

NEW GOLD INC.
Management's Discussion and Analysis
Nine Months Ended September 30, 2008
(in United States dollars, except where noted)

This Management's Discussion and Analysis should be read in conjunction with New Gold Inc.'s ("New Gold") unaudited interim consolidated financial statements for the three and nine months ended September 30, 2008 and related notes thereto which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements. All figures are in United States dollars, tabular amounts are in thousands, unless otherwise noted. This Management Discussion and Analysis has been prepared as of November 11th, 2008. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Further to the recent business combination of New Gold Inc. ("NGI"), Metallica Resources Inc. ("Metallica") and Peak Gold Ltd. ("Peak Gold") on June 30, 2008, unaudited interim consolidated financial statements of the newly formed company ("New Gold" or the "Company") for the three and nine month periods ending September 30, 2008 are presented on the basis that Peak Gold is the acquirer for accounting purposes.

THIRD QUARTER HIGHLIGHTS

- **Gold production of 68,801 ounces**
- **Gold sales of 67,156 ounces**
- **Total cash cost of \$566 per ounce (net of by-product sales)⁽¹⁾**
- **Net Loss of \$148.9 million after the Amapari impairment of \$156.9 million net of tax recoveries**
- **The Company has written down its investment in Amapari by \$156.9 million, net of tax recoveries, to \$10.6 million**
- **Decision to slow development of the New Afton Project**

(1) "Total cash cost" figures are calculated in accordance with a standard developed by The Gold Institute, which was a worldwide association of suppliers of gold and gold products and included leading North American gold producers. The Gold Institute ceased operations in 2002, but the standard is the accepted standard of reporting cash cost of production in North America. Adoption of the standard is voluntary and the cost measures presented may not be comparable to other similarly titled measures of other companies. The Company reports total cash cost on a sales basis. Total cash cost includes mine site operating costs such as mining, processing, administration, royalties and production taxes, but is exclusive of amortization, reclamation, capital and exploration costs. Total cash cost is then divided by ounces sold to arrive at the total cash cost of sales. The measure, along with sales, is considered to be a key indicator of a company's ability to generate operating earnings and cash flow from its mining operations. This data is furnished to provide additional information and is a non-GAAP measure. It should not be considered in isolation as a substitute for measures of performance prepared in accordance with GAAP and is not necessarily indicative of operating costs presented under GAAP.

Background

The Company is a gold producer engaged in gold mining and related activities including acquisition, exploration, extraction, processing and reclamation. The Company's operating assets are comprised of the Amapari mine in Brazil, the Cerro San Pedro mine in Mexico, and the Peak mine in Australia. Significant development projects include the New Afton copper-gold project in Canada and a 30% interest in the El Morro copper-gold project in Chile.

With a clear direction in place, New Gold's strategy focuses on four main pillars; delivery on operational targets (safety, environment and social responsibility, production and cost); maintenance of a strong financial position; internal growth through project development and continuous improvement of our existing assets; and external growth through continued consolidation of junior gold producers. New Gold is working towards maximizing shareholder value through diversified production, maintaining a reduced risk profile and enhancing growth potential. The board of directors, management and the employees of New Gold are committed to achieving this in a socially responsible and sustainable manner.

Corporate Developments

Business Combination

On June 30, 2008 NGI, Metallica and Peak Gold completed a business combination and asset acquisition (the "Transaction") to form New Gold. In accordance with the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1581, Business Combinations, Peak Gold has been identified as the acquirer for accounting purposes. As such, this Management's Discussion and Analysis is a continuation of the operations of Peak Gold, with the comparative information being that of Peak Gold. References to NGI are to the pre-transaction corporate entity whereas a reference to New Gold refers to the post-transaction consolidated entity.

Under terms of the Transaction, shareholders of Peak Gold received 0.1 shares of New Gold common shares and nominal cash consideration for each common share of Peak Gold. The Transaction has been accounted for as a purchase of assets and assumption of liabilities of NGI by Peak Gold. Shareholders of Metallica received 0.9 shares of New Gold common shares and nominal cash consideration for each common share of Metallica. For accounting purposes the acquisition of Metallica has been accounted for as a purchase transaction. Refer to Note 5 of the Company's unaudited interim consolidated financial statements for the three and nine months ended September 30, 2008 for further information on the Transaction.

The Transaction provides the Company with an improved production profile through the diversification of producing assets, increased reserves and resources and it broadens growth potential with an inventory of development and exploration stage assets.

Investment in Amapari

The Company has reviewed the carrying value of its investment in Amapari and has concluded that there has been an impairment. Evaluation of results from the 2007/2008 drill program has not added significant amounts of oxides that would be economical to process in the existing heap leach circuit. Remaining heap leachable material will be exhausted in the fourth

quarter of 2009. Production beyond 2009 is subject to ongoing studies on the feasibility of mining and processing the sulphide resources underlying and surrounding the oxide pits. As a result the limited mine life for the oxides and unproven economic viability of the identified sulphide resources, management has written down its investment in Amapari by \$156.9 million, net of tax recoveries, to a value of \$10.6 million.

New Afton Project Development Schedule

Due to the volatility and uncertainty of today's markets and the Company's current cash position, coupled with the funding requirements for the fast track construction of the New Afton project, the Company has made the decision to slow development of the project.

Under the revised development plan, surface construction will be shut down in an orderly fashion over the coming weeks while development of the underground workings will continue at a reduced rate to gain access to the bottom of the ore body. The revised schedule projects a cash requirement of approximately \$83.0 million in 2009, as compared to the previous fast track schedule which had a cash requirement of \$320.0 million for the coming year. Under the original fast track schedule operations were to commence in late 2009, ramping up to achieve full production in the second quarter of 2011. With the revised plan, surface construction would resume at the end of 2010 with full production achieved in the second half of 2012.

Selected Financial Information

(US dollars in thousands, except per share amounts and per ounce amounts)

	Three Months Ended ⁽¹⁾						Four Months ended	Three Months Ended
	Sept 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007 ⁽⁴⁾	Sept 30, 2007	Jun 30, 2007	Mar 31, 2007 ⁽³⁾	Nov 30, 2006
Revenues	\$63,384	\$39,497	\$56,221	\$46,979	\$44,663	\$39,442	\$nil	\$nil
Gold produced (ounces)	68,801	42,052	43,300	53,430	53,900	42,500	nil	nil
Gold Sales (ounces)	67,156	40,540	51,700	52,351	55,000	48,000	nil	nil
Average Realized Price (US\$/ ounce)	\$870	\$898	\$933	\$793	\$697	\$662	\$nil	\$nil
Depreciation and depletion	(\$9,666)	(\$7,657)	(\$6,404)	(\$3,766)	(\$13,258)	(\$9,481)	\$nil	\$nil
Corporate administration	\$8,334	\$3,196	\$4,027	\$5,122	\$2,814	\$5,290	\$67	\$247
Earnings (loss) from operations	(\$167,588)	(\$5,895)	\$13,479	\$13,090	\$2,612	(\$1,525)	(\$67)	(\$247)
Interest and other income	\$1,123	\$1,355	\$1,967	\$1,198	\$1,250	\$1,651	\$14	\$nil
Net earnings (loss)	(\$148,852)	(\$4,751)	\$9,790	\$14,789	\$1,180	(\$1,289)	(\$54)	\$10,188
Earnings (loss) per share	(\$0.70)	(\$0.05)	\$0.01	\$0.02	\$nil	\$nil	\$nil	\$0.09
Cash flow from (to) operating activities	(\$10,459)	(\$2,987)	\$18,394	\$12,944	\$7,823	\$5,856	(\$3)	(\$63)
Total Cash costs (per gold ounce) ⁽²⁾	\$566	\$742	\$427	\$398	\$303	\$343	\$nil	\$nil
Cash and Cash Equivalents	\$251,131	\$319,179	\$197,636	\$149,924	\$77,111	\$77,388	\$643	\$328
Short term investments	\$ nil	\$nil	\$nil	\$32,440	\$nil	\$nil	\$1,110	\$nil
Investments	\$87,645	\$91,193	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Total Assets	\$1,979,246	\$2,166,962	\$590,691	\$572,398	\$456,912	\$ nil	\$nil	\$342

(1) Operating results of Amapari and Peak Mines are included from April 3, 2007 to September 30, 2008. Results for Cerro San Pedro and New Afton are included from the period of June 30, 2008 to September 30, 2008.

(2) The calculation of total cash cost per ounce of gold for Peak Mines is net of by-product copper sales revenue. The calculation of total cash cost per ounce of gold for Cerro San Pedro is net of by-product silver sales revenue.

(3) The Company changed its fiscal year end from November 30 to December 31, commencing with the thirteen month period ending December 31, 2007. As a result, the quarter ended March 31, 2007 is a four month period.

(4) In the fourth quarter, the company finalized the purchase price allocation of the assets and liabilities acquired in the acquisition of Amapari and Peak Mines. The result of the fourth quarter includes adjustments made upon completion of the allocation of the purchase consideration of Amapari and Peak Mines.

Overview of the third quarter 2008 financial results

Net loss for the third quarter of 2008 of \$148.9 million, which includes an impairment charge of \$156.9 million (net of tax recovery of \$8.4 million) and \$2.5 million in stock-based compensation. Net earnings of \$8.0 million (excluding the impairment charge of \$156.9 million) compared to net earnings of \$1.2 million for the third quarter of 2007. The increase is mainly attributed to a \$15.5 million gain on foreign exchange in the third quarter of 2008 compared to \$1.1 million foreign exchange loss in the third quarter of 2007. Foreign exchange gains arise mainly from Canadian dollar denominated monetary items and revaluation of foreign future income tax liabilities. Loss from operations was \$167.6 million compared to earnings from operations of \$2.6 million for the same period last year. Total cash cost was \$566 per ounce for the third quarter of 2008 compared to \$303 in the third quarter of 2007. The increase can be attributed to higher operating costs at the Amapari mine and lower copper concentrate sales (by-product credits) at Peak Mines compared to the same period last year and the impact of falling copper prices on copper revenues not yet received.

Operation Review

Amapari, Brazil

(US dollars in thousands, except ounce and per ounce amounts)

Operating Data	Three Months Ended				
	Sept 30, 2008	June 30, 2008	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007
Tonnes of ore mined	493,285	353,813	448,752	598,695	591,993
Tonnes of low grade mined	260,670	251,042	177,081	247,485	162,183
Tonnes of waste removed	2,708,792	1,491,231	1,198,743	2,193,579	2,273,088
Ratio of waste to ore	6.0	4.9	3.1	4.1	4.1
Tonnes of ore processed	517,239	388,000	384,000	529,800	519,400
Average mill head grade (grams/tonne)	1.89	1.76	2.35	3.41	2.41
Average recovery rate (%) ⁽¹⁾	76%	60%	63%	62%	62%
Gold (ounces)					
– Produced ⁽²⁾	17,752	20,938	18,201	24,400	22,200
– Sold	16,661	22,099	20,453	22,600	22,200
Average realized gold price (per ounce)	\$853	\$895	\$918	\$785	\$684
Total cash costs (per ounce)	\$882	\$968	\$650	\$583	\$491
Financial Data					
Revenues	\$14,213	\$19,775	\$18,767	\$17,710	\$15,190
(Loss) Earnings from operations*	(\$170,660)	(\$7,668)	(\$327)	\$3,751	(\$1,560)

(1) Gold recovery is determined when the individual leach pads are reclaimed and production is reconciled.

(2) Tonnes of ore processed each quarter do not necessarily correspond to ounces produced during the quarter, as there is a time delay between placing tonnes on the leach pad and pouring ounces of gold.

(*) Includes the impairment charge of \$156.9 million (net of tax recoveries of \$8.4 million)

Amapari's gold production for the third quarter of 2008 was 17,752 ounces compared to 22,200 ounces for the same period in 2007. The lower gold production results primarily from lower gold grades.

Total cash cost per ounce for the quarter was \$882 per ounce compared to \$491 per ounce in the third quarter of 2007. High cash costs result from lower production, increased cyanide and carbon costs and increased maintenance and other operating costs, partially offset by the weakening of the Brazilian currency (real) against the US dollar ("USD").

The positive results of a major overhaul of the operating systems at Amapari that commenced early in the quarter are evidenced by a significant increase of recoverable ounces on the leach pads. Recoverable ounces placed on the leach pads increased from 16,400 in the second quarter to 23,600 in the third quarter, an increase of 44 percent. Higher mobile

equipment availabilities resulted in 33 percent more tonnes placed. Full impact on production and cash cost from the recent improved operating performance is expected to be realized in the fourth quarter.

Revenue for the quarter was \$14.2 million, compared to \$15.2 million in the prior year third quarter. The decrease is due to lower sales volume, which was partially offset by the higher realized gold price. Losses for the current quarter were \$5.4 million (excluding impairment charge) compared to \$1.6 million a year ago and are attributed to higher processing costs, lower gold sales and reduced grade of ore offset by partially higher realized gold prices. Cash flow used in operations was \$5.1 million for the third quarter of 2008 compared to \$0.5 million generated from operations in the third quarter of 2007. The decrease is the result of lower gold sales revenue due to lower gold grades combined with increased costs.

Evaluation of results from the 2007/2008 drill program has not added significant amounts of oxide that would be economical to process in the existing heap leach circuit. Remaining leachable material will be exhausted in the fourth quarter of 2009. As a result of the limited remaining life of the oxide material high operating costs and lower than expected gold grades the Company has recorded an impairment charge of \$156.9 million, net of a tax recovery of \$8.4 million.

Peak Mines, Australia

(US dollars in thousands, except ounce and per ounce amounts)

Operating Data	Sept 30,	Three Months Ended			Sept 30,
	2008	Jun 30,	Mar 31,	Dec 31,	2007
		2008	2008	2007	2007
Tonnes of ore milled	196,633	186,326	179,087	188,933	182,835
Average mill head grade					
– Gold (grams/tonne)	4.95	4.18	4.96	5.55	6.21
– Copper (%)	0.67%	0.46%	0.70%	0.59%	0.65%
Average recovery rate					
– Gold (%)	85.1%	84.2%	87.9%	86%	87%
– Copper (%)	81.1%	64.9%	78.9%	70%	74%
Produced					
– Gold (ounces)	26,662	21,114	25,099	29,030	31,703
– Copper (thousands of pounds)	2,365	1,237	2,172	1,746	1,932
Sold					
– Gold (ounces)	24,425	18,441	31,247	29,751	32,800
– Copper (thousands of pounds)	1,715	855	2,551	2,469	1,908
Average realized price					
– Gold (per ounce)	\$878	\$902	\$943	\$799	\$707
– Copper (per pound)	\$2.76	\$4.27	\$3.75	\$2.99	\$3.47
Total cash cost per gold ounce ⁽¹⁾	\$560	\$472	\$281	\$258	\$176
Financial Data					
Revenues	\$21,732	\$19,722	\$37,454	\$29,278	\$29,467
Earnings from operations	\$6,018	\$2,944	\$17,144	\$13,416	\$6,494

- (1) The calculation of total cash cost per ounce of gold is net of by-product sales revenue. If the copper sales were treated as a co-product, average total cash cost at Peak Mines for the three months ended September 30, 2008, would be \$562 per ounce of gold and \$0.83 per pound of copper compared to \$309 per ounce of gold and \$2.28 per pound of copper in the previous year.

Peak Mines produced 26,662 ounces of gold and 2.37 million pounds of copper in the third quarter versus 31,703 ounces of gold and 1.93 million pounds of copper for the same period in 2007. Metal production returned to planned levels with an improvement in ore grade as mining focused on primary stopes. Mill throughput of 196,633 tonnes, remains at record levels, reflecting consistent underground production and high mill availability.

Total cash cost for the quarter was higher at \$560 per ounce compared to \$176 per ounce in the same quarter in 2007 as a result of a negative adjustment to copper concentrate accounts receivable due to decreased copper prices. The negative adjustment to concentrate accounts receivable increased total cash cost, net of by-product, by approximately \$155 per ounce. The balance of the copper concentrate receivable at the end of September was \$21.5 million compared to \$25.0 million at the end of June. Approximately \$18.9 million was received as a partial prepayment subsequent to the quarter-end however; the copper price on this amount may not be fixed until the end of 2008. Gold sales decreased to 24,425 ounces in the third quarter of 2008 from 32,800 ounces in the same quarter of 2007 due to lower gold grades mined. The average realized gold price for the quarter was \$878 compared to \$707 in the same quarter in 2007. Copper revenues were down for the quarter due to lower volume sold and lower copper prices. Copper recovery rates increased to 81.1% compared to 74.0% in the third quarter of 2007. Cash flow provided by operations for the third quarter was \$5.6 million compared to \$7.8 million for the third quarter in 2007.

Operation Review

Cerro San Pedro, Mexico

(US dollars in thousands, except ounce and per ounce amounts)

	Three Months Ended ⁽¹⁾		
	Sept 30, 2008	Jun 30, 2008	Mar 31, 2008
Operating Data			
Tonnes of ore mined	2,059,429	2,440,293	2,276,533
Tonnes of waste removed	3,831,513	3,074,769	3,051,869
Ratio of waste to ore	1.86	1.26	1.34
Tonnes of ore processed	2,059,429	2,440,293	2,276,533
Average mill head grade (grams/tonne)	0.59	0.64	0.61
Average Gold recovery rate (%)	65%	41%	41%
Average Silver recovery rate (%)	18%	19%	15%
Gold (ounces)			
– Produced ⁽²⁾	24,387	20,653	18,290
– Sold	26,070	22,190	15,922
Silver (ounces)			
– Produced ⁽²⁾	282,055	283,749	228,623
– Sold	305,430	300,728	203,973
Average realized gold price (per ounce)	\$874	\$897	\$933
Total cash cost net Silver credits (per ounce) ⁽³⁾	\$369	\$375	\$496
Financial Data			
Revenues	\$27,439	\$25,050	\$18,477
(Loss) Profit from operations ⁽⁴⁾	\$5,618	\$10,523	\$7,497

- (1) Commercial production at Cerro San Pedro commenced on May 1, 2007 however; the operation was still in its ramp up stage and production results are not comparable and therefore have not been presented. As such, the comparative analysis will be presented using prior quarter information.
- (2) Tonnes of ore processed each quarter do not necessarily correspond to ounces produced during the quarter, as there is a time delay between placing tonnes on the leach pad and pouring ounces of gold.
- (3) The calculation of total cash cost per ounce of gold is net of by-product sales revenue. If the silver sales were treated as a co-product, average total cash costs at Cerro San Pedro for the three months ended September 30, 2008, would be \$455 per ounce of gold and \$7.94 per ounce of silver.
- (4) Cerro San Pedro operations are included in New Gold's operating results for the period subsequent to June 30, 2008 only. Prior quarter information is presented for information purposes only.

Cerro San Pedro achieved good results in the third quarter with gold sales increasing to 26,070 ounces compared to 22,190 ounces in the second quarter. Gold and silver production for the third quarter was 24,387 ounces and 282,055 ounces,

respectively compared to 20,653 and 283,749 in the prior quarter. The increase in production over the second quarter was due to a higher recovery as leach pads approach equilibrium.

Total cash cost net of by-product sales for the third quarter was \$369 per ounce, down from \$375 per ounce in the second quarter. Cash cost was lower in the third quarter mainly because of the increase in the volume of gold sold offset by the reduction in the selling price of silver, higher strip ratio and increased consumable costs. Cash flow provided by operations for the third quarter was \$7.0 million.

Revenue for the third quarter increased by 10% to \$27,439 compared to \$25,050 in the second quarter as a result of incremental gold volume of 3,880 ounces sold in the third quarter, although the average realized price of gold fell quarter over quarter from \$897 to \$874 per ounce and the average realized silver price dropped from \$17.13 to \$15.24 per ounce.

Project Development Review

New Afton Copper-Gold Project

Engineering and construction activities progressed at the New Afton project during the quarter. The underground achieved 1,432 meters of advance during the third quarter compared to 1,267 metres in the second quarter of 2008. The underground work also included boring of the second ventilation raise, some 430 metres in length.

Surface activities continued during the quarter as the majority of the earthworks for the mill site were completed along with concrete foundation work in the mill. A total of 490,000 cubic meters of earth were moved during the quarter and 4,265 cubic yards of concrete were placed for the mill including SAG and Ball Mill foundations and mill building footings.

Despite good progress on the fast track project development schedule, the Company has made the decision to slow development activities of the New Afton Project in light of the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures. The underground mine development activities will continue at a reduced rate and surface construction activities will be wound down. This slowdown will be implemented in a manner that protects the value of expenditure to date and facilitates the re-commencement of activities when the decision is made to resume full construction of the project. The revised schedule involves development of access to the base of the ore body by the end of 2010 followed by completion of underground development and surface construction to achieve full production in the second half of 2012. This schedule is dependent on the Company obtaining the required financing for the project by the end of 2010, and if this financing is obtained prior to the end of 2010 the schedule can be revised accordingly.

During this slowdown period the Company will focus on the following areas of development:

- Continuing access development to the base of the ore body;
- Converting underground activities to an employee based workforce from the use of contractors;
- Continuing programs to ensure all existing permits are maintained and further required permits are obtained;
- Completing the mill enclosure for storage of equipment;
- Taking delivery of certain items already ordered and closing out other commitments; and
- Completing detailed engineering, which is approximately 70% complete at the end of the third quarter.

The revised schedule projects a total cash requirement of approximately \$83.0 million in 2009, as compared to the existing fast track schedule which has a cash requirement of \$320.0 million.

El Morro Copper-Gold Project

The El Morro project in Chile represents an early stage development project. The Company owns a 30% interest in the project with the project operator, Xstrata plc ("Xstrata").

The Company has an agreement with Xstrata whereby Xstrata will finance, at the Company's election, 70% of the Company's 30% share of El Morro's project development costs at Xstrata's cost of financing plus 100 basis points. Xstrata would be repaid through 80% of the Company's share of future project cash flow.

Exploration Review

Rio Figueroa

In June 2008, the Company entered into an agreement with Antofagasta Minerals S.A. (“Antofagasta”) which provides Antofagasta an option to earn up to a 70% interest in the Company’s Rio Figueroa copper-gold exploration project in Chile. Antofagasta will make option payments to the underlying landowners totaling \$2.7 million through September 2009 to earn a 30% interest in the Rio Figueroa project. Antofagasta can increase its interest in the project from 30% to 50% by making qualified exploration expenditures totaling \$7.0 million through June 2012. Antofagasta can further increase its interest in the project from 50% to 70% by making a cash payment to the Company of \$5.0 million and delivering a feasibility study for the project by June 2015.

Review of Financial Results

Three months ended September 30, 2008 compared to the three months ended September 30, 2007

Net losses amounted to \$148.9 million for the three months ended September 30, 2008, compared to net earnings of \$1.2 million in the same period last year. The loss is mainly attributable to the \$156.9 million write-down of Amapari, offset by the foreign exchange gain realized due to the recent increase in value of the US dollar.

The net losses for the three months ended September 30, 2008 were impacted by the following factors:

- Revenues increased by \$18.7 million in the third quarter of 2008 compared to the third quarter in 2007. The increase is primarily due to the inclusion of the Cerro San Pedro operating results and higher realized gold prices, which increased 25% over the previous year;
- Operating expenses increased by 79% compared to the same quarter in 2007 as a result of inclusion of the Cerro San Pedro operations and higher operating costs related to increases in consumables and maintenance;
- Depreciation and depletion, which relates to mining activities, was \$9.7 million for the quarter. Depreciation and depletion was \$3.0 million for Amapari, \$3.9 million for Cerro San Pedro and \$2.7 million for Peak Mines. This was \$3.6 million lower compared to the third quarter of 2007. In December 2007, the Company finalized its valuation of the acquisition of Amapari and Peak Mines resulting in adjustments to the fair value of depletable properties and a consequent reduction to depletion expenses;
- Overall, corporate activities have increased as a result of merged operations from the business combination. Corporate administration was \$5.5 million higher in the third quarter of 2008 due to one-time business combination related costs of approximately \$2.5 million and increased stock based compensation charges. Stock-based compensation was \$2.5 million for third quarter of 2008 compared to \$1.0 million in the same quarter in 2007;
- The Company recorded a \$15.5 million foreign exchange gain during the period as a result of the strengthening US dollar compared to the Australian dollar, Brazilian real, Mexican peso and Canadian dollar. The majority of the gain arose due to the revaluation of monetary assets and liabilities and future income tax liabilities recorded on the acquisition of Amapari, Peak Mines, Metallica and NGI.

Nine months ended September 30, 2008 compared to the ten months ended September 30, 2007

It should be noted that the Company changed its fiscal year end from November 31 to December 31 in 2007 to coincide with the year ends of Amapari and Peak Mines. As a result, the Company's operating results as at September 30, 2007 reflect operations for a ten month period.

The net losses of \$143.8 million for the nine months ended September 30, 2008 were impacted by the following factors:

- Revenues increased by 89% or \$75.0 million in the nine months ended September 30, 2008 as compared to the same period in 2007, primarily as result of a full nine months of sales for Amapari and Peak Mines compared to only six months of sales for the same period in 2007 and the addition of Cerro San Pedro's revenues for 3 months in 2008 and higher realized gold prices, which increased 25% over last year;
- Operating expenses increased by 118% to \$108.9 million (2007 - \$50.0 million), primarily due to a full nine months of production in 2008 for Peak Mines and Amapari and inclusion of the Cerro San Pedro mine for three months. The nine months ended September 30, 2007 includes operating results for Amapari and Peak Mines from April 3, 2007 and April 27, 2007, respectively to September 30, 2007;
- Depreciation and depletion increased by 4% to \$23.7 million (2007 - \$22.7 million) primarily due to a full nine months of commercial production and inclusion of the Cerro San Pedro mine for three months. In addition, the finalized purchase price allocation of assets and liabilities acquired in the acquisition of Peak Mines and Amapari were not completed until the fourth quarter of 2007. Accordingly, the nine months ended September 30, 2008 included depreciation based on finalized purchase price allocations while the same 2007 period did not;
- Corporate administration increased by 90% to \$15.6 million (2007 - \$8.2 million) as a result of increased corporate activity due to the one time only business combination costs of approximately \$2.5 million
- Exploration expense increased by \$3.5 million in the nine months ended September 30, 2008 as compared to the same period in 2007, as a result of continued exploration work at Amapari and Peak Mines and other properties acquired in the Transaction;
- Interest income of which the majority was earned on funds received from a private placement in December 2007 and the cash acquired in the business combination which closed on June 30, 2008 increased by \$1.5 million in the nine months ended September 30, 2008 as compared to the same period in 2007;
- Net losses amounted to \$143.8 million for the nine months ended September 30, 2008, compared to a net loss of \$0.2 million in the same period last year. Higher net losses are primarily a result of the Amapari write-down, partially offset by a full nine months of commercial operations and significant increases in realized gold prices (\$898 per ounce compared to \$681 per ounce in the same period last year);
- Total cash costs per ounce were \$568 for the nine months ended September 30, 2008 as compared to \$322 in the same period in 2007. The increase is due to lower production at Amapari and Peak Mines, higher labour costs, rising cost of consumables, unplanned maintenance costs offset by the weakening of the Australian dollar, Brazilian real and Mexican peso.

Non-GAAP Measure – Total Cash Cost per Gold Ounce Calculation

The Company reports total cash cost on a sales basis. In the gold mining industry, this is a common performance measure but does not have any standardized meaning, and is a non-GAAP measure. The Company follows the recommendations of the Gold Institute standard. The Company believes that, in addition to conventional measures, prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The following table provides a reconciliation of total cash cost per ounce to the financial statements:

(In thousands of USD except for ounces of gold and cash cost per ounce)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Ten months ended September 30, 2007
Operating Expenses per financial statements	\$44,248	\$24,662	\$108,880	\$49,951
Treatment and refining charges on concentrate sales	845	1,446	3,487	3,290
By-product copper sales	(1,136)	(7,730)	(14,843)	(16,877)
Non-cash adjustments	(5,947)	(1,713)	(6,987)	(3,239)
Total cash costs	38,010	16,655	90,537	33,125
Ounces of gold sold	67,156	55,000	159,396	102,997
Total cash cost per ounce of gold	\$566	\$303	\$568	\$322

Liquidity and Capital Resources

As of September 30, 2008, the Company held cash and cash equivalents of \$251.1 million (December 31, 2007 - \$149.9 million). The majority of the increase is attributed to cash and cash equivalents of \$134.2 million (net of acquisition costs) acquired from the closing of the Transaction. The Company had approximately \$8.6 million in short-term borrowings at Amapari at the end of the quarter.

The Company's cash and cash equivalents are invested in highly liquid, lower risk, interest-bearing investments with maturities of 90 days or less from the original date of acquisition. The counter-parties include banks, governments and government agencies. This does not include the asset backed commercial paper ("ABCP") discussed below.

As part of the Transaction, the Company acquired \$170.0 million in ABCP which is rated R1-high by Dominion Bond Rating Service. In mid-August 2007, a number of non-bank sponsors of ABCP, including those with which New Gold had invested, announced that they could not place ABCP due to unfavorable conditions in the Canadian capital markets. Accordingly, there is presently no active market for the ABCP held by the Company. The Company classifies its holdings in ABCP as long-term investments and has estimated the fair value on ABCP at approximately \$87.6 million as at September 30, 2008. There can be no assurance that this estimated value will be realized. Subsequent adjustments, which could be material, may be required in future reporting periods (Refer to the Risks and Uncertainties section for more information).

As of September 30, 2008, the Company had working capital of \$260.3 million (December 31, 2007 - \$214.1 million). During the quarter, the Company's working capital was negatively impacted by the decline in copper prices during the third quarter of 2008. As of September 30, 2008, working capital includes copper concentrate receivables at a value of \$21.5 million, which has been revalued at September 30, 2008 at \$2.76 per pound. Corresponding to this amount, an \$18.9 million partial pre-payment was received in the fourth quarter of 2008 at a price of \$1.87 per pound with final pricing and settlement expected to occur before year end.

In the opinion of management, the working capital at September 30, 2008, together with cash flows from operations, are sufficient to support the Company's normal operating requirements on an ongoing basis. However, taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is reviewing all expenditures, including its 2009 capital and operating budgets, and in particular, the New Afton Copper-Gold Project which will be slowed down to reduce the overall cash requirement in 2009 (refer to the New Afton Copper-Gold Project section for more information). The Company's focus in this overall review is on ensuring adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations.

The Company had expected to receive additional funds of approximately \$50.0 million from the exercise of 14,456,965 share purchase warrants at Cdn \$3.44 per share which expire on December 11, 2008. There is a high degree of uncertainty regarding the likelihood of the funds being received due to the current share price and the difficult current market conditions.

During the quarter ended September 30, 2008, the Company had negative operating cash flows of \$(10.5) million.

During the three months ended September 30, 2008, the Company invested a total of \$53.9 million in mining interests, including \$1.6 million at Amapari, \$9.5 million at Peak Mines, \$3.3 million at Cerro San Pedro and \$39.1 million at New Afton.

Contractual Obligations:

Contractual Obligations (in 000's USD\$)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-Term Debt	275,502				275,502
Interest Payable on Long-Term Debt	216,816	24,956	49,911	49,911	92,038
Commitments & Permits	46,656	40,759	4,482	1,415	
Other	239	37	192	10	
Total Contractual Obligations	539,214	65,752	54,585	51,336	367,540

The majority of the Company's contractual obligations consist of long-term debt and interest payable. Long-term debt obligations comprise of senior secured notes and subordinated convertible debentures. The senior secured notes were originally issued by NGI pursuant to a note indenture dated June 28, 2007, mature and become payable on June 28, 2017 and bear interest at a rate of 10% per annum. At September 30, 2008 the face value of the notes totaled \$223.6 million (Cdn \$237.0 million) with remaining interest payable totaling \$201.2 million. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year.

The Company has 55,000 subordinated convertible debentures that bear interest at a rate of 5% per annum and are convertible by the holders into common shares of the Company at any time up to June 28, 2014. At September 30, 2008 the aggregate principal of the subordinated convertible debentures was \$51.9 million (Cdn \$55.0 million) with remaining interest payable totaling \$15.6 million. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year.

As of November 11, 2008, there were 212,840,746 common shares of the Company outstanding. The Company had 9,102,605 stock options outstanding under its share option plan. In addition, the Company had 74,182,276 common share purchase warrants outstanding.

Commitments

The Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment necessary to commence development of the New Afton project. At September 30, 2008, these commitments totaled \$40.8 million and are expected to fall due over the next 12 months.

Off-Balance Sheet Transactions

The Company has no off-balance sheet arrangements.

Risks and uncertainties

Readers of this Management Discussion and Analysis should give careful consideration to the information included or incorporated by reference in this document and the Company's unaudited interim consolidated financial statements and related notes. Significant risk factors for the Company are metal prices, currency fluctuations, government regulations, foreign operations, environmental compliance, the ability to obtain additional financing, risks relating to recent acquisitions, and dependence on management.

Metals Prices

Gold, silver and copper prices have a direct impact on the Company's profitability. Metal prices are affected by a variety of factors including interest rates, exchange rates, international economic and political trends, inflation or deflation, fluctuations in the value of the US dollar and foreign currencies, global and regional supply and demand and the political and economic conditions of major metal producing countries throughout the world. The Company does not presently have a metals hedging policy nor has it conducted any metals hedging in the past.

Currency Fluctuations

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. Gold, silver and copper are sold in US dollars and the Company's costs are incurred principally in Canadian dollars, Australian dollars, Mexican pesos and Brazilian reals. The appreciation of non-US dollar currencies against the US dollar can increase the cost of gold, silver and copper production and capital expenditure in US dollar terms.

The Company has recorded future income tax liabilities on mineral interests relating to the acquisitions of Amapari, Peak Mines, Metallica and NGI. The future income tax liabilities are monetary items, which are revalued each period end at current exchange rates, with the gain or loss recorded in income for the period.

The Company has assessed this risk and has not presently adopted an active currency hedging program given the correlation between metal prices and the currencies in which the Company operates. In 2008, favorable changes in metal prices have mitigated the adverse effect of the appreciation of the foreign currency against the US dollar.

Government Regulations

The mining, processing, development and exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could have an adverse effect on the Company's financial position and results of operations.

Foreign Operations

The Company's operations are currently conducted in Brazil, Mexico, Canada, the United States, Chile and Australia, and as such the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary for each country and include, but are not limited to, extreme fluctuations in currency exchange rates; high rates of inflation; labor unrest; exploration and fluctuations in currency and exchange rates; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favor or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of or purchase supplies from a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in these countries could adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Environmental

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent that such approvals are required and not obtained, the Company could be curtailed or prohibited from continuing its mining operations or from proceeding with planned exploration or development of mineral properties.

Asset Backed Commercial Paper

As at September 30, 2008, the non-bank ABCP market remained the subject of a restructuring process with the express intention of replacing the ABCP with a number of long-term floating rate notes. The restructuring plan would, if completed as currently intended, see the pooling of all of the underlying assets from all the ABCP trusts with the exception of those assets designated as ineligible for pooling (“Ineligible Assets”) and those series of assets backed exclusively by traditional financial assets (“Traditional Series”). ABCP relating to the pooled assets will be replaced with four classes of notes named A1, A2, B and C in declining order of seniority. ABCP relating to Ineligible Assets and Traditional Series would be replaced with new tracking notes whose characteristics are designed to track the performance of the particular assets of the series to which they correspond.

On April 25, 2008, the affected parties in the ABCP restructuring voted to approve the restructuring which has been conducted under the Companies’ Creditors Arrangement Act. This vote was subsequently sanctioned by the courts and all subsequent appeals have been extinguished. The restructuring is currently planned to be completed in the fourth quarter of 2008 at which point the notes would become free funding. It is possible that the current financial market crisis may further delay the restructuring plans. As a result, the Company, following the acquisition of NGI classifies its holdings in ABCP as long-term investments.

The Company has estimated the fair value on ABCP at September 30, 2008 by using a probability weighted cash flow approach. There can be no assurance that this estimate will be realized or that it will be adequate. Subsequent adjustments, which could be material, may be required in future reporting periods. In light of the current financial crisis, there can also be no definitive assurance that the restructuring will be implemented. While management takes the view that it will be implemented, failure to implement the plan could lead to significant further impairment in the fair value of the ABCP.

Additional Financing

The Company’s mining, processing, development and exploration activities may require additional external financing. Failure to obtain sufficient financing could result in the delay or indefinite postponement of exploration, development or production on any or all of our projects. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable.

Risk Relating to Recent Acquisitions

The Company recently completed a business combination of NGI, Metallica, and Peak Gold. There can be no assurances that the benefits anticipated from these acquisitions will be realized.

Peak Gold has been identified as the acquirer for accounting purposes for the business combination. The cost of the acquisition will be allocated to the assets acquired and liabilities assumed based on the fair value at the date of acquisition. The estimation of fair value for mining interests takes into account expected future cash flows associated with the life of mine plans. This allocation is not yet complete due to inherent complexities in the valuation process and revisions that may impact earnings prospectively in the future may be required.

Dependence on Management

The Company relies heavily on the business and technical expertise of its management team and it is unlikely that this dependence will diminish in the near term.

Title to the Company's Mineral Properties

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of such properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's 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, the Company may be constrained in its ability to operate its properties or unable to enforce its rights with respect to the properties. An impairment to or defect in our title to certain properties could have a material adverse effect on our business, financial condition or results of operations.

Exploration and Development

Risks related to our recent start of production at our Cerro San Pedro mine include risks associated with the operation of a mine and risks of encountering unexpected geological formations or unanticipated variations in grade.

Accounting Policies implemented effective January 1, 2008

The Company has adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountant: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 1535 requires the disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objective, policies and processes for managing capital. Section 1535 Specifies that disclosures of (i) an entity's objective, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Section 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosures and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Section 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how the entity manages those risks.

Section 3031, Inventories, which replaces the existing Section 3030, establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead, requires impairment testing and expands the disclosure requirements. The adoption of Section 3031 is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Accounting Policies to be implemented effective January 1, 2009

Effective January 1, 2009, the Company will adopt Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, and establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenditures in the Pre-operating Period (“EIC 27”). As a result of the withdrawal of EIC 27, the Company will not be able to defer costs and revenues incurred prior to commercial production at new mine operations.

Critical Accounting Policies and Estimates

The preparation of its consolidated financial statements requires the Company to use estimates and assumptions that affect the reported amounts of assets and liabilities as well as revenues and expenses.

The Company’s accounting policies are described in note 2 of the notes to its September 30, 2008 unaudited interim consolidated financial statements. The Company’s accounting policies relating to work-in-progress inventory valuation, depreciation and depletion of mineral property, plant and equipment and site reclamation and closure accruals are critical accounting policies that are subject to estimates and assumptions regarding reserves, recoveries, future gold prices and future mining activities. All estimates used are subject to periodic review and are adjusted as appropriate. Life-of-mine plans are prepared each year, so all estimates relating to mining activities, reserves, recoveries and gold prices are re-assessed annually, or more frequently as determined by management. Because of the ongoing review process, the Company has been able to update its estimates on a timely basis as developments affecting the underlying assumptions have necessitated such modifications.

Inventories

Finished goods, work-in-progress, heap leach ore and stockpile ore are valued at the lower of average production costs or net realizable value.

The Company records the cost of mining ore stacked in its leach pads and in process at one of its mines as work-in-progress inventory and values work-in progress inventory at lower of cost or estimated net realizable value. These costs are charged to earnings and included in cost of sales on the basis of ounces of gold recovered. The assumptions used in the valuation of work-in-process inventories include estimates of gold contained in the ore stacked on leach pads, assumptions of the amount of gold stacked that is expected to be recovered from the leach pads, the amount of gold in these mill circuits and an assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove to be inaccurate, the Company could be required to write-down the recorded value of its work-in-process inventories, which would reduce the Company’s earnings and working capital.

Mineral Properties

The Company records mineral property acquisition expenditures and mine development expenditures at cost. In accordance with Canadian generally accepted accounting principles, the Company capitalizes pre-production expenditures net of revenues received until the commencement of commercial production.

A significant portion of the Company's mineral property, plant and equipment is depreciated and amortized on a unit-of-production basis. Under the unit-of-production method, the calculation of depreciation, depletion and amortization of mineral property, plant and equipment is based on the amount of reserves expected to be recovered from each location. If these estimates of reserve prices turn out to be inaccurate, or if the Company revises its mining plan for a location due to reductions in the price of gold or otherwise, to reduce the amount of reserves expected to be recovered, the Company could be required to write-down the recorded value of the mineral property, plant and equipment or to increase the amount of future depreciation, depletion and amortization expense, both of which would reduce the Company's earnings and net assets.

In addition, generally accepted accounting principles require the Company to consider at the end of each accounting period whether or not there has been an impairment of capitalized mineral property, plant and equipment. For producing properties, this assessment is based on whether factors that may indicate a need for a write-down are present. If the Company determines there has been an impairment because its prior estimates of future cash flows have proven to be inaccurate, due to reductions in the price of gold, increases in the costs of production, reductions in the amount of reserves expected to be received or otherwise, or because the Company has determined that the deferred costs of non-producing properties may not be recovered based on current economics or permitting considerations, the Company would be required to write-down the recorded value of its mineral property, plant and equipment, which would reduce the Company's earnings and net assets.

Reclamation Obligations

The Company has an obligation to reclaim its properties after the minerals have been mined from the site and has estimated the costs necessary to comply with exiting reclamation standards. Generally accepted accounting principles require the Company to recognize the fair value of a liability for an asset retirement obligation, such as site closure and reclamation costs, in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a liability [when the liability is incurred and increases the carrying value of the related assets by the same amount. Subsequently, these asset retirement costs are amortized to expense over the life of the related assets using the unit-of-production method. At the end of each period the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs). If these estimates of costs or recoverable mineral resources prove to be inaccurate the Company could be required to write down the recorded value of its mineral property or increase the amount of future depreciation and accretion expense, or both, all of which would reduce the Company's earnings and net assets.

Future Tax Assets and Liabilities

The Company recognizes the future tax benefit related to future income tax assets and set up a valuation allowance against any portion of those assets that it believes will, more likely than not, fail to be realized. Assessing the recoverability of future income tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. In circumstances where the applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that the changes in these estimates could occur that materially affect the amount of future income tax liabilities recorded at the balance sheet date.

Stock based compensation

CICA Handbook section 3870 Stock-based Compensation and Other Stock-Based Payments establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. Compensation expense is determined using the Black-Scholes Option Pricing Model based on estimated fair values of all stock-based awards at the date of grant and is expensed to operations over each award's vesting period. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The Company does not use interest rate contracts or other derivative financial instruments to manage the risks associated with its operations, and therefore, in the normal course of business are inherently exposed to currency, interest rate and commodity price fluctuations. (Refer to the "Liquidity and Capital Resources" section of this Management's Discussion and Analysis and note 4 of the Company's unaudited interim consolidated financial statements for the three and nine months ended September 30, 2008 for further discussion).

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) recently confirmed January 1, 2011 as the date that IFRS will replace current standards and interpretations of Canadian GAAP for publically accountable enterprises. The change from Canadian GAAP to IFRS will fundamentally change the way Canadian companies report their financial position and results from operations. It may also affect certain business functions.

Currently, the Company is in the process of developing an IFRS changeover plan. This process involves analyzing and assessing the impact of IFRS on accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures including investor relations and external communication plans, and financial reporting expertise, including training requirements and business activities.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this Management's Discussion and Analysis, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

Based on this evaluation, management has concluded that the disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the Company's interim filings was appropriately disclosed [as such term is defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' annual and interim filings is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls and Procedures

The Company evaluated the design of its internal control and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2007 for Amapari, Peak Mines and Corporate operations. Based on this evaluation, management has concluded that the design of these internal controls and procedures over financial reporting was effective.

There has been no change in the Company's design of internal controls and procedures over financial reporting that has materially affected, as is reasonably likely to materially affect, the Company's internal control over financial reporting during the period covered by this Management's Discussion and Analysis.

The Company has not yet completed its evaluation of the design of its internal controls and procedures for financial reporting as defined under Multilateral Instrument 52-109 for the three month period ended September 30, 2008 for the Cerro San Pedro mine and the New Afton project recently acquired. However, the Company does not anticipate any significant deficiencies in the design of these controls.

Limitations on Controls and Procedures

The Company's management, including its President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, believe that any internal controls and procedures for financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, a design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented and detected. These inherent limitations include the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some

persons, by collusion of two or more people, or by unauthorized override control. The design of any system controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Contingencies

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceeding related to any matter, or any amount which may be required to be paid by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.

In 2007, the Company terminated its mining contract at the Cerro San Pedro mine. The mining contractor maintained that it was not paid for all amounts owed under the mining contract, including early contract termination fees, and has filed an arbitration claim against the Company for \$16.8 million plus value added taxes. The Company has filed a counter claim against the mining contractor for \$2.5 million. The Company had recorded an \$8.4 million provision for this claim. Subsequent to the period end the Company settled the matter for \$8.0 million exclusive of value added taxes and a mutual release and settlement agreement was signed by both parties.

The Company has received a notice that legal claims in the amount of approximately \$46.0 million have been filed in Brazilian courts against the Company's subsidiary, Mineracao Pedra Branca do Amapari Ltda ("MPBA"). The claims allege that MPBA has adversely impacted the quality of William Creek causing economic loss and health concerns. The Company believes that these claims are unfounded and intends to vigorously defend against them. The Company cannot reasonably predict the likelihood or outcome of these actions.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis contains "forward- looking statements", within the meaning of the United States Private Securities Litigation and Reform Act of 1955 and applicable Canadian Securities legislation. Forward-looking statements include, but are not limited to, statements with respect to the future prices of gold, silver and copper, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency exchange rate fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. Generally, these forward- looking statements can be identified by the use of forward-looking terminology such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" or "will be taken", "occur" or "be achieved". Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: anticipated synergies from the business combination may not be realized; there may be difficulties in integrating the operations and personnel of the NGI, Peak Gold and Metallica; the Company is subject to significant capital requirements associated with its expanded operations and portfolio of development projects since completion of the business combination; fluctuations in the international currency markets and in the rates of exchange of the currencies of Canada, the United States, Australia, Mexico and Chile; price volatility in the spot and forward markets for commodities; impact of any hedging activities, including margin limits and margin calls; discrepancies between actual and estimated production, between actual and estimated reserves and resources and between actual and estimated metallurgical recoveries; changes in national and local government legislation in Canada, the United States, Australia, Mexico and Chile; or any other country in which the Company currently or may in the future carry on business; taxation controls, regulations and political or economic developments in the countries in which the Company does or may carry on business; the speculative nature of mineral exploration and development, including the risks of obtaining necessary licenses and permits; diminishing quantities or grades of reserves; competition; loss of key employees; additional funding requirements; actual results of current exploration or reclamation activities; changes in project parameters as plans continue to be refined accidents; labour disputes; and defective title to mineral claims or property or contests over claims to mineral properties. In addition, there are risks and hazards associated with the business of mineral exploration, development, and mining, including environmental hazards, industrial accidents, unusual or unexpected formations, pressures, cave-ins, flooding and gold bullion losses (and risk of inadequate insurance or inability to obtain insurance, to cover these risks) as well as the "Risks and Uncertainties" included in this document and the section entitled "Risk Factors" in the Joint Disclosure Booklet of the Company, Peak Gold and Metallica and the section entitled "Risk Factors Relating to the Operations of the Combined Company" in the Company's management information circular dated May 16, 2008, both available on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that would cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated, or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements contained herein, except in accordance with applicable securities laws.

Interim consolidated financial statements of

New Gold Inc.

September 30, 2008
(Unaudited)

New Gold Inc.

September 30, 2008

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New Gold Inc.

Consolidated statements of operations and comprehensive income (loss) Three and nine months ended September 30

(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Ten months ended September 30, 2007
	\$	\$	\$	\$
Revenues	63,384	44,663	159,101	84,105
Operating expenses	(44,248)	(24,662)	(108,880)	(49,951)
Depreciation and depletion	(9,666)	(13,258)	(23,726)	(22,739)
Earnings from mine operations	9,470	6,743	26,495	11,415
Corporation administration (i)	(8,334)	(2,814)	(15,557)	(8,173)
Exploration	(3,472)	(1,317)	(5,689)	(2,224)
Write-down of mineral interests (Note 8 (b))	(165,252)	-	(165,252)	-
(Loss) earnings from operations	(167,588)	2,612	(160,003)	1,018
Other income (expense)				
Interest and other income	1,123	1,250	4,445	2,915
Interest and finance fees	(592)	(6)	(1,139)	(91)
Gain (loss) on foreign exchange	15,507	(1,063)	14,333	(894)
(Loss) earnings before taxes	(151,550)	2,793	(142,364)	2,948
Income and mining taxes	2,698	(1,613)	(1,450)	(3,111)
Net (loss) earnings and comprehensive (loss) income	(148,852)	1,180	(143,814)	(163)
(Loss) earnings per share				
Basic	(0.70)	0.00	(1.14)	(0.00)
Diluted	(0.70)	0.00	(1.14)	(0.00)
Weighted average number of shares outstanding (in thousands)				
Basic	212,199	72,578	126,321	47,626
Diluted	212,199	72,646	126,321	47,626
(i) Stock option expense (a non-cash item included in corporation administration)	(2,534)	(1,031)	(5,712)	(5,115)

New Gold Inc.

Consolidated balance sheets

(Expressed in thousands of U.S. dollars)

(Unaudited)

	September 30, 2008	December 31, 2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	251,131	149,924
Short-term investments	-	32,440
Accounts receivable	27,168	18,123
Inventories and stockpiled ore (Note 6)	43,998	39,792
Prepaid expenses and other	5,967	1,624
	328,264	241,903
Investments (Note 7)	87,645	-
Mining interests (Note 8)	1,414,775	315,831
Intangible royalty asset	14,100	14,664
Goodwill	130,951	-
Other assets	3,511	-
	1,979,246	572,398
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	59,339	22,835
Short-term borrowings	8,611	-
Income and mining taxes payable	-	4,960
	67,950	27,795
Reclamation and closure cost obligations	23,310	18,036
Future income and mining taxes	242,884	25,943
Long-term debt (Note 9)	244,029	-
Employee benefits and other	4,051	3,253
	582,224	75,027
Shareholders' equity		
Common shares	1,318,845	339,796
Special warrants (Note 10 (b))	-	104,166
Contributed surplus	25,749	6,166
Share purchase warrants (Note 10 (e))	185,068	57,673
Equity component of convertible debentures	21,604	-
Accumulated other comprehensive loss	(1,566)	(1,566)
Deficit	(152,678)	(8,864)
	(154,244)	(10,430)
	1,397,022	497,371
	1,979,246	572,398

Commitments and contingencies (Note 13)

Approved by the Board

(Signed) Robert Gallagher

Robert Gallagher, Director

(Signed) Craig Nelsen

Craig Nelsen, Director

New Gold Inc.

Consolidated statements of shareholders' equity

Nine months ended September 30, 2008

(Expressed in thousands of U.S. dollars, except share amounts)

(Unaudited)

	Common shares		Special warrants	Contributed surplus	Share purchase warrants	Equity component of convertible debentures	Accumulated other comprehensive loss	(Deficit) retained earnings	Total shareholders' equity
	Shares	Amount							
		\$	\$	\$	\$	\$	\$	\$	\$
Balance, November 30, 2006	11,505,140	25,313	104,166	59	-	-	(1,566)	(23,477)	104,495
Issued for cash in private placement (Net of issue costs of \$14,248)	43,500,000	209,689	-	-	57,673	-	-	-	267,362
Issued for acquisition	16,000,000	103,253	-	-	-	-	-	-	103,253
Exercise of options	129,000	175	-	(49)	-	-	-	-	126
Exercise of warrants	1,495,000	1,366	-	-	-	-	-	-	1,366
Stock-based compensation	-	-	-	6,156	-	-	-	-	6,156
Net loss	-	-	-	-	-	-	-	14,613	14,613
Balance, December 31, 2007	72,629,140	339,796	104,166	6,166	57,673	-	(1,566)	(8,864)	497,371
Exercise of special warrants	14,772,333	80,448	(104,166)	-	23,718	-	-	-	-
Exercise of options	424,090	3,022	-	(11)	-	-	-	-	3,011
Exercise of warrants	150,795	902	-	-	(412)	-	-	-	490
Acquisition of Metallica (Note 5 (a)(i))	87,447,821	605,139	-	5,641	46,674	-	-	-	657,454
Acquisition of NGI (Note 5 (a)(ii))	37,005,717	289,538	-	8,241	57,415	21,604	-	-	376,798
Stock-based compensation	-	-	-	5,712	-	-	-	-	5,712
Net loss	-	-	-	-	-	-	-	(143,814)	(143,814)
Balance, September 30, 2008	212,429,896	1,318,845	-	25,749	185,068	21,604	(1,566)	(152,678)	1,397,022

New Gold Inc.

Consolidated statements of cash flows Three and nine months ended September 30

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Ten months ended September 30, 2007
	\$	\$	\$	\$
Operating activities				
Net (loss) earnings	(148,852)	1,180	(143,814)	(163)
Items not involving cash				
Reclamation expenditure	-	735	-	1,455
Unrealized foreign exchange (gain) loss	(10,975)	1,671	(10,620)	2,312
Depreciation and depletion	9,666	13,258	23,726	22,739
Stock option expense	2,534	1,031	5,712	5,115
Future income and mining taxes	(16,356)	(1,457)	(12,955)	(1,589)
Write-down of mineral interests	165,252	-	165,252	-
Other	521	217	786	554
Change in non-cash working capital (Note 11)	(12,249)	(8,812)	(23,139)	(16,375)
	(10,459)	7,823	4,948	14,048
Investing activities				
Mining interests	(53,906)	(8,001)	(70,723)	(16,309)
Cash acquired in business combination and asset acquisition (Note 5 (a))	-	-	134,195	-
Acquisition, net of cash (Note 5 (b))	-	-	-	(189,759)
	(53,906)	(8,001)	63,472	(206,068)
Financing activities				
Common shares issued on exercise of warrants/options	1,817	24	1,847	1,412
Share issue costs	-	(123)	-	(123)
Common shares issued in private placement, net	-	-	-	267,514
Proceeds from short-term borrowing	4,500	-	8,500	-
Repayment of short-term borrowings	(10,000)	-	(10,000)	-
Proceeds from marketable securities	-	-	32,440	-
	(3,683)	(99)	32,787	268,803
(Decrease) increase in cash and cash equivalents	(68,048)	(277)	101,207	76,783
Cash and cash equivalents, beginning of period	319,179	77,388	149,924	328
Cash and cash equivalents, end of period	251,131	77,111	251,131	77,111
Cash and cash equivalents are comprised of				
Cash	37,592	6,758	37,592	6,758
Short-term money market instruments	213,539	70,353	213,539	70,353
	251,131	77,111	251,131	77,111

Supplemental cash flow information (Note 11)

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

1. Description of business and nature of operations

On June 30, 2008 New Gold Inc. ("NGI"), Metallica Resources Inc. ("Metallica") and Peak Gold Ltd. ("Peak Gold" or the "Company") completed a business combination and the acquisition of assets (the "Transaction" see Note 5). In accordance with the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1581, *Business Combinations*, Peak Gold has been identified as the acquirer for accounting purposes. As such, these interim consolidated financial statements are a continuation of the consolidated financial statements of Peak Gold, with the comparative information being that of Peak Gold. Following completion of the Transaction, Peak Gold is now known as New Gold Inc. ("New Gold"). References to NGI in these consolidated interim financial statements refer to transactions involving the pre-transaction public company New Gold Inc.

In connection with the Transaction shareholders of Peak Gold exchanged one common share of Peak Gold for 0.1 of a New Gold common share and nominal cash consideration. All information related to common shares for the current and prior period has been restated to give effect to this share exchange.

The Company is a gold producer engaged in gold mining and related activities including acquisition, exploration, extraction, processing and reclamation. The Company's assets are comprised of the Amapari mine in Brazil, the Cerro San Pedro mine in Mexico, and the Peak mine in Australia. Significant development projects include the New Afton copper-gold project in Canada and a 30% interest in an advanced stage copper-gold project in Chile.

2. Summary of significant accounting policies

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements. The accompanying unaudited interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the thirteen month period ended December 31, 2007, as they do not contain all disclosures required by Canadian GAAP for annual financial statements.

(a) *Basis of presentation and principles of consolidation*

These unaudited interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. In the opinion of the management, all adjustments (including normal recurring adjustments) necessary to present fairly the financial position as at September 30, 2008 and results of operations and comprehensive income (loss), shareholders' equity and cash flows for all periods presented, have been made.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

2. Summary of significant accounting policies (continued)

(a) *Basis of presentation and principles of consolidation (continued)*

The principal subsidiaries of the Company as of September 30, 2008 are as follows:

<u>Subsidiary</u>	<u>Interest</u>
Metallica Resources Inc. ⁽¹⁾	100%
Metallica Resources Alaska Inc. ⁽¹⁾	100%
Minera Metallica Resources Chile Limitada ⁽¹⁾	100%
Minera San Xavier, S.A. de C.V. ⁽¹⁾	100%
Mineração Pedra Branca do Amapari Ltda ("Amapari")	100%
Peak Gold Mines Pty	100%
Sociedad Contractual Minera El Morro ⁽¹⁾	100%

⁽¹⁾ These subsidiaries are included in the Company's results from June 30, 2008, the date of acquisition, onward (Note 5 (b)).

Variable interest entities ("VIE's") as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, *Consolidation of Variable Interest Entities*, are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. The Company has determined that it does not have any investments that qualify as VIE's.

All intercompany transactions and balances are eliminated.

(b) *Use of estimates*

The preparation of consolidated financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Actual results may differ from those estimates.

Significant estimates used in the preparation of these interim consolidated financial statements include, but are not limited to, the recoverability of accounts receivable and investments, the quantities of material on leach pads and in circuit, the proven and probable ore reserves and resources and the related depletion and amortization, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the estimated net realizable value of inventories, the accounting for stock-based compensation, the provision for income and mining taxes and composition of future income and mining tax assets and liabilities, the expected economic lives of and the estimated future operating results and net cash flows from mining interests, the anticipated costs of reclamation and closure cost obligations, the fair value of assets and liabilities acquired in business combinations and goodwill.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

2. Summary of significant accounting policies (continued)

(c) *Cash and cash equivalents*

Cash and cash equivalents include cash, and those short-term money market instruments that are readily convertible to cash with an original term of less than 90 days.

(d) *Inventories and stockpiled ore*

Finished goods, work-in-process, heap leach ore and stockpiled ore are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labor, mine-site overhead expenses and depreciation and depletion of mining interests. Supplies are valued at the lower of average costs or replacement cost.

The recovery of gold and silver from certain oxide ores is achieved through the heap leaching process. Under this method, ore is placed on leach pads where it is treated with a chemical solution which dissolves the gold contained ore. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. For accounting purposes, costs are added to ore on leach pads on current mining and leaching costs, including applicable depreciation, depletion and amortization relating to mining interests. Costs are removed from ore on leach pads as ounces of gold and silver are recovered based on the average cost per recoverable ounce on the leach pad.

Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured tonnes added to the leach pads), the grade of ore placed on the leach pads (based on assay data), and a recovery percentage (based on ore type). Although the quantities of recoverable gold and silver placed on each leach pad are reconciled by comparing the grades of ore placed on the leach pad to the quantities actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. The ultimate recovery of gold and silver from the leach pad is not known until the leaching process has concluded at the end of the mine life.

(e) *Mining interests*

Mining interests represent capitalized expenditures related to the development of mining properties, related plant and equipment and expenditures related to exploration arising from property acquisitions. Capitalized costs are depreciated and depleted using either a unit-of-production method over the estimated economic life of the mine to which they relate, or for plant and equipment, using the straight-line method over their estimated useful lives.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

2. Summary of significant accounting policies (continued)

(e) Mining interests (continued)

The costs associated with mining properties are separately allocated to reserves, resources and exploration potential, and include acquired interests in production, development and exploration stage properties representing the fair value at the time they were acquired. The value associated with resources and exploration potential is the value beyond proven and probable reserves assigned through acquisition. The value allocated to reserves is depreciated on a unit-of-production method over the estimated recoverable proven and probable reserves at the mine. The resource value represents the property interests that are believed to potentially contain economic mineralized material such as inferred material within pits; measured, indicated, and inferred resources with insufficient drill spacing to qualify as proven and probable reserves; and inferred resources in close proximity to proven and probable reserves. Exploration potential represents the estimated mineralized material contained within (i) areas adjacent to existing reserves and mineralization located within the immediate mine area; (ii) areas outside of immediate mine areas that are not part of measured, indicated, or inferred resources; and (iii) greenfields exploration potential that is not associated with any other production, development, or exploration stage property, as described above. At least annually or when otherwise appropriate, and subsequent to its review and evaluation for impairment, value from the non-depletable category is transferred to the depletable category as a result of an analysis of the conversion of resources or exploration potential into reserves.

Costs related to property acquisitions are capitalized until the viability of the mineral property is determined. When it is determined that a property is not economically recoverable the capitalized costs are written off.

Exploration costs incurred to the date of establishing that a property is economically recoverable are included in operations. Further development expenditures are capitalized to the property.

Drilling and related costs incurred on sites without an existing mine and on areas outside the boundary of a known mineral deposit which contains proven and probable reserves are exploration expenditures and are expensed as incurred to the date of establishing that property costs are economically recoverable. Further development expenditures, subsequent to the establishment of economic recoverability, are capitalized to the property.

Upon sale or abandonment the cost of the property and equipment, and related accumulated depreciation or depletion, are removed from the accounts and any gains or losses thereon are included in operations.

The Company reviews and evaluates its mining properties for impairment annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

2. Summary of significant accounting policies (continued)

(f) *Reclamation and closure cost obligations*

The Company's mining and exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. The Company has recorded a liability and corresponding asset for the estimated future cost of reclamation and closure, including site rehabilitation and long-term treatment and monitoring costs, discounted to net present value. Such estimates are, however, subject to change based on negotiations with regulatory authorities, or changes in laws and regulations.

(g) *Intangible royalty asset*

Intangible assets consist of a royalty agreement between Amapari and a third party, valued upon acquisition (Note 5 (b)). The agreement arose from the initial purchase of the Amapari mine leases. Under the agreement, the Company receives 1% of gross revenues from iron ore mined by the third party on adjacent properties. The asset is amortized on a units-of-production basis which is measured by a portion of the third party mine's economically recoverable and proven ore reserves recovered during the period.

The Company reviews and evaluates the intangible annually or when events or changes in circumstances indicate the carrying amount may not be recoverable.

(h) *Goodwill*

Acquisitions are accounted for using the purchase method whereby assets and liabilities acquired are recorded at their fair values as of the date of acquisition and any excess of the purchase price over such fair value of tangible and intangible net assets is recorded as goodwill. Goodwill is identified and allocated to reporting units. Goodwill is not amortized.

The Company evaluates, on an annual basis, the carrying amount of goodwill to determine whether current events and circumstances indicate that the carrying amount may no longer be recoverable. To accomplish this evaluation, the Company estimates the fair value of its reporting units that include goodwill and compares those fair values to the reporting units' carrying amounts. If the carrying value of a reporting unit exceeds its fair value, the Company compares the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying value over the fair value is charged to operations. Assumptions underlying fair value estimates are subject to significant risks and uncertainties.

(i) *Income and mining taxes*

The Company uses the liability method of accounting for income and mining taxes. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax losses and other deductions carried forward. Upon business acquisitions, the liability method results in a gross-up of mining interests to reflect the recognition of the future tax liabilities for the tax effect of such differences.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

2. Summary of significant accounting policies (continued)

(i) *Income and mining taxes (continued)*

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A reduction in respect of the benefit of a future tax asset (a valuation allowance) is recorded against any future tax asset if it is not more likely than not to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

(j) *Employee benefits*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognized in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled within one year are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

(k) *Foreign currency translation*

Effective April 1, 2007 the Company determined that a change in its functional currency had occurred. The functional currency changed from the Canadian dollar ("Cdn\$") to the U.S. dollar ("US\$"). The change was necessary due to the acquisition of Amapari and Peak Mines (Note 5 (b)). Revenues and direct costs are now principally denominated in U.S. dollars. Accordingly, results for the Company would be more fairly reflected by adopting the US\$ as the Company's functional currency. The Company has also adopted the US\$ as its reporting currency.

The comparative figures for the year ended November 30, 2006 were translated using the current method of translation. Under this method, the statement of operations and the cash flow statement items were translated into the reporting currency using the rates in effect at the date of the transactions, effectively the average exchange rate of US\$1.00 = Cdn\$1.1415 for the period. Assets and liabilities were translated at the November 30, 2006 year-end rate of US\$1.00 = Cdn\$1.1369. All resulting exchange differences are reported in accumulated other comprehensive income, a separate component of shareholders' equity.

All operations outside of Canada apply the US\$ as their reporting and measurement currency and therefore translate their operating results using the temporal method. Under this method, foreign currency monetary assets and liabilities are translated into US\$ at the exchange rates prevailing at the balance sheet date; non-monetary assets denominated in foreign currencies are translated using the rate of exchange at the transaction date; and foreign exchange gains and losses are included in the determination of earnings. In addition, unrealized gains and losses due to movements in exchange rates on cash balances held in foreign currencies are shown separately on the consolidated statements of cash flows.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

2. Summary of significant accounting policies (continued)

(k) *Foreign currency translation (continued)*

Monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date. All other assets, liabilities, revenues and expenses arising in foreign currencies are translated at the exchange rates prevailing at the date of the transactions; the resulting gains or losses on foreign exchange are included in the results of operations.

(l) *Earnings (loss) per share*

Earnings (loss) per share calculations are based on the weighted average number of common shares and common shares equivalents issued and outstanding during the year. Diluted earnings per share are calculated using the treasury method which requires the calculation of diluted earnings per share by assuming that outstanding stock options, warrants and convertible debentures with an average market price that exceeds the average exercise prices of the options and warrants for the period, are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of the common share for the period.

(m) *Revenue recognition*

Revenue from the sale of metals is recognized in the accounts when persuasive evidence of an arrangement exists, title and risk passes to buyer, collection is reasonably assured and the price is reasonably determinable. Revenue from the sale of metals in concentrate may be subject to adjustment upon final settlement of estimated metal prices, weights and assays. Adjustments to revenue for metal prices are recorded monthly and other adjustments are recorded on final settlement. Refining and treatment charges are netted against revenue for sales of metal concentrate.

(n) *Stock-based compensation*

The Company applies the fair value method of accounting for all stock option awards. Under this method the Company recognizes a compensation expense for all stock options awarded to employees, based on the fair value of the options on the date of grant which is determined by using the Black-Scholes option pricing model. The fair value of the options is expensed over the vesting period of the options.

(o) *Financial instruments - recognition and measurement*

Effective December 1, 2006, the Company adopted the new accounting standards, *Financial Instruments - Recognition and Measurement* ("Section 3855"), *Financial Instruments - Disclosure and Presentation* ("Section 3861") and *Hedges* ("Section 3865") that were issued by the CICA. This accounting policy change was adopted on a retrospective basis with no restatement of prior period financial statements. The new standard and accounting policy change is as follows:

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

2. Summary of significant accounting policies (continued)

(o) *Financial instruments - recognition and measurement (continued)*

In accordance with this new standard, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations.

Upon adoption of this new standard, the Company designated its cash and cash equivalents and short-term investments as held-for-trading, which is measured at fair value. The Company has designated its asset backed commercial paper ("ABCP") as available-for-sale, which is measured at fair value and unrealized gains and losses are recognized in other comprehensive income. Receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, short-term borrowings and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

(p) *Comprehensive income*

Effective December 1, 2006, the Company adopted the new accounting standard related to comprehensive income ("Section 1530") that was issued by the CICA. The new standard and accounting policy change is as follows:

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports a statement of comprehensive income and a new category, accumulated other comprehensive income, in the shareholders' equity section of the consolidated balance sheet. The components of this new category may include unrealized gains and losses on financial assets classified as available-for-sale, exchange gains and losses arising from the translation of financial statements of a self-sustaining foreign operation and the effective portion of the changes in fair value of cash flow hedging instruments.

3. Changes in accounting policies

(a) *Accounting policies implemented effective January 1, 2008*

(i) Capital disclosures and financial instruments - Disclosures and presentation

The Company adopted three new presentation and disclosure standards that were issued by the CICA: Handbook Section 1535, *Capital Disclosures* ("Section 1535"), Handbook Section 3862, *Financial Instruments - Disclosures* ("Section 3862") and Handbook Section 3863, *Financial Instruments - Presentation* ("Section 3863").

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

3. Changes in accounting policies (continued)

(a) *Accounting policies implemented effective January 1, 2008 (continued)*

(i) Capital disclosures and financial instruments - Disclosures and presentation (continued)

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

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

(ii) Inventories

On January 1, 2008, the Company adopted Section 3031, *Inventories*, which replaces the existing Section 3030, and establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead, requires impairment testing and expands the disclosure requirements. The adoption of Section 3031 did not have a material impact on the Company's consolidated financial position and results of operations for the period ended September 30, 2008.

(b) *Accounting policies to be implemented effective January 1, 2009*

Goodwill and intangibles

Effective January 1, 2009, the Company will adopt Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, and establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA restricted the application of EIC 27, *Revenues and Expenditures in the Pre-operating Period* ("EIC 27"). As a result, the Company will not be able to defer costs and revenues incurred prior to commercial production at new mine operations.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

3. Changes in accounting policies (continued)

(c) *International Financial Reporting Standards*

In February 2008, the CICA announced that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting policies, financial reporting, IT systems and processes as well as certain business activities. The Company is currently in the process of developing an IFRS changeover plan. This process involves assessing the impact of the transition to IFRS and planning to ensure that the appropriate resources are available for a timely conversion.

4. Financial instruments

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) *Capital risk management*

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

In the management of capital, the Company includes the components of shareholders' equity, short-term borrowings and long-term debt, as well as the cash and cash equivalents and short-term and long-term investments.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or sell its investments.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

Prior to June 30, 2008, the Company's investment policy was to invest its cash in highly liquid, lower risk short-term interest-bearing investments with maturities of 120 days or less at the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

4. Financial instruments (continued)

(a) Capital risk management (continued)

Upon completion of the Transaction, the Company adopted a new investment policy. Going forward, the Company must invest its funds in investments with a minimum credit rating at the time of purchase of R-1 (high) from the Dominion Bond Rating Service ("DBRS") or an equivalent rating from Standards & Poor and Moody's. At all times, more than 50% of the aggregate amount of permitted investments must be invested in treasury bills, bonds, notes and other indebtedness of Canada or the Provinces of British Columbia, Alberta and Ontario. All investments must have a maximum term to maturity of six months and the average term will generally range from seven days to 90 days. Under the new policy, the Company is no longer permitted to invest in asset backed commercial paper ("ABCP") (Note 7) or auction rate securities ("ARS").

The Company expects its current capital resources will be sufficient to carry its exploration and development plans and operations through its current reporting period.

The Company has long-term note indentures (Note 9) that contain a general covenant that the Company shall work diligently toward obtaining and, once obtained, maintaining in good standing, all permits required for the operation of its properties.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations.

The Company's financial assets are primarily composed of cash and cash equivalents, investments and accounts receivable. Credit risk is primarily associated with trade receivables and investments; however it also arises on cash and cash equivalents.

To mitigate exposure to credit risk, the Company has established policies to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable worthiness, and to ensure liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk. The Company sells its gold exclusively to large international organizations with strong credit ratings. The Company's revenue is comprised of gold sales for four customers. These customers are large international organizations with strong credit ratings.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold and copper concentrate trade receivables at September 30, 2008 is not considered to be high.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
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4. Financial instruments (continued)

(b) Credit risk (continued)

The aging of trade receivables at the reporting date was as follows:

	0-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
	\$	\$	\$	\$	\$	\$
Corporate	-	-	-	-	-	-
Amapari	-	-	-	-	-	-
Peak Mines	-	8,092	2,547	2,165	8,580	21,384
New Afton	-	-	-	-	-	-
Cerro San Pedro	-	-	-	-	-	-
	-	8,092	2,547	2,165	8,580	21,384

A significant portion of the Company's cash and cash equivalents are held in large Canadian financial institutions. Short term investments (including those presented as part of cash and cash equivalents) are composed of financial instruments issued by Canadian banks and companies with high investment-grade ratings.

The Company employs a restrictive investment policy (Note 4 (a)) as detailed in the capital risk management section.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 4 (a).

The following are the contractual maturities of debt commitments. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying amounts on the consolidated balance sheet.

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Long-term debt	275,502	-	-	-	275,502
Interest payable on long-term debt	216,816	24,956	49,911	49,911	92,038
	492,318	24,956	49,911	49,911	367,540

New Gold Inc.

Notes to the consolidated financial statements

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(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
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4. Financial instruments (continued)

(d) Currency risk

The Company operates in Australia, Brazil, Canada, Chile, Mexico and the United States. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The three main types of foreign exchange risk of the Company can be categorized as follows:

(i) Transaction exposure

The Company's operations sell and incur costs in different currencies. This mismatch of currencies creates transitional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

(ii) Translation exposure

The Company's functional and reporting currency is U.S. dollars. The Company's operations translate their operating results from its host currency to U.S. dollars. Therefore, exchange rate movements in the U.S. dollar, Brazilian real, Mexican peso, Australian dollar and Canadian dollar can have a significant impact on the Company's consolidated operating results. Some of the Company's earnings translation exposure is offset by interest on foreign currency denominated loans and debt.

A 10% strengthening (weakening) of the U.S. dollar against the following currencies would have decreased (increased) the Company's net loss from these financial instruments by the amounts shown below.

	September 30, 2008
	\$
Canadian dollar	22,109
Australian dollar	266
Mexican peso	47
Brazilian real	459
	<u>22,881</u>

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

4. Financial instruments (continued)

(d) *Currency risk (continued)*

(iv) Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and short-term and long-term debt. The currencies of the Company's financial instruments, based on notional amounts, were as follows:

	Canadian dollar	Australian dollar	Mexican peso	Brazilian real
Cash and cash equivalents	57,799	15,591	7,466	7,059
Accounts receivable	2,535	-	37,393	22,169
Accounts payable and accruals	(20,959)	(12,227)	(46,776)	(21,576)
Short-term and long-term debt	(273,705)	-	(3,137)	(16,361)
Gross balance sheet exposure	(234,330)	3,364	(5,054)	(8,709)

(e) *Interest rate risk*

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. In particular, the Company is exposed to interest rate changes on those ABCP investments that are expected to pay interest. Interest is proposed to be based on the Canadian bankers' acceptance rate which may fluctuate. A 1% change in the bankers' acceptance rate would result in an annual difference of approximately \$1.6 million in the interest income to the Company. The Company has not entered into any derivative contracts to manage this risk.

The Company follows the policy of issuing fixed interest rate debt to avoid future fluctuations in its debt service costs.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

4. Financial instruments (continued)

(f) Commodity price risk

The Company is subject to price risk for fluctuations in the market price of gold, silver and copper. The Company's earnings and cash flows are subject to price risk due to fluctuations in the market price of gold, silver and copper. World gold prices have historically fluctuated widely. World gold prices are affected by numerous factors beyond our control, including:

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates;
- purchases and sales of gold by central banks and other holders;
- demand for jewelry containing gold; and
- investment activity, including speculation, in gold as a commodity.

The Company is also subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by the prices of commodities it consumes or uses in its operations, such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control. The Company has not entered into any hedging activities to mitigate these price risks.

A 10% change in commodity prices would impact the Company's net loss as follows:

	Nine months ended September 30, 2008
	\$
Gold price	3,566
Copper price	473

(g) Financial assets and liabilities

The Company has designated its cash and cash equivalents, short-term investments as held-for-trading, which is measured at fair value. The Company has designated its ABCP as available-for-sale, which is measured at fair value and unrealized gains and losses are recognized in other comprehensive income. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, short-term borrowings and long-term debt are classified as other financial liabilities, which are measured at amortized cost. The long-term debt are financial instruments which have been recorded at fair value at the date of acquisition and will be measured at amortized cost going forward.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

4. Financial instruments (continued)

(g) *Financial assets and liabilities (continued)*

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

The carrying value less impairment provision, if necessary, of trade receivables and payables are assumed to approximate their fair values.

The Company's financial instruments primarily consist of cash, short-term money market investments, accounts receivable, accounts payable and short-term borrowings.

For cash, short-term money market investments, and current accounts receivable and payable and short-term borrowings, carrying value is considered to be the fair value due to the short term nature of these instruments.

5. Business combination and asset acquisition

(a) *Acquisition of Metallica and NGI*

On May 9, 2008, the Company entered into an agreement to complete a business combination (the "Transaction") with Metallica and NGI.

(i) Metallica

The acquisition of Metallica has been accounted for as a purchase transaction. Shareholders of Metallica received 0.9 of a New Gold common share and nominal cash consideration for each one common share of Metallica.

87,447,821 common shares issued to Metallica shareholders were valued at \$6.92 per share. The value per share was determined with reference to the share price of New Gold common shares for the two days prior to, the day of, and the two days subsequent to the date of the announcement on March 31, 2008. Holders of options, warrants or other convertible instruments of Metallica ("Metallica equity instruments") exchanged such equity instrument for similar securities of New Gold at an exchange ratio of 0.9 and at a price equivalent to the original price divided by 0.9.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

5. Business combination and asset acquisition (continued)

(a) Acquisition of Metallica and NGI (continued)

(i) Metallica (continued)

The preliminary allocation of the purchase price based on the consideration paid and Metallica's net assets acquired is as follows:

	\$
Issuance of New Gold shares (87,447,821 common shares)	605,139
Fair value of options issued	7,294
Fair value of warrants issued	46,674
Transaction costs	3,385
Purchase consideration	662,492
Net assets acquired	
Net working capital acquired (including cash of \$34,154)	20,525
Mineral property, plant and equipment	656,345
Other long-term assets	2,214
Goodwill	130,951
Long-term liabilities	(2,671)
Future income tax liability	(144,872)
	662,492

(ii) NGI

This element of the Transaction has been accounted for as a purchase of assets and assumption of liabilities of NGI by Peak Gold.

In accordance with the determination that Peak Gold is the accounting acquirer in this Transaction, the deemed consideration is the market value of the 37,005,717 NGI common shares and, the fair value of options, warrants and convertible or exchangeable securities of NGI currently outstanding. As at June 30, 2008, there were options, warrants, convertible or exchangeable securities and other rights to acquire an aggregate of 30,678,500 common shares of NGI. The common shares of NGI have been valued at \$7.82 per share, the share price of NGI as of June 30, 2008, the closing date of the Transaction.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

5. Business combination and asset acquisition (continued)

(a) *Acquisition of Metallica and NGI (continued)*

(ii) NGI (continued)

The preliminary allocation of the purchase price based on the consideration paid and NGI's net assets acquired is as follows:

	\$
Issuance of New Gold shares (37,005,717 common shares)	289,538
Fair value of options issued	8,241
Fair value of warrants issued	57,415
Transaction costs	3,719
Purchase consideration	358,913
Net working capital (including cash of \$103,564)	85,687
Mineral property, plant and equipment	541,187
Other assets	94,629
Long-term liabilities (Note 8)	(252,892)
Future income tax liability	(88,094)
Convertible debentures	(21,604)
	358,913

For the purposes of these consolidated interim financial statements, the purchase consideration has been allocated on a preliminary basis to the fair value of assets acquired and liabilities assumed, based on management's best estimates and taking into account all available information at the time of the Transaction, as well as applicable information at the time these consolidated financial statements were prepared. The Company will complete a valuation of Metallica and NGI using an independent party and, therefore, this preliminary allocation is subject to change.

(b) *Acquisition of Amapari and Peak Mines*

On February 15, 2007, the Company entered into an agreement with Goldcorp Inc. ("Goldcorp") to acquire Goldcorp's Amapari mine in Brazil and Peak mine in Australia (the "Acquisition"). The Company completed the acquisition of the Amapari mine and the Peak mine on April 3, 2007 and April 27, 2007, respectively. In consideration for the acquisition of the Amapari and Peak mines, the Company issued to Goldcorp 155 million common shares with a value of \$100 million and paid \$200 million in cash, respectively.

The business combination has been accounted for as a purchase transaction, with the Company as the acquirer and the Amapari and Peak Mines as the acquiree. The results of the operations of the acquired assets are included in the consolidated financial statements of the Company from the dates of the Acquisition.

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

5. Business combination and asset acquisition (continued)

(b) *Acquisition of Amapari and Peak Mines (continued)*

The final allocation of the assets and liabilities acquired is as follows:

	\$
Purchase price	
Cash	200,000
Common shares	100,000
Acquisition costs	5,032
	<hr/> 305,032
Net assets acquired	
Cash and cash equivalents	11,212
Accounts receivable	4,391
Inventories and stockpiled ore	40,286
Mining interests	299,535
Intangible asset	14,664
Other	5,091
Current liabilities	(23,618)
Reclamation and closure cost obligations	(16,662)
Future income tax liabilities, net	(29,867)
	<hr/> 305,032

6. Inventories and stockpiled ore

	September 30, 2008	December 31, 2007
	\$	\$
Supplies	13,260	15,092
Work-in-process (a)	7,172	7,505
Heap leach ore (b)	20,944	12,254
Stockpiled ore (c)	143	1,106
Finished goods	2,479	3,835
	<hr/> 43,998	<hr/> 39,792

(a) *Work-in-process*

Work-in-process is the stage between the product (gold, silver and copper) as it sits as a raw material (mined or stockpiled) and when it has been converted into the finished product (doré or concentrate).

(b) *Heap leach ore*

The recovery of gold from certain oxide ores is achieved through the heap leaching process used at the Amapari and Cerro San Pedro mines. Under this method, ore is placed on leach pads where it is treated with a chemical solution which dissolves the gold contained in the ore.

New Gold Inc.

Notes to the consolidated financial statements

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6. Inventories and stockpiled ore (continued)

(c) *Stockpiled ore*

The low-grade stockpiled ore is located at Amapari and Peak mines and is forecasted to be drawn down throughout the remainder of the life of the mines.

7. Investments

As at September 30, 2008, the Company had \$167 million (Cdn\$170 million) invested in asset backed commercial paper ("ABCP") which is rated R1-high by Dominion Bond Rating Service. In mid-August 2007, a number of non-bank sponsors of ABCP, including those with which NGI had invested, announced that they could not place ABCP due to unfavourable conditions in the Canadian capital markets. As a result, there is presently no active market for the ABCP held by the Company.

As at September 30, 2008, the non-bank ABCP market remained the subject of a restructuring process with the expressed intention of replacing the ABCP with a number of long-term floating rate notes. The restructuring plan would, if the restructuring plan is completed as currently planned, see the pooling of all of the underlying assets from all the ABCP trusts with the exception of those assets designated as ineligible for pooling ("Ineligible Assets") and those series of assets backed exclusively by traditional financial assets ("Traditional Series"). ABCP relating to the pooled assets will be replaced with four classes of notes named A1, A2, B and C in declining order of seniority. ABCP relating to Ineligible Assets and Traditional Series would be replaced with new tracking notes whose characteristics are designed to track the performance of the particular assets of the series to which they correspond.

On April 25, 2008, the affected parties in the ABCP restructuring voted to approve the restructuring which has been conducted under the Companies' Creditors Arrangement Act. This vote was subsequently sanctioned by the courts and all subsequent appeals have been extinguished. The restructuring is currently planned to be completed in the fourth quarter of 2008 at which point the notes would become free trading. It is possible that the current financial market crisis may further delay the restructuring plan. As a result, the Company classifies its holdings in ABCP as long-term investments.

New Gold Inc.

Notes to the consolidated financial statements

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7. Investments (continued)

The Company has estimated the fair value of ABCP at September 30, 2008 using the following methodology and assumptions:

- (a) The fair value estimate of the long-term floating rate notes proposed to be received under the restructuring has been calculated based on the relative contribution analysis and maturity dates as detailed in the table below.

Restructuring categories	Face value	Fair value estimate	Maturity date
	millions \$	millions \$	
MAV 2 notes			
A1 (provisionally rated AA ¹)	97.1	57.9	December 31, 2016
A2 (provisionally rated AA ¹)	30.3	16.9	December 31, 2016
B	5.2	0.8	December 31, 2016
C	4.1	0.3	December 31, 2016
Traditional asset tracking notes (provisionally rated AAA)	9.0	8.5	September 12, 2015
Ineligible asset tracking notes			
Class 3/13/14 (Class 14 provisionally rated BBB)	15.0	3.3	December 20, 2012 to October 24, 2016
	<u>160.7</u>	<u>87.7</u>	

¹ provisional ratings released by DBRS

- (b) The A1, A2 and traditional asset tracking notes comprise the major categories of the notes contemplated to be received totaling 85% of the face value of the original investments made and 95% of the fair value estimate of the Company's holdings. In the case of the A1 and A2 notes, it is estimated that they will pay interest at a rate 0.5% less than the bankers' acceptance ("BA") rate and it is estimated that prospective buyers of these notes will require premium yields between 7% and 8% over the BA rate.
- (c) The traditional asset notes are estimated to generate interest of 0.5% above the BA rate and a prospective buyer of those notes is estimated to require a premium of 1.5% over the BA rate.

Using these assumptions, the Company estimates that the A1, A2 and traditional asset tracking notes will generate returns between 3.7% and 4.7%. The Company has then applied its best estimate of prospective buyers' required yield and calculated the present value of the new notes using required yield as the discount factor. Using a range of potential discount factors allows the Company to estimate a range of recoverable values.

An identical procedure was performed for the B, C and ineligible tracking notes. The Class B notes are not expected to pay any current interest until the Class A1 and A2 notes are paid in full, which is not anticipated until December 20, 2016. These notes, which will be subordinate to the Class A1 and A2 notes, will not receive a credit rating and it is expected that Class B notes will initially trade at less than 10% of par value.

The Class C notes also will not pay any current interest and are subordinate to the Class B notes. In light of this subordination, the Class C notes are viewed as highly speculative with regard to ultimate payment of principal at maturity in 2016. Accordingly, it is expected that Class C notes will initially trade at less than 5% of par value.

New Gold Inc.

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7. Investments (continued)

The Company will also receive three classes of ineligible tracking notes, two of which have direct exposure to the U.S. sub-prime mortgage market and one of which is backed by a leveraged super senior ("LSS") credit default swap. The fair value of the sub-prime backed notes is less than 10% of par value while the LSS backed note as to a fair value of less than 60% of par value.

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

Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate.

Based on this exercise the Company estimated that as at September 30, 2008 the range of recoverable amounts was between \$78.3 million and \$98.6 million. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in future reporting periods.

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

8. Mining interests

	September 30, 2008		
	Cost	Accumulated depreciation and depletion	Net book value
	\$	\$	\$
Mining properties	1,271,547	81,196	1,190,351
Plant and equipment	327,586	103,162	224,424
	1,599,133	184,358	1,414,775

	December 31, 2007		
	Cost	Accumulated depreciation and depletion	Net book value
	\$	\$	\$
Mining properties	190,163	2,687	187,476
Plant and equipment	144,641	16,286	128,355
	334,804	18,973	315,831

New Gold Inc.

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(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
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8. Mining interests (continued)

A summary of net book value by property is as follows:

	Mining properties			Plant and equipment	September 30, 2008	December 31, 2007
	Depletable	Non-depletable	Total			
	\$	\$	\$	\$	\$	\$
Amapari (b)	-	5,000	5,000	5,000	10,000	174,744
Cerro San Pedro	193,558	64,145	257,703	69,817	327,520	-
El Morro project/ Other projects (a)	-	320,779	320,779	-	320,779	-
New Afton project	-	492,386	492,386	97,273	589,659	-
Peak Mines	5,013	109,470	114,483	51,731	166,214	140,497
Corporate	-	-	-	603	603	590
	198,571	991,780	1,190,351	224,424	1,414,775	315,831

(a) (i) Chile - El Morro Project

The El Morro copper-gold project consists of the La Fortuna and El Morro areas. Xstrata has a 70% interest in the El Morro project.

The Company has other projects in Chile that consist of copper-gold exploration concessions that are contiguous to the El Morro project.

(ii) Other projects include

(1) Chile - Rio Figueroa Project

The Company has an option agreement with Sociedad Contractual Minera Los Potrillos ("Potrillos") to acquire a 100% interest in a copper-gold exploration project referred to as the Rio Figueroa project.

(2) USA - Liberty Bell

The Company entered into an exploration agreement with the right to acquire the Liberty Bell gold project in central Alaska.

(3) Canada - Ajax

The Company owns a 100% interest in the Ajax-Python Claim Group.

(b) Remaining heap leachable material at the Amapari mine will be exhausted in the fourth quarter of 2009. Production beyond 2009 is subject to ongoing feasibility of mining and processing the sulphide resources underlying and surrounding the oxide pits. As a result, the Company has recorded an impairment charge of \$165.3 million before tax recoveries of \$8.4 million.

New Gold Inc.

Notes to the consolidated financial statements

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9. Long-term debt

Long-term debt consists of the following:

	\$
Senior secured notes (a)	210,557
Embedded early redemption feature at fair value (b)	(360)
Subordinated convertible debentures (c)	33,832
	<hr/> 244,029 <hr/>

(a) *Senior secured notes*

In accordance with the provisions of CICA Handbook Section 1581, *Business Combinations*, the Company has performed a preliminary estimate of the fair value of the senior secured notes (the "Notes") using the closing price as listed on the Toronto Stock Exchange ("TSX") on June 30, 2008 for the Notes. The face value of the Notes at September 30, 2008 was Cdn\$237 million.

The Notes, originally issued by NGI pursuant to a note indenture dated June 28, 2007, mature and become due and payable on June 28, 2017 and bear interest at the rate of 10% per annum. Under the terms of the Notes, the Company has agreed to certain additional restrictions on its business as it relates to the New Afton assets. In particular, the Company has agreed:

- to grant to the Trustee under the note indenture, for the benefit of the noteholders, a first-ranking security interest on the New Afton project assets;
- that it will not sell or otherwise transfer any of the New Afton project assets except for transfers made in the ordinary course of business for fair market value or transfers of production from the New Afton project pursuant to any risk management or offtake agreement;
- that it will not incur additional indebtedness except for certain permitted indebtedness and it will not create any security interest of any kind securing indebtedness on any New Afton project assets except for certain permitted encumbrances; and
- to certain limitations on its ability to make advances to its subsidiary companies for cash flow produced from the New Afton project assets.

Interest is payable in arrears in equal semi-annual instalments on January 1 and July 1 in each year.

(b) *Embedded early redemption feature at fair value*

The Company has the right to redeem the Notes in whole or in part at any time and from time to time prior to June 27, 2017 at a price ranging from 120% to 100% (decreasing based on the length of time the Notes are outstanding) of the principal amount of the Notes to be redeemed.

The early redemption feature in the Notes qualifies as an embedded derivative that must be bifurcated for reporting purposes. As of September 30, 2008, the fair value of the derivative asset is \$0.4 million.

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9. Long-term debt (continued)

(c) Subordinated convertible debentures

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

Interest is payable in arrears in equal semi-annual instalments on January 1 and July 1 in each year.

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

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

The Company has allocated \$34.5 million of the \$56.2 million fair value as a liability based on the fair value of a similar debt instrument without an associated conversion option. The debt component of the Debentures will be accreted over the expected term to maturity using the effective interest method.

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

New Gold Inc.

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(Unaudited)

10. Share capital

(a) *Authorized*

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value

(b) *Special warrants*

On November 28, 2007, the Company completed a private placement financing of 14,772,333 Special Warrants at a price of Cdn\$7.50 per Special Warrant for total gross proceeds of Cdn\$110.8 million (US\$111.8 million) and net proceeds after issue costs of Cdn\$103.2 million (US\$104.2 million). Each Special Warrant entitled the holder thereof to receive one unit of the Company, at no additional cost. Each unit comprised one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitled the holder to acquire one additional common share, at a price of Cdn\$9.00 until November 28, 2012.

On February 28, 2008, the 14,772,333 Special Warrants outstanding at December 31, 2007 were converted into 14,772,333 common shares of the Company and 7,386,168 common share purchase warrants. The warrants were valued at \$23.7 million using the Black-Scholes pricing model and that amount is included in share purchase warrants. A fair value of approximately \$3.20 for each warrant was calculated using the following assumptions: no dividends are paid, volatility of 60%, risk free interest rate of 3.4%, and expected life of five years. Every 10 warrants are exercisable into 1 New Gold common share.

(c) *Stock options*

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the TSX Exchange's policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options generally vest over three years.

	Number of options	Weighted average exercise price Cdn\$
Balance, December 31, 2007	2,149,600	9.10
Granted	3,009,700	7.06
Options assumed on acquisition of Metallica	1,930,095	4.07
Options assumed on acquisition of NGI	2,828,500	7.03
Exercised	(424,090)	3.53
Forfeited	(391,200)	9.22
Balance, September 30, 2008	9,102,605	6.98

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

10. Share capital (continued)

(c) Stock options (continued)

The following table summarizes information about the stock options outstanding at September 30, 2008:

Options outstanding			Options exercisable	
Number of stock options outstanding	Weighted average exercise price Cdn\$	Weighted average remaining contractual life	Number of options exercisable	Weighted average exercise price Cdn\$
184,500	1.70	1.2 years	184,500	1.70
103,500	2.74	1.0 years	103,500	2.74
520,187	3.44	1.6 years	520,187	3.44
600,000	4.60	1.3 years	600,000	4.60
1,225,818	5.53	3.6 years	959,152	5.55
1,914,200	6.42	3.6 years	1,084,067	6.55
2,303,700	7.66	4.4 years	839,233	7.37
1,773,200	9.29	3.5 years	641,067	9.27
477,500	11.00	1.6 years	477,500	11.00
9,102,605	6.98	3.3 years	5,409,206	6.29

On July 8, August 13, and August 18, 2008, the Company granted 1,623,700, 95,000, and 50,000 stock options, respectively, to employees and directors. These options have an exercise price of Cdn\$7.84, Cdn\$5.37, and Cdn\$5.45, respectively. The options vest over a three year period and have a contractual life of five years from date of grant.

(d) Stock-based compensation

For the period ended September 30, 2008, the Company recorded \$2.53 million as stock-based compensation expense and recorded this amount in contributed surplus. The value was determined using the Black-Scholes pricing model. A weighted average grant-date fair value of Cdn\$7.64 was calculated using the following assumptions: no dividends are to be paid; volatility of 50%, risk free interest rate of 3.37%; and expected life of 4.78 years.

New Gold Inc.

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(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

10. Share capital (continued)

(e) Share purchase warrants

A summary of the changes in share purchase warrants is presented below:

	Number of warrants	Weighted average exercise price Cdn\$
Balance, December 31, 2007	21,750,000	15.00
Issued	7,386,161	9.00
Metallica share purchase warrants exercisable into New Gold shares	17,606,965	3.92
NGI share purchase warrants	27,850,000	15.00
Balance, September 30, 2008	74,593,126	11.79

The following table summarizes information about outstanding share purchase warrants at September 30, 2008:

Number of warrants	Exercise prices Cdn\$	Expiry date	Value \$
14,456,965	3.44	December 11, 2008	39,454
3,150,000	6.11	December 20, 2009	6,808
21,750,000	15.00	April 3, 2012	57,673
7,386,161	9.00	November 28, 2012	23,718
4,150,000	15.00	June 28, 2017	8,556
23,700,000	15.00	June 28, 2017	48,859
74,593,126			185,068

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(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

11. Supplemental cash flow information

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Ten months ended September 30, 2007
	\$	\$	\$	\$
Change in non-cash working capital				
Accounts receivable	3,717	(10,708)	(5,235)	(15,276)
Inventories and stockpiled ore	(1,112)	(3,656)	4,503	(1,710)
Accounts payable and accrued liabilities	(14,821)	5,619	(22,493)	921
Other	(33)	(67)	86	(310)
	(12,249)	(8,812)	(23,139)	(16,375)
Non-cash financing and investing activities				
Shares issued on acquisition (Note 5 (a) and 5 (b))	-	-	894,677	103,253
Operating activities included the following payments				
Interest paid	964	-	1,103	533
Income taxes paid	3,253	-	9,278	1,299

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

12. Segmented information

The Company manages its operations by geographical location. These reportable operating segments are summarized in the table below:

	Brazil	Chile ⁽²⁾	Canada ⁽²⁾	Mexico ⁽²⁾	Australia	Other ⁽¹⁾	Total
	\$	\$	\$	\$	\$	\$	\$
Three months ended							
September 30, 2008							
Revenues	14,213	-	-	27,439	21,732	-	63,384
Depletion and depreciation	3,020	-	5	3,935	2,683	23	9,666
(Loss) earnings from operations	(170,660)	-	(870)	5,618	6,018	(7,694)	(167,588)
Total assets	48,681	320,779	737,789	510,891	206,360	154,746	1,979,246
Expenditures for mining interests	(1,641)	-	(40,468)	(2,269)	(9,474)	(54)	(53,906)
Nine months ended							
September 30, 2008							
Revenues	52,755	-	-	27,439	78,908	-	159,102
Depletion and depreciation	12,341	-	5	3,935	7,379	66	23,726
(Loss) earnings from operations	(178,656)	-	(870)	5,618	26,106	(12,201)	(160,003)
Total assets	48,681	320,779	737,789	510,891	206,360	154,746	1,979,246
Expenditures for mining interests	(6,107)	-	(40,468)	(2,269)	(21,799)	(80)	(70,723)

⁽¹⁾ Other includes corporate balances and intercompany eliminations

	Brazil	Australia	Other ⁽¹⁾	Total
	\$	\$	\$	\$
Three months ended				
September 30, 2007				
Revenues	15,196	29,467	-	44,663
Depletion and depreciation	3,284	9,958	16	13,258
(Loss) earnings from operations	(1,560)	6,494	(2,322)	2,612
Total assets	174,033	214,605	68,274	456,912
Expenditures for mining interests	(1,779)	(5,607)	(615)	(8,001)
Ten months ended				
September 30, 2007				
Revenues	30,662	53,443	-	84,105
Depletion and depreciation	7,046	15,677	16	22,739
(Loss) earnings from operations	(4,072)	12,370	(7,280)	1,018
Total assets	174,033	214,605	68,274	456,912
Expenditures for mining interests	(3,142)	(12,545)	(622)	(16,309)

⁽¹⁾ Other includes corporate balances and intercompany eliminations

⁽²⁾ Segments acquired on June 30, 2008 (Note 1)

New Gold Inc.

Notes to the consolidated financial statements

September 30, 2008

(Tabular amounts expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

13. Commitments and contingencies

- (a) The Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment necessary to commence development of the New Afton project. At September 30, 2008, these commitments totaled \$41 million and are expected to fall due over the next 12 months.
- (b) The Company's, subsidiary, Minera San Xavier, S.A. de C.V., settled its dispute with Washington Group Latin America for \$8.0 million and a mutual release and settlement agreement was signed by both parties.
- (c) The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company has received notice that legal claims in the amount of approximately \$46 million have been filed in Brazilian courts against the Company's subsidiary, Mineração Pedra Branca do Amapari Ltda ("MPBA"). The claims allege that MPBA has adversely impacted the quality of William Creek causing economic loss and health concerns. The Company believes that these claims are unfounded and intends to vigorously defend against them. The Company cannot reasonably predict the likelihood or outcome of these actions. Other than the preceding, the Company does not believe that adverse decisions in any other pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

14. Subsequent event

Subsequent to September 30, 2008, the Company announced that it would slow development activities of the New Afton project in light of the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures. The underground mine development activities will continue at a reduced rate and surface construction activities will be wound down. This slowdown will be implemented in a manner that protects the value of expenditure to date and facilitates the re-commencement of activities when the decision is made to resume full construction of the project. The revised schedule involves development of access to the base of the ore body by the end of 2010 followed by completion of underground development and surface construction to achieve full production in the second half of 2012. This schedule is dependent on the Company obtaining the required financing for the project by the end of 2010, and if this financing is obtained prior to the end of 2010 the schedule can be updated accordingly.

The revised schedule projects a total cash requirement of approximately \$83.0 million in 2009, as compared to the existing fast track schedule which has a cash requirement of \$320.0 million.