - Note 18)

- a) 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 subsequent third year.

In addition, the Company has issued under the 2% inducement rules available under the TSX regulations, a total of 500,000 stock options to senior officers which are not included in the 10% allowable issuable amount.

Options issued subsequent to the approval of the new Plan primarily vest one half after six months and the remainder after one year from the date of issuance.

As at December 31, 2005, the stock options held by directors, consultants and employees are as follows:

NOTES TO FINANCIAL STATEMENTS
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(Canadian dollars)

Option Strike Price	Options Outstanding	Weighted Average Remaining Life (Years)
\$4.60	600,000	3.8
\$4.61 to \$5.99	12,000	4.7
\$6.00 to \$6.99	800,000	4.4
\$7.00 to \$7.04	315,000	4.6
	1,727,000	4.5

As at December 31, 2005, 1,080,000 stock options had vested.

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Balance, December 31, 2003	840,000	\$3.03	0.9
Granted	700,000	\$4.87	4.3
Exercised	(840,000)	\$3.03	3.9
Balance, December 31, 2004	700,000	\$4.87	4.3
Granted	1,042,000	\$6.82	4.5
Terminated	(15,000)	\$(6.40)	
Balance, December 31, 2005	1,727,000	\$6.04	4.5

The fair value of 535,000 options granted during the year ended December 31, 2005 (2004 –750,000) has been estimated at the date of grant using a Black-Scholes option pricing model. The current year's valuation was calculated with the following assumptions: weighted average risk free interest rate of 3.00 – 3.29% (2004, 3.21 – 3.44%); volatility factor of the expected market price of the Company's common stock of 44% (2004 - 43%); and a weighted average expected life of the options of 2.5 years (2004 – 2.5 years). The resulting weighted average cost per option granted was \$2.00 (2004 – \$1.34). The estimated fair value of the options is expensed over the vesting period.

The fair value compensation recorded for the year ended December 31, 2005 in respect of awards granted in 2005 that was expensed to the Statement of Operations was \$811,481 (2004 - \$868,190) and capitalized to mineral properties was \$47,913 (2004 - \$nil).

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

(Canadian dollars)

b) Compensation Options

As at December 31, 2005, the following compensation options were issued and outstanding:

Expiry Date	Number of Compensation Options	Weighted Average Exercise Price
October 13, 2006	50,000	\$4.60

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

9. RELATED PARTY TRANSACTIONS (RESTATED - Note 18)

	2005 Restated (Note 18)	2004 Restated (Note 18)
a) For consulting, administration and exploration costs charged by a Director of the Company. Effective January 1, 2005, these services ceased to be provided by a related party.	\$ -	\$ 46,460
b) For wages and consulting services charged by a related person of a Director.	\$ 96,000	\$ 72,600
c) For wages and consulting services charged by the President/Director of the Company. Effective January 1, 2005, these services ceased to be provided by a related party.	\$ -	\$ 153,000
d) For geological consulting services on mineral properties charged by an Officer of the Company. Effective January 1, 2005, these services ceased to be provided by a related party.	\$ -	\$ 101,060
e) For 100,000 shares issued in payment pursuant to the Afton mineral claim option agreement to a Director of the Company.	\$ 537,000	\$ 630,000
f) For secretarial and administrative services charged by a Director of the Company. Effective January 1, 2005, these services ceased to be a related party.	\$ -	\$ 72,600

10. CONTRIBUTED SURPLUS

The following table identifies the changes in contributed surplus for the period:

	Stock-Based Compensation
Balance – December 31, 2004	\$ 868,190
Stock-based compensation	859,394
Balance – December 31, 2005	\$ 1,727,584

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

(Canadian dollars)

11. SUPPLEMENTARY CASH FLOW INFORMATION (RESTATED - Note 18)

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

	2005 Restated (Note 18)	2004 Restated (Note 18)
Investing Activities		
Vehicle acquired via capital lease	\$ -	\$ 68,013
Mineral property expenditures included in accounts payable	(1,656,138)	-
Financing Activities		
Shares issued for mineral properties	1,074,000	1,260,000
Shares issued for finders' fee	669,788	-

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities, and capital lease payable. 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. The fair values of these financial instruments approximate their carrying values due to the relatively short period to maturity of these instruments.

13. COMMITMENTS AND CONTINGENT LIABILITIES

- a) 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 \$2,000,000 in cash or shares of the Company.
- b) The Company entered into two service agreements ("Agreements") dated April 23, 2003, and subsequently amended on January 1, 2005, to provide employment for the Chairman (formerly the President) and the Corporate Secretary ("the Parties"). The Agreements, amongst other things, provide for the terms and conditions for termination where no moral turpitude or dishonesty has occurred on the part of the Parties as well as for retirement provisions should the Parties decide to cease their involvement in the Company. Upon termination by the Company or retirement by either of the Parties, the Company is obligated to pay a lump sum payment equal to one month's base compensation (based on the prior year's average monthly rate) for each year of service. As at December 31, 2005 the liability under these employment conditions amount to \$445,650 for the Chairman and \$225,215 for the Corporate Secretary. These amounts

have been accrued and charged during the year to wages and benefits in the Statement of Loss. In January 2006 both of the Parties elected to retire and these amounts were paid.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

(Canadian dollars)

- c) The Company is committed to an operating lease for office premise rentals in the aggregate of \$115,103. The future minimum lease payments as at December 31, 2005 are as follows:

2006	\$	42,131
2007		45,118
2008		27,854
	\$	<u>115,103</u>

14. ENVIRONMENTAL RISKS

Existing and possible future environmental legislation, regulations and action could give rise to additional expense, including those for future removal and site restoration costs, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Regulatory requirements and environmental standards are subject to constant evaluation and may be significantly increased, which could materially and adversely affect the business of the Company or its ability to develop its mineral properties on an economic basis. Before production can commence on any property, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals will be obtained on a timely basis or at all. The cost of compliance with changes in government regulations has the potential to reduce the profitability of operations or preclude entirely the economic development of mineral properties.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged against operations over the estimated remaining life of the related business operation, net of expected recoveries.

15. COMPARATIVE FIGURES

The comparative balance sheet as at December 31, 2004, and the statements of loss and deficit, and cash flows for the years ended December 31, 2004 and 2003, includes the accounts of the Company and its U.S. wholly-owned subsidiary, Dynamic Resources Corporation, Inc. All significant inter-company transactions and balances were eliminated on consolidation in 2004. Effective January 1, 2005, the operations of the wholly-owned subsidiary were wound up.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

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16. SUBSEQUENT EVENTS

a) Short-form unit offering

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 \$75,006,000. Each unit consists of one common share and one-half of a share purchase warrant. Each whole warrant is exercisable to purchase one common share at a price of \$12.00 per share for a period of two years from the date of closing and have been listed for trading on the Toronto Stock Exchange. A commission of 5.25% was paid to the underwriters.

b) Subsequent to December 31, 2005, the Company will sign definitive contracts totaling \$3.7 million for the preparation of a feasibility study ("Study") for the New Afton copper/gold project. The Study is expected to be completed in the fourth quarter of 2006.

c) Subsequent to December 31, 2005 the tax benefits associated with the \$10,010,000 in flow through share issuances during 2005 were renounced to the purchasers of the shares. Under the terms of the agreement the Company is committed to expend these funds.

17. DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND THE UNITED STATES (RESTATE - Note 18)

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 used in preparing these financial statements from principles, practices and methods accepted in the United States ("U.S. GAAP"), and that impact financial statement line items, are described below.

Mineral property interests and deferred exploration costs

Under Canadian GAAP, costs to acquire property rights, including any related future income tax liabilities 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 to the recoverability of those costs. Accordingly, while the Company's Afton project remains at a pre-feasibility stage of development, management has elected under Canadian GAAP to defer all costs incurred on it until the property is abandoned, sold, or upon management determining there to be an impairment in value. Under U.S. GAAP, prior to the point in time that a positive feasibility report has been completed in respect to a property, such costs must be expensed as incurred. Mineral property costs expensed under US GAAP are net of the following future income tax amounts of \$534,093 (2004 - \$663,933, 2003 - \$826,594) which are capitalized under Canadian GAAP.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

(Canadian dollars)

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 US 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 the premium paid by the investors.

Upon renouncing the income tax deductions in 2006, the Company will record 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 the Company does not have temporary differences as a result of the policy to expense costs related to mineral properties, therefore all future income taxes related to renouncements for Cdn GAAP are reversed through the statements of operations for US GAAP purposes.

During the year ended December 31, 2005, the Company issued an aggregate of 1,330,000 flow-through shares at an average premium of approximately \$0.73 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.

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.

Stock-based Compensation

In 2004, the Company adopted FAS 123R which is consistent with the treatment under Cdn GAAP. Therefore there are no differences on accounting for stock-based compensation under Cdn and US GAAP.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

(Canadian dollars)

The impact of these differences in respect to these financial statements is quantified below in financial statement line items as lettered a) to m):

BALANCE SHEETS

	2005 Restated	2004 Restated
Assets		
Deferred property costs under Canadian GAAP	\$ 42,440,604	\$ 24,217,516
Deferred property costs expenditures expensed under US GAAP	(42,440,604)	(24,217,516)
(a) Deferred property costs under US GAAP	-	-
(b) Total assets under US GAAP	19,190,578	25,861,713
Future tax liability under Canadian GAAP	7,346,588	7,373,644
Reversal of temporary differences for property costs expensed under US GAAP	(7,346,588)	(7,373,644)
(c) Future tax liability under US GAAP	-	-
Liability relating to the Premium on flow-through shares	975,100	-
Liabilities under Cdn GAAP	3,797,703	1,217,249
(d) Total liabilities under US GAAP	4,772,803	1,217,249
Share capital under Canadian GAAP	54,752,468	43,754,361
Flow-through premium included in income under US GAAP	(975,100)	-
Reversal of charge to share capital for flow-through shares under U.S. GAAP	1,592,065	1,592,065
(e) Share capital under US GAAP	55,369,433	45,346,426
Deficit under Canadian GAAP	(5,993,161)	\$ (3,134,215)
Adjustment for property costs expensed under US GAAP	(42,440,604)	(24,217,516)
Adjustment for FIT liability for mineral properties expensed under US GAAP	5,754,523	5,781,579
(f) Deficit under US GAAP	(42,679,242)	(21,570,152)
(g) Total Shareholders' Equity Under US GAAP	14,417,775	\$ 24,644,464
(h) Total liabilities and stockholders' equity under US GAAP	\$ 19,190,578	25,861,713

NOTES TO FINANCIAL STATEMENTS

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STATEMENTS OF OPERATIONS AND DEFICIT

	2005 Restated	2004 Restated	2003 Restated
Loss for the year under Canadian GAAP	\$ (2,858,946)	\$ (1,202,805)	\$ (456,202)
Property costs written off under Canadian GAAP	-	-	1
Property costs expenditures expensed under US GAAP	(17,688,996)	(3,646,636)	(3,296,661)
FIT recovery related to property cost temporary differences reversed under US GAAP	(561,148)	-	-
(i) Loss for the year under US GAAP	\$ (21,109,090)	\$ (4,849,441)	\$ (3,752,862)
(j) Basic and diluted loss per share under US GAAP	\$ (1.46)	(0.36)	(0.39)

STATEMENTS OF CASH FLOWS

	2005 Restated	2004 Restated	2003 Restated
Operating Activities			
Cash from (used in) operating activities under Canadian GAAP	\$ (1,675,399)	\$ 442,360	\$ (252,570)
Loss for the year under Canadian GAAP	2,858,946	1,202,805	456,202
Loss for the year under US GAAP	(21,109,090)	(4,849,441)	(3,752,862)
Deferred property costs written off under Canadian GAAP	-	-	1
Non-cash FIT under US GAAP	561,148	-	-
Non-cash issue of shares for mineral property costs	1,074,000	1,260,000	1,554,000
Non-cash working capital changes in mineral properties expensed	1,656,138	-	-
Non-cash stock-based compensation in mineral properties expensed	47,913	-	-
(k) Net cash used for operating activities under US GAAP	\$ (16,586,344)	\$ (1,944,276)	\$ (1,995,229)
Investing Activities			
Cash used in investing activities under Canadian GAAP	\$ (15,076,802)	(2,684,822)	(1,742,663)
Cash property costs included in operations under US GAAP	14,910,945	2,386,636	1,742,663
(l) Net cash used in investing activities under US GAAP	\$ (165,857)	(298,186)	-
Financing Activities			
Cash provided in financing activities under Canadian GAAP	\$ 9,901,436	2,534,886	22,860,250
(m) Net cash provided by financing activities under US GAAP	\$ 9,901,436	2,534,886	22,860,250

NOTES TO FINANCIAL STATEMENTS

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(Canadian dollars)

18. Restatement of the Financial Statements

During 2006 the Company undertook a review of its previously-issued financial statements for: the accounting treatment for the recognition of future income taxes related to flow-through share offerings, the valuation method used for assigning value for share payments, stock-based compensation costs related to project personnel and the reporting of non-cash working capital changes reported in the Statement of Cash Flow. Management thereafter determined that the following amendments should be reflected in these restated financial statements:

- a) The Company has adopted the recommendations of EIC146 of the Emerging Issues Committee of the CICA with respect to its accounting for all flow-through share renunciations. Previously the Company had recognized the future income tax liability and corresponding reduction in share capital at the earlier of the renunciation date or the balance sheet date following the flow through share offering provided management had reasonable expectation of completing the expenditures. This practice has now been changed whereby the future income tax liability is recognized at the balance sheet date following the filing of the renunciations, provided management has a reasonable expectation of completing the expenditures. The Company has taken the same approach to account for flow through shares in prior periods. (See Note 2)

As a result, future income liability for 2005 has been decreased and share capital increased by \$3.5 million from amounts previously recorded in 2005. These amounts will now be recognized in 2006 and. Additionally the Company has reversed prior future income tax expenses relating to renouncements for 2003 and prior years.

- b) The Company previously valued the two million shares issued between July 2000 and August 2005 to purchase the Afton mineral claims at the price of the shares on the day the agreement was signed. This practice has been changed to value these payments at the fair market value of the shares at each issuance based upon the previous 5 day weighted average price.

As a result, mineral properties and share capital have been increased by \$11.8 million as at December 31, 2005. All share issuances prior to 2003 have been recorded in the opening balance of the Statement of Changes in Shareholders' Equity in the amount of \$8.1 million as a cumulative adjustment while the measurement of the 2003 to 2005 payments have been restated to their fair value amounts.

Future income tax liabilities have been adjusted to reflect the increase in temporary differences created as a result of the difference between the tax and book value of the option payment and the resultant amounts have been capitalized to mineral properties. As a result, mineral properties and future income tax liabilities have increased by \$6.5 million at December 31, 2005 and \$6.0 million at December 31, 2004 which includes charges resulting from periods prior to 2004.

The Company's policy is to recognize income tax rate changes in the Statement of Operations in the period they are substantively enacted.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

(Canadian dollars)

- c) The Company previously expensed all of its stock-based compensation to the Statement of Operations. In accordance with the revised accounting treatment (See Note 2) a reduction in the amount of \$47,913 has been made related to employees who work directly on the Company's mineral properties.
- d) The Statement of Cash Flow for 2005 reflected accrued property expenditures within the reported change in accounts payable related to operating activities. A net amount of \$1,656,138 has been reclassified from the reported change in non-cash working capital items applicable to decrease cash payments for mineral properties under the investing activities.

The effect of the restatement on these restated financial statements is summarized as:

Balance sheet 2005	Reference	As previously reported	Adjustment	As restated
Mineral properties	a/b	\$22,561,015	19,879,589	42,440,604
Future income taxes	a/b	4,384,680	2,961,908	7,346,588
Share capital	a/b	\$39,461,796	15,290,672	54,752,468
Deficit	a/c	(7,620,170)	1,627,009	(5,993,161)
Balance sheet 2004	Reference	As previously reported	Adjustment	As restated
Mineral properties	a/b	\$5,933,932	18,283,584	24,217,516
Future income taxes	a/b	922,675	6,450,969	7,373,644
Share capital	a/b	\$33,008,361	10,746,000	43,754,361
Deficit	a/b	(4,220,830)	1,086,615	(3,134,215)
Statement of Operations and Deficit	Reference	As previously reported	Adjustment	As restated
Loss for the year 2005	a/b/c	(3,399,340)	540,394	(2,858,946)
Loss for the year 2004	a/b	(1,249,545)	46,740	(1,202,805)
Loss for the year 2003	a/b	(1,218,371)	762,169	(456,202)
Deficit beginning of 2003	a/b	(1,752,914)	277,706	(1,475,208)
Deficit ending of 2003	a/b	(2,971,285)	1,039,875	(1,931,410)
Statement of Cash Flows 2005	Reference	As previously reported	Adjustment	As restated
Net change in non-cash working capital items	d	2,493,856	(1,656,138)	837,718
Payments for mineral properties and exploration costs	d	(16,567,083)	1,656,138	(14,910,945)
Statement of Changes in Shareholders' Equity	Reference	As previously reported	Adjustment	As restated
Common stock – closing balance December 31, 2002	b	8,086,803	8,052,000	16,138,803