U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

o Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934
or
x Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2010 Commission File Number 001-31722

New Gold Inc.
(Exact name of Registrant as specified in its charter)

British Columbia	**1000**	**Not Applicable**
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Suite 3110, 666 Burrard Street
Vancouver, British Columbia, Canada V6C 2X8
(604) 696-4100
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System
111 Eighth Avenue, New York, NY 10011
(212) 894-8940
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange On Which Registered:
Common Shares, no par value	**NYSE Amex LLC**

Securities registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this form:

x Annual Information Form x Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At **December 31, 2010**, the Registrant had outstanding 399,042,335 common shares without par value.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). o Yes o No

DOCUMENTS INCORPORATED BY REFERENCE

The Annual Information Form ("AIF") of New Gold Inc. (the "Registrant", "New Gold" or the "Company") for the fiscal year ended December 31, 2010 is filed as exhibit 1 to this annual report on Form 40-F.

The audited consolidated financial statements of the Company for the years ended December 31, 2010 and 2009, including the reports of the auditor with respect thereto, are filed as exhibit 2 to this annual report on Form 40-F. For a reconciliation of important differences between Canadian and United States generally accepted accounting principles, see Note 24 to the Company's audited consolidated financial statements.

The Company's management's discussion and analysis ("MD&A") for the year ended December 31, 2010 is filed as exhibit 3 to this annual report on Form 40-F.

EXPLANATORY NOTE

The Company is a Canadian issuer eligible to file its annual report pursuant to Section 13 of the Exchange Act on Form 40-F. The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, the Company's equity securities are exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Rule 3a12-3 under the Exchange Act.

The Company is permitted, under a multi-jurisdictional disclosure system adopted by the United States, to prepare the documents incorporated by reference in this annual report on Form 40-F in accordance with Canadian disclosure requirements, which are different from those of the United States.

Information concerning the properties and operations of the Company included or incorporated by reference herein has been prepared in accordance with Canadian standards under applicable Canadian securities laws, and may not be comparable to similar information for United States companies. The terms "Mineral Resource", "Measured Mineral Resource", "Indicated Mineral Resource" and "Inferred Mineral Resource" used in this report and the documents incorporated by reference herein are Canadian mining terms as defined in accordance with National Instrument 43-101 under guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms "Mineral Resource", "Measured Mineral Resource", "Indicated Mineral Resource" and "Inferred Mineral Resource" are recognized and required by Canadian regulations, they are not defined terms under standards of the United States Securities and Exchange Commission (the "Commission"). Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve calculation is made. As such, certain information contained or incorporated by reference in this report concerning descriptions of mineralization and resources under Canadian standards is not comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the Commission. An "Inferred Mineral Resource" has a great amount of uncertainty as to its existence and as to its economic and legal feasibility. It cannot be assumed that all or any part of an "Inferred Mineral Resource" will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. Readers are cautioned not to assume that all or any part of Measured or Indicated Resources will ever be converted into Mineral Reserves. Readers are also cautioned not to assume that all or any part of an "Inferred Mineral Resource" exists, or is economically or legally mineable. In addition, the definitions of "Proven Mineral Reserves" and "Probable Mineral Reserves" under CIM standards differ in certain respects from the standards of the Commission.

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"), and they may be subject to Canadian auditing and auditor independence standards. Accordingly, the financial statements of the Company included in this report may not be comparable to financial statements of United States companies. Significant differences between Canadian GAAP and United States GAAP are described in Note 24 to the audited consolidated financial statements of the Company included in this report.

Unless otherwise indicated, all dollar amounts are reported in U.S. dollars.

FORWARD LOOKING STATEMENTS

This annual report on Form 40-F and the documents incorporated by reference (the “Annual Report”) contain “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 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 and financing requirements, costs and timing of the development of new and existing deposits, implementation, timing and success of drilling and other exploration activities, permitting time lines, the completion and success of acquisitions, currency exchange rate fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, remediation and reclamation procedures and 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 including, but not limited to the words "expects", "does not expect", "plans", "anticipates", "does not anticipate", "believes", "intends", "estimates", "projects", "potential", "scheduled", "forecast", "budget" and similar expressions, or that events or conditions "will", "would", "may", "could", "should" or "might" occur. All such forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and are subject to important risk factors and uncertainties, many of which are beyond New Gold's ability to control or predict. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to known and unknown risks, uncertainties and other factors that may cause New Gold's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Such factors include, without limitation: significant capital requirements; 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 New Gold currently or may in the future carry on business; taxation; controls, regulations and political or economic developments in the countries in which New Gold does or may carry on business; the speculative nature of mineral exploration and development, including the risks of obtaining and maintaining the validity and enforceability of the necessary licenses and permits and complying with the permitting requirements of each jurisdiction that New Gold operates, including, but not limited to, Mexico, where New Gold is involved with ongoing challenges relating to its environmental impact statement for the Cerro San Pedro Mine; the lack of certainty with respect to the Mexican and other foreign legal systems, which may not be immune from the influence of political pressure, corruption or other factors that are inconsistent with the rule of law; the uncertainties inherent to current and future legal challenges the company is or may become a party to, including the third party claim related to the El Morro transaction with respect to New Gold's exercise of its right of first refusal on the El Morro copper-gold project in Chile and its partnership with Goldcorp Inc., which transaction and third party claim were announced by New Gold in January 2010; 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; 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 the risk of inadequate insurance or inability to obtain insurance to cover these risks) as well as "Risk Factors" discussed in the Company’s Annual Information Form filed as Exhibit 1 to this Annual Report.

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. All of the forward-looking statements contained in this Annual Information Form and any documents incorporated by reference herein are qualified by these cautionary statements. Readers should not place undue reliance on forward-looking statements. The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, events or otherwise, except in accordance with applicable securities laws.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2010. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures in place are effective at the reasonable assurance level to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported on a timely basis in accordance with applicable time periods specified by the Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and Rule 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

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

The Company's management, including the Chief Executive Officer 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, the 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 or 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 of controls is also 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.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d—15(f) under the Exchange Act for the year ended December 31, 2010. In making this assessment, it used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2010 has been audited by Deloitte & Touche LLP, the Company's independent registered chartered accountants, as stated in their report immediately preceding the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009, filed as exhibit 2 to this Annual Report.

ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM

The reports immediately preceding the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009 are filed as exhibit 2 to this Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the fiscal year ended December 31, 2010, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

LIMITATIONS ON DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over 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. Further, the 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 or 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 of 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.

AUDIT COMMITTEE IDENTIFICATION AND FINANCIAL EXPERT

The Company has an Audit Committee established by the Board of Directors for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company, in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are James Estey (Chair), Martyn Konig and Vahan Kololian. Each of Mr. Estey, Mr. Konig and Mr. Kololian is "independent" as that term is defined under the rules of the NYSE Amex LLC.

The Board has determined that James Estey and Vahan Koloian are each an "Audit Committee Financial Expert" as that term is defined under Section 407 of the Sarbanes-Oxley Act of 2002 and paragraph (8) of General Instruction B. of Form 40-F.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information provided under the headings "Pre-Approval Policies and Procedures" (page 71) and "External Auditor Service Fees (By Category)" (page 72) contained in the AIF is incorporated by reference herein.

CODE OF ETHICS

In connection with a comprehensive review of the Company's corporate governance policies, on August 13, 2008, the Board of Directors of the Company (the "Board") approved the adoption of a code of business conduct and ethics ("Code"). The Code was reviewed and updated on March 12, 2009, March 4, 2010 and March 3, 2011. The Code is applicable to all directors, officers and employees of the Company, including its Chief Executive Officer, Chief Financial Officer and principal accounting officer. The Code was adopted to, among other things, update and clarify the duties, obligations and responsibilities that are imposed upon the persons subject to its provisions. Additionally, on July 8, 2008, as amended November 24, 2008 and ratified on March 12, 2009, March 4, 2010 and March 3, 2011, the Board approved the adoption of a Whistleblower Policy ("Whistleblower Policy"), which outlines the principles and commitments that the Company has made with respect to the treatment of complaints by its personnel. Copies of the Code and the Whistleblower Policy are available on the Company's website at www.newgold.com.

There were no waivers of the Code in the past fiscal year.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

(U.S. dollars in thousands)	**Payments due by period**				
Contractual obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Long-term debt	243,307	-	55,297	-	188,010
Interest payable on long-term debt	131,857	21,566	43,132	38,958	28,201
Operating Leases and Other Commitments	156,855	86,167	41,462	29,173	53
Asset retirement obligations	44,193	1,426	1,742	1,315	39,710
Total contractual obligations	576,212	109,159	141,633	69,446	255,974

NYSE AMEX LLC CORPORATE GOVERNANCE

The Company's common shares are listed on the NYSE Amex LLC ("Amex"). Section 110 of the Amex company guide permits Amex to consider the laws, customs and practices of foreign issuers in relaxing certain Amex listing criteria, and to grant exemptions from Amex listing criteria based on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which the Company's governance practices differ from those followed by domestic companies pursuant to Amex standards is contained on the Company's website at www.newgold.com.

UNDERTAKINGS

The Company undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

CONSENT TO SERVICE OF PROCESS

The Company has filed with the Commission an amendment dated January 21, 2010 to the written consent to service of process and power of attorney on Form F-X. Any change to the name or address of the Company's agent for service shall be communicated promptly to the Commission by amendment to the Form F-X referencing the file number of the Company.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

NEW GOLD INC.

By: */s/ Brian Penny*

Name: Brian Penny

Title: Chief Financial Officer

Date: March 30, 2011

EXHIBIT INDEX

The following documents are being filed with the Commission as exhibits to this annual report on Form 40-F.

Exhibit	Description
1.	Annual Information Form for the year ended December 31, 2010
2.	Audited Consolidated Financial Statements for the years ended December 31, 2010 and 2009, including the reports of the auditor with respect thereto
3.	Management's Discussion and Analysis for the year ended December 31, 2010
4.	Report on Mine Safety as required by section 13 of the Exchange Act
5.	Certification of Chief Executive Officer as Required by Rule 13a-14(a) under the Exchange Act
6.	Certification of Chief Financial Officer as Required by Rule 13a-14(a) under the Exchange Act
7.	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
8.	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
9.	Consent of Deloitte & Touche LLP
10.	Consent of Peter Lloyd
11.	Consent of Rex Berthelsen
12.	Consent of Eric Strom
13.	Consent of Sean Pearce
14.	Consent of Barton G. Stone
15.	Consent of Pincock, Allen & Holt
16.	Consent of Roscoe Postle Associates Inc.
17.	Consent of David Rennie
18.	Consent of Dennis Bergen
19.	Consent of Kevin Scott
20.	Consent of Richard Lambert
21.	Consent of Holger Krutzelmann
22.	Consent of Christopher Moreton
23.	Consent of Wayne Valliant
24.	Consent of Hubert Schimann
25.	Consent of Manfred Wimberger
26.	Consent of Mark Petersen

Exhibit 99.1



ANNUAL INFORMATION FORM
FOR THE FINANCIAL YEAR ENDED
DECEMBER 31, 2010

March 30, 2011

Suite 3110, 666 Burrard Street
Vancouver, BC V6C 2X8
Canada

NEW GOLD INC.
ANNUAL INFORMATION FORM
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2010

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INTRODUCTORY NOTES

Date of Information

All information in this annual information form (“Annual Information Form”) is as at December 31, 2010 unless otherwise indicated.

Cautionary Note Regarding Forward-Looking Statements

Certain information contained in this Annual Information Form, including any information relating to New Gold Inc.'s (“New Gold” or the “Company”) future financial or operating performance may be deemed "forward looking". All statements in this Annual Information Form, other than statements of historical fact, that address events or developments that New Gold expects to occur, are "forward-looking statements". Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "does not expect", "plans", "anticipates", "does not anticipate", "believes", "intends", "estimates", "projects", "potential", "scheduled", "forecast", "budget" and similar expressions or their negative connotations, or that events or conditions "will", "would", "may", "could", "should" or "might" occur. All such forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and are subject to important risk factors and uncertainties, many of which are beyond New Gold's ability to control or predict. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to known and unknown risks, uncertainties and other factors that may cause New Gold's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Such factors include, without limitation:

- price levels and volatility in the spot and forward markets for commodities;
- the uncertainties inherent to current and future legal challenges New Gold is or may become a party to, including the third party claim related to the El Morro transaction with respect to New Gold's exercise of its right of first refusal on the El Morro copper-gold project in Chile and its partnership with Goldcorp Inc., which transaction and third party claim were announced by New Gold in January 2010;
- controls, regulations and political or economic developments in the countries in which New Gold does or may carry on business;
- changes in national and local government legislation in Canada, the United States, Australia, Mexico and Chile or any other country in which New Gold currently does or may in the future carry on business;
- the lack of certainty with respect to foreign legal systems, which may not be immune from the influence of political pressure, corruption or other factors that are inconsistent with the rule of law;
- the speculative nature of mineral exploration and development, including the risks of obtaining and maintaining the validity and enforceability of the necessary licenses and permits and complying with the permitting requirements of each jurisdiction that New Gold operates, including, but not limited to, Mexico, where New Gold is involved with ongoing challenges relating to its environmental impact statement for the Cerro San Pedro Mine;
- discrepancies between actual and estimated production, between actual and estimated costs, between actual and estimated reserves and resources and between actual and estimated metallurgical recoveries;
- actual results of current exploration or reclamation activities;
- fluctuations in the international currency markets and in the rates of exchange of the currencies of Canada, the United States, Australia, Mexico and Chile;

- significant capital requirements;
- impact of any hedging activities;
- taxation;
- additional funding requirements;
- loss of key employees;
- diminishing quantities or grades of reserves;
- changes in project parameters as plans continue to be refined;
- accidents;
- labour disputes;
- defective title to mineral claims or property or contests over claims to mineral properties; and
- competition.

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 the risk of inadequate insurance or inability to obtain insurance to cover these risks) as well as other risks as discussed under the heading "Risk Factors" in this Annual Information Form and in Management's Discussion and Analysis for the year ended December 31, 2010, available on SEDAR at www.sedar.com.

Forward-looking statements are not guarantees of future performance, and actual results and future events could materially differ from those anticipated in such statements. All of the forward-looking statements contained in this Annual Information Form are qualified by these cautionary statements.

Although the Company has attempted to identify important factors that would cause actual results to differ materially from those contained in the 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. All of the forward-looking statements contained in this Annual Information Form are qualified by these cautionary statements. Readers should not place undue reliance on forward-looking statements. New Gold expressly disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, events or otherwise, except in accordance with applicable securities laws.

Most of the financial information in this Annual Information Form is taken from New Gold's audited consolidated financial statements for the year ended December 31, 2010. Readers are cautioned to refer to such financial statements for complete information, as the information in this Annual Information Form has been selectively drawn from the financial statements and is not complete.

Cautionary Note to U.S. Readers Concerning Estimates of Measured, Indicated and Inferred Mineral Resources

Information concerning the properties and operations of New Gold has been prepared in accordance with Canadian disclosure standards under applicable Canadian securities laws, and may not be comparable to similar information for United States companies. The terms "Mineral Resource", "Measured Mineral Resource", "Indicated Mineral Resource" and "Inferred Mineral Resource" used in this Annual Information Form are Canadian mining terms as defined in accordance with NI 43-101 under guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms "Mineral Resource", "Measured Mineral Resource", "Indicated Mineral Resource" and "Inferred Mineral Resource" are recognized and required by Canadian regulations, they are not defined terms under standards of the United States Securities and Exchange Commission. Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve calculation is made.

As such, certain information contained in this Annual Information Form concerning descriptions of mineralization and resources under Canadian standards is not comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the United States Securities and Exchange Commission. An "Inferred Mineral Resource" has a great amount of uncertainty as to its existence and as to its economic and legal feasibility. It cannot be assumed that all or any part of an "Inferred Mineral Resource" will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or certain other economic studies. Readers are cautioned not to assume that all or any part of Measured or Indicated Resources will ever be converted into Mineral Reserves. Readers are also cautioned not to assume that all or any part of an "Inferred Mineral Resource" exists, or is economically or legally mineable. In addition, the definitions of "Proven Mineral Reserves" and "Probable Mineral Reserves" under CIM standards differ in certain respects from the standards of the United States Securities and Exchange Commission.

Total Cash Cost

"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 an 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 reduced by any by-product revenue and is then divided by ounces sold to arrive at the total cash cost of sales. This 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 has no standardized meaning under GAAP and 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. See pages 30 and 56 of the Company's MD&A for the year ended December 31, 2010, posted on the Company's website www.newgold.com, for further discussion.

Currency Presentation and Exchange Rate Information

This Annual Information Form contains references to United States dollars, Canadian dollars and Australian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars. Canadian dollars are referred to as "Canadian dollars" or "C$" and Australian dollars are referred to as "Australian dollars" or "A$".

The high, low, average and closing exchange rates for Canadian dollars in terms of the United States dollar (noon) for each of the three years ended December 31, 2010, 2009 and 2008, as quoted by the Bank of Canada, were as follows:

	2010	2009	2008
High	1.0778	1.3000	1.2969
Low	0.9946	1.0292	0.9719
Average [1]	1.0299	1.1420	1.0660
Closing	0.9946	1.0466	1.2246

[1] Calculated as an average of the daily noon rates for each period.

On March 29, 2011, the noon exchange rate for Canadian dollars in terms of the United States dollar, as quoted by the Bank of Canada, was US$1 = C$0.9761 and C$1= US1.0245.

Gold, Silver and Copper Prices

Gold Prices

The high, low, average and closing afternoon fixing gold prices per troy ounce for each of the three years ended December 31, 2010, 2009 and 2008, as quoted by the London Bullion Market Association, were as follows:

	2010 ($)	2009 ($)	2008 ($)
High	1,421	1,213	1,011
Low	1,058	810	713
Average	1,225	972	872
Closing	1,406	1,088	870

On March 29, 2011, the closing afternoon fixing gold price per troy ounce, as quoted on the London Bullion Market Association, was $1,417.50.

Silver Prices

The high, low, average and closing silver prices per troy ounce for each of the three years ended December 31, 2010, 2009 and 2008, as quoted by the London Bullion Market Association were as follows:

	2010 ($)	2009 ($)	2008 ($)
High	30.70	19.18	20.92
Low	15.14	10.51	8.88
Average	20.16	14.65	14.99
Closing	30.63	16.99	10.79

On March 29, 2011, the closing silver price per troy ounce, as quoted on the London Bullion Market Association, was $36.62.

Copper Prices

The high, low, average and closing official cash settlement copper prices per pound for each of the three years ended December 31, 2010, 2009 and 2008, as quoted by the London Metal Exchange, were as follows:

	2010 ($)	2009 ($)	2008 ($)
High	4.418	3.333	4.076
Low	2.763	1.384	1.256
Average	3.417	2.350	3.153
Closing	4.418	3.330	1.316

On March 29, 2011, the closing official cash settlement copper price per pound, as quoted on the London Metal Exchange, $4.33.

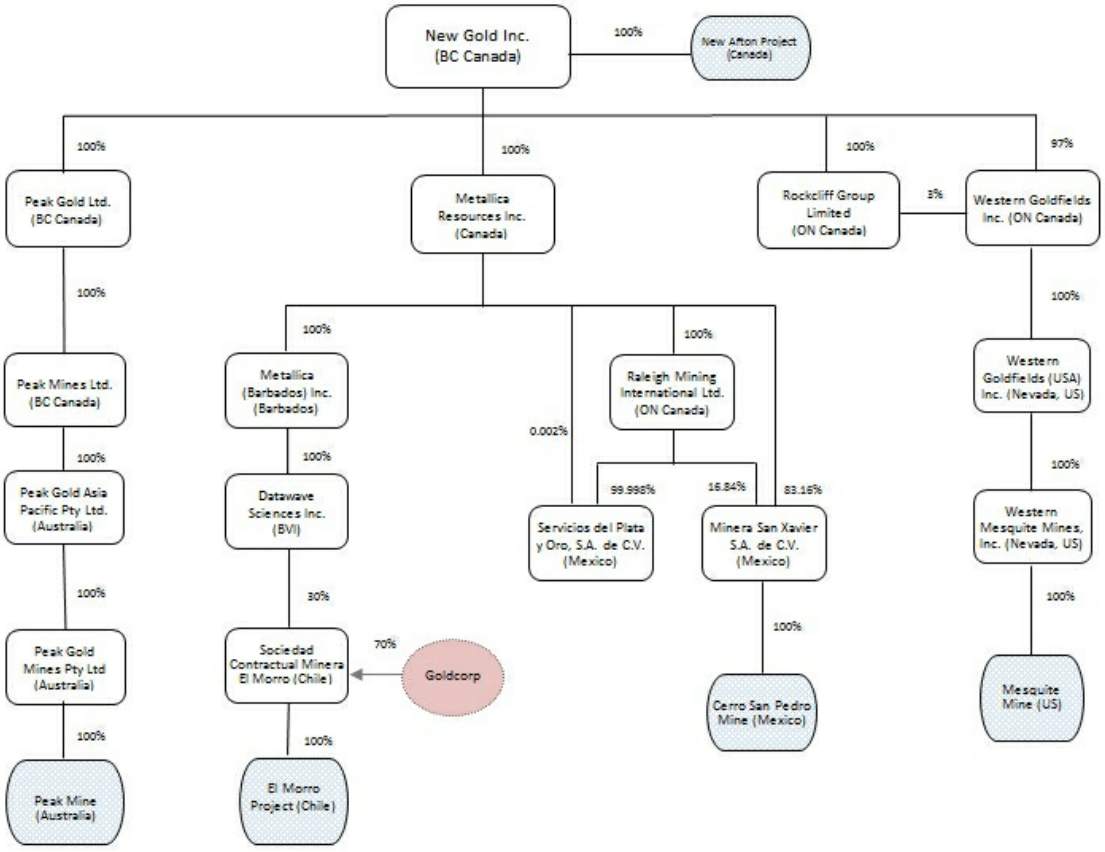
CORPORATE STRUCTURE

New Gold was incorporated on January 31, 1980 as DRC Resources Corporation under the *Company Act* (British Columbia) and was transitioned on May 10, 2005 under the *Business Corporations Act* (British Columbia). On May 4, 2005, the shareholders of the Company passed a special resolution to remove the pre-existing company provisions and to adopt new articles. On June 1, 2005, the Company changed its name to New Gold Inc.

The head and registered office of the Company is Suite 3110, 666 Burrard Street, Vancouver, British Columbia V6C 2X8, Canada. The Company also has an office at Suite 3120, 200 Bay Street, Toronto, Ontario, M5J 2J4, Canada.

The following chart illustrates the Company's principal subsidiaries (collectively, the "Subsidiaries"), together with the governing law of each subsidiary and the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company, as well as the Company's mineral projects as at the date of this Annual Information Form.

In this Annual Information Form, except as otherwise required by the context, reference to "New Gold" or the "Company" means, collectively, New Gold Inc. and the Subsidiaries.



GENERAL DEVELOPMENT OF THE BUSINESS

Historically, New Gold was a natural resource exploration and development company engaged in the acquisition, exploration and development of natural resource properties since 1980. New Gold completed a business combination with Peak Gold Ltd. ("Peak") and Metallica Resources Inc. ("Metallica") on June 30, 2008 (the "Peak/Metallica Business Combination"), and a business combination with Western Goldfields Inc. ("Western Goldfields") on June 1, 2009 (the "Western Goldfields Business Combination"). At present, New Gold's assets consist of the following material mineral projects which are each described in detail below in the "Mineral Properties" section of this document:

- 100% interest in the Mesquite Mine in Imperial County, California, United States (the "Mesquite Mine").
- 100% interest in the Cerro San Pedro Mine in Mexico (the "Cerro San Pedro Mine").
- 100% interest in the Peak Gold Mines in Australia (the "Peak Gold Mines").
- 100% interest in the New Afton Project in Kamloops, British Columbia, Canada (the "New Afton Project").
- 30% interest in the El Morro Project in Chile (the "El Morro Project").

Peak/Metallica Business Combination

On June 30, 2008 New Gold completed the Peak/Metallica Business Combination. Under the terms of the Peak/Metallica Business Combination, the holders of common shares of Peak received 0.1 of a common share of the Company, plus nominal cash consideration, for each common share of Peak, and the holders of common shares of Metallica received 0.9 of a common share of the Company, plus nominal cash consideration, for each common share of Metallica.

Pre-Western Goldfields Business Combination

On November 12, 2008, New Gold made the decision to slow development of the New Afton Project due to the volatility and uncertainty of the capital markets, as well as New Gold's cash position at that time in relation to the funding requirements for the fast track construction of the New Afton Project. Under the revised development plan, surface construction was shut down while development of the underground workings continued at a reduced rate to gain access to the bottom of the ore body. The revised schedule projected spending of approximately $60.0 million (excluding interest) in 2009, as compared to the previous fast track schedule which had spending of $286.0 million (excluding interest) for 2009. Under the original fast track schedule, operations were to commence in late 2009, accelerating to achieve full production in the second quarter of 2011. Under the revised development plan, surface construction was to resume in late 2010 with anticipated full production in the second half of 2012.

New Gold also reviewed the carrying value of its 100% interest in the Amapari Mine in Brazil ("Amapari Mine") and concluded that there was an impairment. The evaluation of results from the 2007/2008 drill program did not add significant amounts of oxide ore that would be economical to process in the existing heap leach circuit. As a result of the limited mine life for the oxide ore and unproven economic viability of the identified sulphide resources, management wrote down its investment in the Amapari Mine by $156.9 million, net of tax recoveries, to a value of $10.6 million.

In January 2009, the Company placed the Amapari Mine on temporary care and maintenance due to depletion of ore suitable for treatment at the existing facilities.

In January 2009, New Gold entered into agreements with certain note holders that reduced its debt position by C$50 million through the buy-back of a portion of its senior secured notes with a face value totaling C$50 million for consideration of C$30 million. The purchase and cancellation of these notes reduced the principal amount outstanding under New Gold's senior secured notes from C$237 million to C$187 million, and resulted in a reduction of C$5 million per year in interest payments.

Western Goldfields Business Combination

The Western Goldfields Business Combination was completed on June 1, 2009. Under the terms of the Western Goldfields Business Combination, the holders of common shares of Western Goldfields received one common share of New Gold and nominal cash consideration for each Western Goldfields common share. Pursuant to the plan of arrangement, New Gold issued an aggregate of approximately 143 million common shares of New Gold to the former shareholders of Western Goldfields and authorized the issuance of an additional 12 million common shares on the exercise of the stock options and warrants held by the former option and warrant holders of Western Goldfields.

2009 Bought Deal Public Offering

On September 11, 2009, the Company completed a bought deal public offering of 30,705,000 common shares (including the full exercise of the over-allotment option by the underwriters) at a price of C$3.75 for aggregate gross proceeds to the Company of approximately C$115 million.

Mesquite Mine Term Loan Facility

On October 7, 2009, the Company announced that it amended the terms of its Mesquite Mine term loan facility with a syndicate of lenders led by Investec Bank plc and that the Company made a prepayment of $15 million under the facility. The prepayment reduced the outstanding principal of the loan to $45.8 million, with scheduled repayment by June 30, 2012. The facility was fully repaid in February 2010.

Cerro San Pedro Mine

New Gold owns 100% of the Cerro San Pedro Mine through the Mexican Company, Minera San Xavier S.A. de C.V. ("MSX").

The Cerro San Pedro Mine has a history of on-going legal challenges. The mine is in full operation and legal challenges relate primarily to a land use dispute; New Gold is in compliance with all environmental permits at the Cerro San Pedro Mine.

On November 18, 2009 PROFEPA, the Mexican environmental enforcement agency, issued an order that MSX was to suspend mining operations at the Cerro San Pedro Mine. PROFEPA's order followed a ruling by the Federal Court of Fiscal and Administrative Justice ("FCFAJ") in September 2009 that SEMARNAT, the Mexican government's environmental protection agency, nullify the Mine's Environmental Impact Statement ("EIS") which was issued in 2006. The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue during the appeals process. The latest injunction was received on October 4, 2010.

MSX appealed the September 2009 ruling of the FCFAJ. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. MSX appealed the negative decision and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of MSX's position in its appeal against the September 2009 nullification of the EIS. That ruling effectively re-establishes the validity of the mine's 2006 EIS.

MSX continues to work with all levels of government and other external stakeholders to maintain uninterrupted operation at the Cerro San Pedro Mine.

Asset Backed Notes

The Company previously held asset backed commercial paper ("ABCP") that matured in 2007. When the ABCP matured but was not redeemed it became the subject of a restructuring process that replaced the ABCP with long-term asset backed securities ("Asset Backed Notes"). The restructure was completed and the Asset Backed Notes were issued on January 21, 2009.

During the fourth quarter of 2009, New Gold sold C$56.3 million of face value Asset Backed Notes for cash proceeds of C$31.2 million and a further C$83.1 million for cash proceeds of C$49.9 million in the first quarter of 2010. In February 2011 all remaining Asset Backed Notes were disposed of for cash proceeds of C$8.8 million.

El Morro Project

The Company's 30% interest in the El Morro copper-gold project (held through its subsidiary) is located in the Atacama Region, Chile, approximately 80 kilometres east of the city of Vallenar. The El Morro Project was acquired by the Company as part of the business combination with Metallica Resources Inc. on June 30, 2008. The project is a development stage asset initially managed under a shareholder agreement with Xstrata Copper Chile S.A. ("Xstrata"), a wholly owned subsidiary of Xstrata Plc., the previous project operator and owner of a 70% interest.

On October 12, 2009, Barrick Gold Corporation ("Barrick") announced that it had entered into an agreement with Xstrata to acquire Xstrata's 70% interest in the El Morro copper-gold project. New Gold, through its 100% owned subsidiary Datawave Sciences Inc. ("Datawave"), held a right of first refusal over Xstrata's 70% interest which came into effect when the agreement with Barrick was announced.

On January 7, 2010, Datawave provided notice to Xstrata of the exercise of its right of first refusal to acquire Xstrata's 70% interest in the El Morro Project for $463.0 million. The Company completed this transaction on February 16, 2010. A subsidiary of Goldcorp Inc. ("Goldcorp") loaned $463.0 million to a Datawave subsidiary to fund the exercise of the right of first refusal. After acquisition of Xstrata's 70% interest by a Datawave subsidiary, Datawave sold that subsidiary to a subsidiary of Goldcorp.

Concurrent with the sale of the Datawave subsidiary to a subsidiary of Goldcorp, Datawave received a $50.0 million payment and the parties amended the terms of the existing El Morro Shareholders Agreement. Under the revised Shareholders Agreement, Goldcorp (through its subsidiary) has agreed to fund 100% of Datawave's share of the development and construction capital for the project, which was estimated in the El Morro feasibility study at approximately $2.5 billion.

On January 13, 2010, New Gold received a Statement of Claim filed by Barrick in the Ontario Superior Court of Justice against New Gold, Goldcorp and affiliated subsidiaries. A Fresh Amended Statement of Claim was received in August 2010 which included Xstrata and its affiliated subsidiaries as defendants. The claim relates to Datawave's exercise of its right of first refusal with respect to the El Morro copper-gold project. New Gold believes the claim is without merit and intends to defend this action using all available legal avenues. See "Legal Proceedings and Regulatory Actions".

Sale of Amapari Mine

On January 27, 2010, the Company announced the signing of an agreement to sell its Brazilian subsidiary Mineracao Pedra Branca do Amapari Ltda. ("MPBA"), which held the Amapari Mine and other related assets, to Beadell Resources Ltd, ("Beadell"). The transaction closed on April 13, 2010 and New Gold received gross proceeds of $37.0 million in cash and 115 million Beadell shares valued on the closing date of the transaction at $18.6 million. On December 1, 2010, New Gold announced the sale of its 115 million Beadell shares, with Beadell's consent to release the shares from a 12 month escrow, at A$0.53 per share for total net proceeds of $58.4 million. Total proceeds, inclusive of the sale of Beadell shares, were $95.4 million.

Credit Facility

On December 14, 2010, New Gold entered into an agreement with a syndicate of banks to establish a $150.0 million revolving credit facility ("Facility") further enhancing the Company's financial flexibility. As a term of the Facility the Company has granted the lenders a first ranking lien on the present and future property of the Mesquite Mine, Cerro San Pedro Mine and Peak Gold Mines, subject to permitted encumbrances. The Facility has an initial term of three years, with annual extensions permitted, and provides New Gold with additional liquidity supplementing the Company's already strong cash position.

DESCRIPTION OF THE BUSINESS

Overview

New Gold is an intermediate gold producer with a portfolio of global assets in the United States, Mexico, Australia, Canada and Chile. The Company's operating assets consist of the Mesquite Mine in the United States, the Cerro San Pedro Mine in Mexico, and the Peak Gold Mines in Australia. Significant development projects include the New Afton Project in Canada and a 30% interest in the El Morro Project in Chile.

New Gold is working towards maximizing shareholder value through diversified production, maintaining a reduced risk profile and enhancing growth potential in an environmentally and socially responsible manner.

In addition to information set out elsewhere in this Annual Information Form, the following information applies to each of the Company's reportable operating segments.

Specialized Skill and Knowledge

All aspects of New Gold's business require specialized skills and knowledge. Such skills and knowledge include the areas of geology, drilling, mine planning, engineering, construction, regulatory compliance and accounting. New Gold has found that it can locate and retain employees and contractors with such skills and knowledge.

Principal Products

The Company's principal products are gold, silver and copper. There are worldwide gold, silver and copper markets into which the Company can sell and, as a result, the Company is not dependent on a particular purchaser with regard to the sale of the gold, silver and copper which it produces.

Competitive Conditions

The precious and base mineral exploration and mining business is competitive. The Company competes with numerous other companies and individuals in the search for and the acquisition of attractive mineral properties. The ability of the Company to acquire mineral properties in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for development or mineral exploration.

Operations

Raw Materials

The Company has the following Mineral Reserves:

- gold at the Mesquite Mine;
- gold and silver at the Cerro San Pedro Mine;
- gold and copper at the Peak Gold Mines and the El Morro Project; and
- gold, silver and copper at the New Afton Project.

Employees

As at December 31, 2010, the Company had the following employees and contractors:

Location	Full-Time	Contractors
Vancouver Office	18	3
Toronto Office	15	-
Corporate Exploration Team	7	-
Mesquite Mine	262	12
Cerro San Pedro Mine	403	42
Peak Gold Mines	284	23
New Afton Project	242	152
El Morro Project	-	-
	1,191	**229**

Foreign Operations

The Company currently owns 100% of the Mesquite Mine in the United States, 100% of the Cerro San Pedro Mine in Mexico, 100% of the Peak Gold Mines in Australia and 30% of the El Morro Project in Chile. Any changes in regulations or shifts in political attitudes in these foreign jurisdictions are beyond the control of the Company and may adversely affect its business. Future development and operations may be affected in varying degrees by such factors as government regulations (or changes thereto) with respect to the restrictions on production, export controls, income taxes, expropriation of property, repatriation of profits, environmental legislation, land use, water use, land claims of local people and mine safety. The effect of these factors cannot be accurately predicted. See "Risk Factors – Foreign Operations".

Environmental Protection

The Company's mining, exploration and development activities are subject to various federal, provincial, state and municipal laws and regulations relating to the protection of the environment, including requirements for closure and reclamation of mining properties.

In all jurisdictions where New Gold operates, specific statutory and regulatory requirements and standards must be met throughout the exploration, development and operations stages of a mining property with regard to air quality, water quality, fisheries and wildlife protection, solid and hazardous waste management and disposal, noise, land use and reclamation. Details and quantification of New Gold reclamation and closure costs obligations are set out in Note 14 of the Company's audited consolidated financial statements.

The financial and operational effect of environmental protection requirements on the capital expenditures and earnings of each mineral property are not significantly different than that of similar sized mines, and therefore do not and should not impact the Company's competitive position in the current or future financial years.

New Gold has implemented a health, safety, environmental, and sustainability policy which states that the Company is committed to excellence in the management of health, safety, environment and sustainability which it considers a key driver to achieving a productive and profitable business that contributes to sustainable development for present and future generations. The policy identifies a number of actions to be taken by the Company to achieve its objectives, including continuously improving the Company's health, safety and environmental systems by reviewing objectives and targets, though evaluations and audits and development of performance plans. Resources are focused to achieve shareholder profitability in all operations while maintaining New Gold's commitment to fostering sustainable communities and to take the views, customs and culture of the Company's stakeholders into account. All employees are responsible for incorporating into their planning and work the actions necessary to fulfill this commitment.

Technical Information

CIM Standards Definitions

The estimated Mineral Reserve and Mineral Resource for the Mesquite Mine, Cerro San Pedro Mine, the New Afton Project and the El Morro Project have been calculated in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") - Definitions Adopted by CIM Council on December 11, 2005 (the "CIM Standards"). The CIM Standards Definitions used in this Annual Information Form are set out in the attached Schedule B.

JORC Code Definitions

The estimated Mineral Reserve and Mineral Resource for the Peak Gold Mines have been calculated in accordance with the current (2004) version of the Australasian Institute of Mining and Metallurgy's ("AusIMM") Australasian Code for Reporting of Mineral Resources and Ore Reserves (the "JORC Code"), the Australian worldwide standards, and were restated in accordance with the requirements of the Canadian Securities Administrators' National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") to comply with CIM Standards.

The definitions of Ore Reserves and Mineral Resources as contained in the JORC Code have been reconciled to the definitions contained in the CIM Standards. If the Ore Reserves and Mineral Resources for the Peak Gold Mines were estimated in accordance with the definitions in the CIM Standards, there would be no substantive difference in such Ore Reserves and Mineral Resources.

The JORC Code Definitions used in this Annual Information Form are set out in the attached Schedule B.

Abbreviations

Unless otherwise defined abbreviations used in this Annual Information Form are set out in the attached Schedule C.

Summary of Mineral Reserve and Mineral Resource Estimates

On February 10, 2011, the Company reported consolidated Mineral Reserve and Resource statements for its mines and development projects as of December 31, 2010. A consolidated summary of total gold, silver and copper contained within New Gold's global Mineral Reserves and Resources is set out in the table below.

New Gold Mineral Reserves & Resources Summary as of December 31, 2010

	Contained Metals				
	Gold Koz	**Silver Koz**	**Copper Mlbs**	**Zinc Mlbs**	**Lead Mlbs**
Mineral Reserves					
Proven	2,662	24,074	930	-	-
Probable	5,852	22,334	1,956	-	-
Total P&P	8,514	46,408	2,886	-	-
Mineral Resources					
Measured	4,243	35,388	1,939	355	73
Indicated	8,817	48,126	1,599	765	133
Total M&I	13,060	83,514	3,538	1,120	206
Inferred	4,097	48,531	1,128	1,436	254

Notes to the Mineral Reserve and Resource statements are provided on pages 14&15 of this Annual Information Form.

Mineral Reserves

Updated Mineral Reserve statements for the Mesquite Mine, Cerro San Pedro Mine, Peak Gold Mines, New Afton Project and El Morro Project as of December 31, 2010, are presented in the table below. The qualified persons as defined by NI 43-101 in connection with the Mineral Reserve estimates for the Company's mineral properties are in "Interests of Experts".

Mineral Reserve Statement – as of December 31, 2010

(Reported in metric units)

		Metal Grade			Contained Metal		
	Tonnes 000's	**Gold g/t**	**Silver g/t**	**Copper %**	**Gold Koz**	**Silver Koz**	**Copper Mlbs**
Mesquite Mine							
Proven	13,915	0.74	-	-	331	-	-
Probable	155,198	0.56	-	-	2,794	-	-
Mesquite P&P	169,113	0.57	-	-	3,125	-	-
Cerro San Pedro Mine							
Proven	36,294	0.61	20.3	-	712	23,688	-
Probable	33,473	0.51	17.6	-	549	18,941	-
CSP P&P	69,767	0.56	19.0	-	1,261	42,629	-
Peak Gold Mines							
Proven	1,689	4.75	7.1	0.72	258	386	27
Probable	1,724	4.0	5.4	0.82	222	299	31
Peak P&P	3,413	4.4	6.2	0.77	480	685	58
New Afton Project							
Proven	-	-	-	-	-	-	-
Probable	47,400	0.69	2.03	0.95	1,052	3,094	993
New Afton P&P	47,400	0.69	2.03	0.95	1,052	3,094	993
El Morro Project		*100% Basis*				*30% Basis*	
Proven	240,020	0.59	-	0.57	1,361	-	903
Probable	291,103	0.44	-	0.48	1,235	-	932
El Morro P&P	531,123	0.51	-	0.52	2,596	-	1,835

Notes to the Mineral Reserve statement are provided on pages 14&15 of this Annual Information Form.

Mineral Resources

Updated Mineral Resource statements for the Mesquite Mine, Cerro San Pedro Mine, Peak Gold Mines, New Afton Project and El Morro Project inclusive of Mineral Reserves, as of December 31, 2010, are presented in the tables below. The qualified persons as defined by NI 43-101 in connection with the Mineral Resource estimated for the Company's mineral properties are in "Interest of Experts".

Measured and Indicated Mineral Resource Statement (Inclusive of Reserves) as of December 31, 2010
(Reported in metric units)

		Metal Grade					Contained Metal				
	Tonnes 000's	**Gold g/t**	**Silver g/t**	**Copper %**	**Zinc %**	**Lead %**	**Gold Koz**	**Silver Koz**	**Copper Mlbs**	**Zinc Mlbs**	**Lead Mlbs**
Mesquite Mine											
Measured	24,992	0.61	-	-	-	-	490	-	-	-	-
Indicated	336,006	0.48	-	-	-	-	5,185	-	-	-	-
Mesquite M&I	360,998	0.49	-	-	-	-	5,675	-	-	-	-
Cerro San Pedro Mine											
Measured (oxide)	39,566	0.43	16.48	-	-	-	547	20,964	-	-	-
Indicated (oxide)	65,478	0.29	13.04	-	-	-	610	27,451	-	-	-
CSP M&I (oxide)	105,044	0.34	14.34	-	-	-	1,157	48,415	-	-	-
Measured (sulphide)	19,405	0.53	16.78	-	0.83	0.17	331	10,469	-	355	73
Indicated (sulphide)	51,004	0.40	10.84	-	0.68	0.12	656	17,776	-	765	133
CSP M&I (sulphide)	70,409	0.40	12.48	-	0.72	0.13	987	28,245	-	1,120	206
Peak Gold Mines											
Measured	3,091	4.9	8.0	0.90	-	-	487	795	61	-	-
Indicated	4,205	3.6	5.8	1.15	-	-	487	784	107	-	-
Peak M&I	7,296	4.2	6.7	1.04	-	-	974	1,579	168	-	-
New Afton Project											
Measured	35,100	0.91	2.80	1.26	-	-	1,027	3,160	975	-	-
Indicated	29,900	0.67	2.20	0.85	-	-	644	2,115	560	-	-
New Afton M&I	65,000	0.80	2.60	1.07	-	-	1,671	5,275	1,535	-	-
El Morro Project			*100% Basis*					*30% Basis*			
Measured	240,020	0.59	-	0.57	-	-	1,361	-	903	-	-
Indicated	291,103	0.44	-	0.48	-	-	1,235	-	932	-	-
El Morro M&I	531,123	0.51	-	0.52	-	-	2,596	-	1,835	-	-

Notes to the Mineral Resource statement are provided on pages 14&15 of this Annual Information Form.

Inferred Mineral Resource Statement as of December 31, 2010

(Reported in metric units)

	Metal Grade						Contained Metal				
	Tonnes 000's	**Gold g/t**	**Silver g/t**	**Copper %**	**Zinc %**	**Lead %**	**Gold Koz**	**Silver Koz**	**Copper Mlbs**	**Zinc Mlbs**	**Lead Mlbs**
Mesquite Mine	59,232	0.53	-	-	-	-	1,019	-	-	-	-
Cerro San Pedro Mine											
Open Pit Resources											
Oxides	42,380	0.20	8.03	-	-	-	273	10,941	-	-	-
Sulphides	40,457	0.29	11.63	-	0.90	0.07	377	15,127	-	803	63
							650	26,068		803	63
Underground Resources											
Manto Sulphides	6,098	1.89	105.15	-	4.71	1.42	371	20,615	-	633	191
Peak Gold Mines	3,665	2.6	4.0	1.54	-	-	306	471	124	-	-
New Afton Project	25,200	0.54	1.70	0.66	-	-	438	1,377	367	-	-
El Morro Project	*100% Basis*						*30% Basis*				
	137,555	0.99	-	0.70	-	-	1,313	-	637	-	-
Notes to inferred resource statement are provided on pages 14&15 of this Annual Information Form.											

Notes to Mineral Reserve & Resource Statements

Mineral Reserves are contained within measured and indicated Mineral Resources. Measured and indicated Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Inferred Mineral Resources are not known with the same degree of certainty as measured and indicated resources, do not have demonstrated economic viability, and are exclusive of Mineral Reserves.

1) Mineral Reserves

Mineral Reserves for the Company's mining operations and development projects have been calculated based on the following metal prices and lower cut-off criteria:

Mineral Property	Gold US$/oz	Silver US$/oz	Copper US$/lb	Lower cutoff
Mesquite	$900	-	-	0.19 g/t Au – Oxide reserves 0.37 g/t Au – Non-oxide reserves
Cerro San Pedro	$900	$15.00	-	US$2.58/t NSR
Peak Mines	$900	$15.00	$2.25	AU$123 - 156/t NSR
New Afton	$800	$12.00	$2.00	US$19/t NSR
El Morro	$950	-	$2.00	0.30% CuEq(*)

(*) El Morro Mineral Reserves have been reported based on a lower grade cut-off of 0.30% copper-equivalent ("CuEq") where:
CuEq (%) = Cu(%) + 0.621 x Au (g/t) and Cu(%) = percent copper, Au(g/t) = grams per tonne gold, and 0.621 represents a constant based on metal prices of $2.00/lb copper and $950/oz gold and average metal recoveries for the deposit.

Mineral Reserves have been estimated and reported in accordance with the standards of the CIM Standards and National Instrument 43-101, or the AusIMM JORC equivalent.

2) Mineral Resources

Mineral Resources for the Company's mining operations and development projects have been calculated based on the following metal prices and lower cut-off criteria:

Mineral Property	Gold US$/oz	Silver US$/oz	Copper US$/lb	Zinc US$/lb	Lead US$/lb	Lower cut-off
Mesquite	$1,000	-	-	-	-	0.11 g/t Au – Oxide resources 0.22 g/t Au – Non-oxide resources
Cerro San Pedro	$1,000	$18.00	-	$1.00	$0.75	0.1 g/t AuEq – Open pit oxide resources 0.4 g/t AuEq – Open pit sulphide resources 2.5 g/t AuEq – Underground manto sulphide resources
Peak Mines	$900	$15.00	$2.25	$0.85	$0.65	AU$90 - 100/t NSR
New Afton	$900	-	$2.50	-	-	0.4% CuEq – All resources
El Morro*						
Meas'd & Ind	$950	-	$2.00	-	-	0.30% CuEq
Inferred	$1,100	-	$2.50	-	-	0.17% CuEq

Mineral Resources have been estimated and reported in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101, or the AusIMM JORC equivalent.

(*) El Morro measured and indicated Mineral Reserves have been reported based on a lower grade cut-off of 0.30% copper-equivalent ("CuEq") where: CuEq (%) = Cu(%) + 0.621 x Au (g/t) and Cu(%) = percent copper, Au(g/t) = grams per tonne gold, and 0.621 represents a constant based on metal prices of $2.00/lb copper and $950/oz gold and average metal recoveries for the deposit.

El Morro Inferred Mineral Resources have been reported based on a lower grade cut-off of 0.17% copper-equivalent ("CuEq") where: CuEq (%) = Cu(%)+ 0.5642 x Au(g/t) and Cu(%) = percent copper, Au(g/t)=grams per tonne gold, and 0.5642 represents a constant based on metal prices of $2.50/lb copper and $1,100/oz gold and average metal recoveries for the deposit.

El Morro Inferred Mineral Resources are constrained within an "Underground Mineral Resource" designed to be mined by underground block caving methods with the material extracted from one level. The Underground Mineral Resource volume corresponds to higher grade core of the La Fortuna porphyry stock as it extends below the open pit reserve measuring 360 meters high by 370 meters in an east-west direction and 550 meters in a north-south direction.

3) Cerro San Pedro Mineral Resources include measured, indicated and inferred resources that are contained within a "Mineral Resource Pit" and reported at lower cut-offs of 0.1 g/t AuEq for oxide mineralization and 0.4 g/t AuEq for sulphide mineralization based on the Mineral Resource metal prices noted above. Inferred manto sulphide Mineral Resources represent mineralization that is potentially mineable via underground mining methods and delimited by a 2.5 g/t AuEq grade shell based on the Mineral Resource metal prices noted above.

MINERAL PROPERTIES

Mesquite Mine, United States

The following disclosure relating to the Mesquite Mine is based, in part, on information derived from the technical report entitled "Technical Report on the Mesquite Mine, Brawley, California, U.S.A.", dated February 26, 2010 (the "Mesquite Report"). The Mesquite Report was prepared by Richard J. Lambert, P.E., Wayne W. Valliant, P. Geo., of Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.) ("RPA") and Holger Krutzelmann, P.Eng., formerly of RPA. Each are qualified persons under NI 43-101. Readers should consult the Mesquite Report to obtain further particulars about the Mesquite Mine. The Mesquite Report is available for review under the Company's profile on the SEDAR website at www.sedar.com. The Mesquite Report was prepared using imperial measurements; refer to the conversion table in the attached Schedule C for the equivalent metric values.

Project Description and Location

The Mesquite Mine is located in Imperial County, in southern California, approximately 24 miles north of the border with Mexico and 16 miles west of the border with the State of Arizona. The Company became the owner of the Mesquite Mine following the Western Goldfields Business Combination, and the mine is operated by the Company's wholly-owned subsidiary, Western Mesquite Mines, Inc. ("WMMI").

The mineral rights at the Mesquite Mine consist of 213 unpatented and 53 patented mining lode claims, 127 patented and 97 unpatented mill site claims, 658 acres of California state leased land, and 315 acres of fee lands that cover a total area of approximately 5,200 acres. The claims located on federally owned lands are administered by the Bureau of Land Management. Patented mining lode claims and patented mill site claims on U.S. federal land represent a secure title to the land. Unpatented mining and mill site claims do not have a termination date as long as annual assessment work is maintained and the land is held for mining purposes. The federal fee land is leased by WMMI and can also be maintained indefinitely as long as the annual maintenance fees are paid. All of the present and future property of the Mesquite Mine is subject to a first ranking lien in favor of the lenders under the Facility (see "Credit Facility" for more information).

In November 2003, Western Goldfields acquired the Mesquite Mine from Newmont Mining Corporation ("Newmont"). Under the terms of the asset purchase agreement governing the acquisition, previously mined material and any newly mined material will be subject to production royalties ranging from 2% to 6.8% depending on the location. Newmont's 2% net smelter royalty on newly mined ore from the project was transferred to Franco-Nevada Corporation in 2007. The majority of the short tons planned for future mining at Mesquite will be subject only to this 2% royalty held by Franco-Nevada.

In 1993, Hospah Coal Company ("Hospah"), a subsidiary of Newmont, entered into a Mineral Lease and Landfill Agreement (the "Landfill Agreement") with Hanson Resource Company (now the Los Angeles County Sanitation District ("LACSD")). LACSD has constructed a landfill facility adjacent to and overlying portions of the existing Mesquite Mine property.

Under the Landfill Agreement, WMMI retains the right to explore, mine, extract, process, market and sell ore, and otherwise conduct mining and processing activities, anywhere within the Mesquite property for an initial period through 2024 with automatic extensions until 2078. LACSD has the right to utilize portions of the overburden stockpiles and spent ore from the leach pads for use as daily cover for the landfill as well as for construction materials for general purposes as well as liner design. Although this resource will be jointly used by both LACSD and WMMI, WMMI will have priority. WMMI remains responsible for the reclamation and environmental obligations for materials mined and processed from previous or future mining activities according to the existing permit requirements. If LACSD requires additional treatment, relocation, or additional processing of stockpiled or rinsed heap materials, the Landfill Agreement stipulates that WMMI will be compensated for any additional costs incurred.

The Mesquite Mine operates under a variety of permits issued by local, state, and federal agencies. Operating permits exist for full operation.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access to the Mesquite Mine is from California State Highway 78 and then north along a paved private road into the Mesquite site. Accommodations, supplies, labour, and mining suppliers and contractors are available in either the town of Brawley, California, 35 miles to the west of the mine, or the city of Yuma, Arizona, 52 miles southeast.

The climate for Mesquite is arid, with high temperatures in the summer generally in the 100-110°F range and winter highs generally in the 70-80°F range. Winter temperatures are rarely below 32°F, and the average annual temperature is 73°F.

Water is delivered to the property by WMMI from the existing Vista well field located southeast of the mine. The two current active water wells and the two existing pumping systems are deemed capable of supplying the water requirements of the mine and the landfill.

Electricity for the mine is provided through a 92 kV power line and is supplied by Imperial Irrigation District Power Company. The major facilities associated with the Mesquite Mine are the physical plant site, including heap leach pads, process plant, workshops, warehouses, administration buildings and dry facilities, and mine infrastructure, including open pits, ramps, maintenance shops, and mobile equipment fleet.

The Mesquite Mine is located a few miles to the southwest of the Chocolate Mountains, at an elevation of between 600 to 1,000 feet above sea level. The property is on an alluvial fan that slopes gently from the northeast to the southwest. The vegetation consists of sparse desert vegetation with creosote bush, brittle brush, barrel cactus and cholla cactus present.

History

Gold was first discovered at Mesquite by track crews building the Southern Pacific railroad around 1876. The first strike and claims in the area were staked at this time by Felisaro Parro. Commercial gold production at Mesquite started in March 1986 as a heap leach gold operation. Newmont acquired the Mesquite mine in 1997 and mined the deposit through May 2001 when there was a slope failure in the Big Chief pit and the existing reserves at a $300 per ounce gold price were deemed to be uneconomic. Gold recovery from the Mesquite heap continued through to 2007. A total of 154 million short tons of material grading 0.026 ounces per short ton gold had been placed on the leach pads when mining operations stopped in 2001. Approximately 3.05 million ounces of gold were recovered between 1985 and 2007 with a calculated average gold recovery of 76.5% prior to the restart of operations in late 2007. The Mesquite Mine received renewed regulatory approval to begin mining operations on July 2, 2007, after the issuance of the Air Quality permit from the Imperial County Air Pollution Control District. Commercial production began in January 2008.

Geological Setting

The Mesquite District lies on the southwest flank of the Chocolate Mountains, in amphibolite grade metamorphic rocks of the upper plate of the Vincent-Chocolate Mountain Thrust. These upper plate rocks represent a fragment of Precambrian and Mesozoic continental crust that has an extremely complex history.

The Mesquite Mine comprises two subparallel, Oligocene-age orebodies: Big Chief – Vista (Big Chief, Cholla, and Lena, Rubble Ridge, Panhandle, and Vista), and Rainbow (Cherokee, Rainbow, and East Rainbow). Gold mineralization is hosted in Mesozoic gneisses that are intruded by biotite/muscovite rich granites. The district is covered by a thin veneer (0-300 feet) of Tertiary and Quaternary sediments, shed from the south slope of the Chocolate Mountains. Gold mineralization is bound by post-mineral faulting related to the Neogene San Andreas fault system.

Exploration

The first gold production on a small scale at the Mesquite project dates to the late 1800s and early 1900s. Exploration during the 1970s included work by Placer-Amax, Conoco, Glamis Gold Corporation (“Glamis”), Newmont, and Gold Fields Mining Corporation (“Gold Fields”). Exploration sampling, trenching, and drilling identified a number of gold bearing zones.

In the 1980s, Gold Fields conducted exploration, initiating a thorough exploration program that included surface sampling and geophysics. By September 1983, a total of 868 holes were completed totaling 284,439 feet of drilling. About half of the holes in the present database were completed by mid-year 1988 (3,200 holes and 1.3 million feet). Drilling on the Mesquite property continued by mostly reverse circulation (“RC”) drilling. By 1993, over 5,000 holes had been completed by Gold Fields totaling 2.4 million feet.

In late 1982, sinking of a decline began, with the objective of improving the confidence in the drill results of the Big Chief deposit. A total of 2,390 feet of underground decline development (586 rounds) near the centre of the deposit was completed in 1983. The decline was driven to provide material for pilot heap leach tests and to allow detailed geologic mapping and bulk sampling of the deposit.

Drilling and development continued on the Big Chief, Vista, Cherokee, Rainbow, Lena, and Gold Bug deposits on the property. The initial grid at Big Chief was reduced to 70 feet with infill drilling along the 141 feet space fence lines. The Vista deposit was initially drilled on 140 feet sections, with drill holes spaced 70 feet apart on the sections. The other deposits were drilled initially on 200 feet to 400 feet grids, with infill drilling generally completed on 100 feet spacing.

Mineralization

The gold mineralization at Mesquite was deposited in an epithermal setting, within 500 feet to 1,000 feet of the surface. The majority of the economically attractive mineralization is found in the biotite gneiss and hornblende-biotite gneiss, while the mafic gneiss and intrusive rocks are generally less mineralized. Gold mineralization is found both disseminated and vein hosted within these units. The majority of the veining is controlled by faults and fault junctions which have moderate to steep dips. The gold mineralization dominantly occurs in two types: pods of mineralization that are limited in lateral and vertical extent at fault intersections, and trends of mineralization along faults.

Gold occurs at Mesquite as both submicron disseminated and coarse gold. All documented gold occurrences are native gold, and classification has been based on silver content and grain size. A silver-free native gold is the most common type in the oxidized zone. It occurs in particles less than five microns, although clusters up to 100 µ are common in fault zones. Gold grains are subhedral to anhedral in shape, with anhedral morphology predominating. In general, the grains are characterized by irregular, ragged boundaries and equant to elongate shape. Gold within the oxide portion of the deposit is commonly associated with goethite pseudomorphs after pyrite and mica minerals. Later stage gold, less than five microns, is found along the cleavages of the micas.

A second type of gold is the silver-bearing (5% to 20%) coarse (1 0 µ to 600 µ) gold. Its average size is 30 µ to 50 µ and it is typically found in the unoxidized zone, and only occasionally in the oxidized zone. Grains have octahedral morphology, with cuspate to sharp boundaries. Gold specimens are usually bright yellow electrum, with minor inclusions of galena and pyrite. Silver-bearing gold is associated with quartz-adularia pyrite veins containing arsenopyrite, magnetite, and chalcopyrite.

Visible gold has been identified throughout Mesquite. Small flakes, less than 5 0 µ, of free “flour” gold have been found within the oxidized gouge and clay fault zones. The flour gold is thought to be a result of remobilization during oxidation and is supergene in nature. Gold is typically associated with titanium oxides (rutile) and hematite. These zones are limited in extent (one inch to three feet wide, with three feet to 50 feet of strike length), but can be extremely high grade. Selective sampling indicates typical gold values of 1.0 ounces per short ton to 2.0 ounces per short ton gold, with a high of 35.9 ounces per short ton gold recorded in Big Chief. Coarse-grained hypogene gold has also been noted with more frequency and larger size in the unoxidized portion of the deposits. Test work on non-oxidized ore indicates that 65% to 78% of the gold is liberated free milling gold, 13% is associated with refractory sulphide minerals, and the remainder is associated with iron oxides and carbonates. Grain size ranges from 10 µ to 600 µ, with no textural indications of remobilization. Coarse gold generally occurs as electrum within quartz veins (occluded and void fill), while the refractory portion is found within overgrowth rims of arsenopyrite, chalcopyrite, and pyrite.

Drilling

The Mesquite Mine historical database comprises 2.7 million feet of drilling in 6,221 drill holes, most of which are reverse circulation holes. A total of 103 holes in the database were diamond drill holes. During the early development of the property, 128 of the RC drill holes were deepened by diamond drilling below the water table. A total of 13 PQ core holes that were drilled for metallurgical testing were not found in the current drill hole database. Most of the drill holes were vertical holes and have not been downhole surveyed. In general, the disseminated mineralization appears to be flat-lying or with a moderate 16º southwest dip. The vertical drilling provides an appropriate measure of the true mineralization thickness.

Previously, a number of the vertical diamond drill holes had been drilled within 25 feet of vertical RC drill holes. These were compared with 32 core holes with nearby RC drill holes representing approximately 10,000 feet of compared data. This comparison showed significant differences between some of the holes, indicating that the RC assays tend to return higher assays than comparable core assays. Subsequently, it was concluded that though it was possible there was a bias in the RC samples, resource modeling methods employed at the property, particularly capping of high grade assays to get models to conform to production results, must have compensated for this bias. This is supported by the performance of the resource models to the actual mined tonnage.

Subsequent to the completion of the Mesquite Report in July 2010, New Gold commenced an exploration drilling program to test for potential extensions to the sulphide portion of the Mineral Resource as it extends below the Mineral Reserve pit. The program consisted of 37 holes totaling 36,350 feet of combined core and RC drilling. The results of the drilling program indicate that the potential to expand the sulphide resource is insufficient to warrant further exploration. As a result of drilling in 2010, an additional 1.1 million ounces of oxide resource was added to the Mesquite resource base.

Sampling and Analysis

Reverse Circulation Sampling

Reverse circulation sampling conducted during New Gold's 2010 drilling program was completed using water injection to satisfy State of California environmental requirements. Wet drill cuttings were collected at nominal 5-foot intervals, split in half as duplicate samples and allowed to settle and drain and dry. Each sample weighed an average of 25 pounds. Once drained, one set of samples was shipped offsite to an independent laboratory for sample preparation and gold analysis and the duplicate was stored for future reference and analyses.

Diamond Drill Core Sampling

Drill core sampling conducted during New Gold's 2010 drilling program involved continuous sampling at nominal 5 foot intervals. Samples were split in half using a core saw for all competent rock intervals and a hydraulic core splitter for friable material such as fault gouge. For each sample interval, one-half split of the core was submitted to an independent offsite laboratory for sample preparation and analysis and the other half retained in core boxes for future reference and analysis.

Security of Samples

Drilling and bulk samples collected prior to New Gold's 2010 drilling program were, split, and placed in sealed bags at the drill site and transported to the Mesquite Mine exploration sample preparation facilities located in Yuma, Arizona, by company employees. The sample pulps were prepared in Yuma and were shipped to assay laboratories. Although the procedure used by owners prior to New Gold has not been formally documented, it has been determined that most of the samples were shipped to Gold Fields' assay laboratory facilities in Lakewood, Colorado.

Reverse circulation drill samples, core samples, and bulk samples (from an underground exploration decline), were treated at the Gold Fields sample preparation facility in Yuma, Arizona. The previously prepared 40 lb bulk sample and the drill samples were crushed to -10 mesh and then split in a Jones splitter to approximately one pound. This sample was pulverized to 150 mesh and split into four pulps. One of these pulps was fire-assayed at Gold Fields' laboratory in Lakewood, Colorado. Check assays were run on 20% of the samples by submitting a second pulp to either Skyline Laboratory or Barringer Laboratory. The check assays made on the duplicate pulps were noted to agree with the original assay with no bias and 95% correlation coefficient.

During sample preparation, periodic checks were made for coarse gold by running the reject material through a Denver gold saver and carrying out both visual and quantitative assessments of the results. Due to the historic nature of the Mesquite assay data, the certification applicable to the Barringer and Skyline laboratories during the course of their work is not known. A significant number of the assays were also done by the Gold Fields facility in Lakewood.

Gold Fields prepared all drill samples (both core and RC) and the bulk samples from the decline at its sample preparation laboratory in Yuma, Arizona. After the samples were fire assayed at the Gold Fields' laboratory in Lakewood, Colorado, check assays were done on approximately 20% of the samples. A second duplicated pulp was assayed by either Barringer Laboratory or Skyline Laboratory. Gold Fields' comparison of 1,383 check assays with the corresponding original assays shows a good correlation of the two sets of data. The means were within approximately 5% and the correlation coefficient was 95%. The QA/QC procedures by subsequent owners have not been formally documented.

During 2010, New Gold's analytical protocols for all exploration drilling samples (both core and RC) involved analysis for gold via 50 gram fire assay with an atomic absorption (AA) finish (AUFA50-AAS/ICP) and Au CN Soluble (AUCNSO). A one kilogram pulp from each sample was returned and stored in the core storage facility at the Mesquite mine site. Assay results were transmitted electronically to New Gold followed by hard copy assay certificates.

Mineral Resource and Mineral Reserve Estimates

The Mesquite Mineral Resources effective December 31, 2010, are summarized in the "Measured and Indicated Mineral Resource Statement (Inclusive of Reserves) as of December 31, 2010" and "Inferred Mineral Resource Statement as of December 31, 2010" tables. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Resources".

The Mesquite Mineral Reserves, effective December 31, 2010, are summarized in the "Mineral Reserve Statement – as of December 31, 2010" table. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Reserves".

Mining Operations

The Mesquite Mine is an operating open pit mine. Mining is performed using a conventional truck/shovel open-pit mining method. Operations include drilling, blasting, loading, and hauling. Run-of-mine ore is hauled directly to the leach pad to the south for processing. Waste mining uses the same equipment fleet used to produce ore. Current mine production is a nominal 160,000 short tons per day of total material, including a nominal 30,000 to 40,000 short tons per day of ore that is hauled to the leach pad. For 2010, gold production was 169,023 ounces.

Mineral processing uses a heap leaching technique in a carbon in-column circuit that assays approximately 92% gold and 7% silver. Process recoveries are determined by oxidation. Inception-to-date recoveries are slightly higher than predicted at 76.5%. The process recoveries for the mine reserves and life-of-mine production plan are based on 75% recovery of the oxide ores and gravels and 35% recovery of the non-oxide ores.

Doré is shipped from site to a major refiner. Contracts are in place for refining with charges of $0.60 per ounce (silver plus gold) with payment of 99.9% of the gold and 97.0% of the silver. The applicable U.S. federal income taxes are 35% and California State income taxes are 8.8%, for a combined income tax of 40.7%.

Exploration and Development

Metallurgical testing of the sulphide mineralization is scheduled to continue during 2011 to provide further confirmation of estimated gold recoveries for sulphide mineralization under the heap leach process currently in use.

Cerro San Pedro Mine, Mexico

The following disclosure relating to the Cerro San Pedro Mine is based, in part, on information derived from the amended technical report entitled "Technical Report on the Cerro San Pedro Mine, San Luis Potosí, Mexico" dated February 16, 2010 and amended March 22, 2010 (the "CSP Report"). The CSP Report was prepared by Richard J. Lambert, P.E., Christopher Moreton, Ph.D. and P.Geo., of RPA and Holger Krutzelmann, P.Eng., formerly of RPA. Each are qualified persons under NI 43-101. Readers should consult the CSP Report to obtain further particulars about the Cerro San Pedro Mine. The CSP Report is available for review under the Company's profile on the SEDAR website at www.sedar.com.

Project Description and Location

The Cerro San Pedro Mine is located in central Mexico in the state of San Luis Potosí, approximately 400 kilometres north of Mexico City. The Cerro San Pedro mine is operated by the Company's wholly owned subsidiary, Minera San Xavier, S.A. de C.V. ("MSX").

The Cerro San Pedro Mine is an open-pit gold and silver heap-leach mining operation. Commercial production at Cerro San Pedro commenced in May 2007. The heap leach pad area, process plant and solution ponds are located approximately three kilometres south of the open pit.

The mineral rights at the Cerro San Pedro Mine consist of 53 mineral concessions, (consolidated for administrative purposes to 17), covering an area of 7,969 hectares. The majority of mineral concessions have been acquired through purchase agreements and, to a lesser extent, through staking. The unique mineral concessions begin to expire in December 2036 through October 2058, subject to the timely filing of periodic reports and payment of taxes to the Directorate General of Mines (the "DGM"), the federal mining bureau.

All of the present and future property of the Cerro San Pedro Mine is subject to a first ranking lien in favor of the lenders under the Facility (see "Credit Facility" for more information). The only outstanding royalty is a 1.95% gross value royalty owned by Franco-Nevada Corporation.

The surface rights to the Cerro San Pedro Mine are controlled by both private and communal parties. The communal parties are called an ejido, which is a communal agrarian structure that has governed approximately half of the agricultural land in Mexico since the land reform that followed the 1910 Mexican Revolution. In order to build and operate the Cerro San Pedro Mine, surface rights agreements were and continue to be required. The Company has obtained surface occupation lease agreements with the three ejidos and the possessionary rights holders that own property in the Cerro San Pedro mine area. A total of 470 hectares are under lease agreements. The leases grant the Company temporary occupancy for a period of 15 years, and may be extended by the Company for an additional 15 years.

In addition, DGM has granted the Company a Temporary Occupancy and Right of Way Authorization for ejido Cerro San Pedro and ejido Palma de la Cruz land, which provides federally mandated surface rights access over the life of the mine and additional certainty of land tenure. Finally, in early 2008, the Company entered into an agreement with the ejido of Cerro San Pedro to lease the surface lands covering the mine area and haul road.

The General Law on Ecological Equilibrium and Protection of the Environment requires certain types of projects, including mining operations, to complete a Manifestacion de Impacto Ambiental (Manifest of Environmental Impact) ("MIA"), if the project has the potential to cause an ecological imbalance or to exceed limits and conditions in applicable environmental regulations.

The Company was issued an Environmental Authorization with respect to its MIA for the Cerro San Pedro Mine by the Mexican federal agency, SEMARNAT in February 1999. The Environmental Authorization is the primary federal permit required for the approval of the proposed mine. The 1999 Environmental Authorization was nullified and a new one was issued in 2006 following an action brought by a group opposing the Cerro San Pedro Mine, and a series of appeals.

In 2006, a group opposing the project filed a lawsuit against SEMARNAT alleging that SEMARNAT did not comply with the Federal Court order when it issued the 2006 Environmental Authorization. A series of motions and appeals followed, culminating in a September 2009 Administrative and Fiscal Court ruling that ordered SEMARNAT to cancel the 2006 Environmental Authorization, which SEMARNAT did in November 2009. The cancellation was followed by the Mexican federal environmental enforcement agency, Procuraduría Federal de Protección al Ambiente (PROFEPA), ordering MSX to suspend mining activities. MSX appealed the PROFEPA order, and in December 2009 was granted an injunction allowing it to continue operating pending a final resolution of the litigation on the merits. As a result of the injunction, operations recommenced. See "Legal Proceedings and Regulatory Actions" for further detail.

The Environmental Authorization granted in April 2006 is valid for a twelve-year period through April 2018. The current mine plan anticipates completion of mining in 2016. The Environmental Authorization lists over 90 conditions that the Company is required to satisfy, most of which relate to the reclamation phase of the project, and include the establishment of reclamation funding requirements for the project. At the date of this Annual Information Form, all required conditions and funding requirements have been adhered to.

The Company's mining operations require the use of explosives which require permits renewed by the military periodically. The Company has been granted a local Land Use License that includes numerous conditions and recommendations which the Company has agreed to fulfill. The Company must also comply with conditions in other permits and licenses that have been issued by various regulatory and governmental authorities.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Cerro San Pedro Mine is located 400 kilometres north of Mexico City along Federal Highway 57 (Carretera Federal 57) connecting Mexico City with Monterrey. The site is located 20 kilometres east-northeast of the city of San Luis Potosí. The mine site can be easily reached via a 10 kilometre secondary road extending from the Periferico Oriente to the village of Cerro San Pedro. The city of San Luis Potosí has a population of approximately 685,000 people and has an international airport. The local employment market includes a readily available pool of skilled workers.

The Cerro San Pedro Mine is located at the margins of two physiographic provinces, the Sierra Madre Oriental to the east and the Mesa Central to the west. It lies within the Sierra de Cerro San Pedro, which is characterized by moderate to rugged relief with elevations ranging between 1800 metres above sea level and 2300 metres above sea level. The climate for Cerro San Pedro is semi-arid, with an average precipitation of 350 millimetres per year. The warmest months are from April through September, averaging 20.1°C for this period with the maximum averaging 29.2°C for May. The coldest months are December through February with an average of 7.4°C for this period, and a minimum temperature averaging –4.4°C in December. The vegetative cover consists of various shrubs, mesquite, and cactus.

Electricity for the mine is provided through a 115 kV power line that runs to a location near the processing facilities. In addition, the Company has acquired a diesel generator as a backup power system for the process facilities.

Water rights are federally owned in Mexico and administered by an agency of the federal government, the Comision Naciónal del Agua (National Water Commission) ("CNA"). The Cerro San Pedro project uses approximately one million cubic metres of water per year. The Company has titles for pumping rights for 1,370,234 cubic metres per year, which generally must be renewed with CNA at various intervals during mine operations. The approximately 1.4 million cubic metres of water rights that are owned or leased by the Company have been, or will be, transferred to a well at La Zapatilla, which is where most of the mine's water consumption takes place. This well has a total pumping capacity of approximately two million cubic metres of water per year.

History

The Cerro San Pedro district has undergone several periods of significant mineral production over the past 400 years. During the Spanish Colonial era it is estimated that approximately 200,000 to 500,000 ounces of gold and two to five million ounces of silver were produced from near-surface high-grade ores by the Spanish between 1575 to 1663.

The second major period of mining activity began in 1870. By 1904 there were more than 100 active mines in the district. All mining operations were reportedly suspended between 1925 and 1930. In 1930, mining activity resumed when American Smelting and Refining Company ("Asarco") acquired the La Victoria and Barreno properties. Asarco's production continued uninterrupted until 1948. Asarco's total production during this period is reported as approximately 300,000 ounces of gold, 22 million ounces of silver, 405 million pounds of zinc, 224 million pounds of lead and 93 million pounds of copper.

The advent of modern heap leach technology in the early 1970s resulted in renewed interest in the Cerro San Pedro district with successive exploration campaigns by companies that included Geocon, Inc. ("Geocon"), Bear Creek Mining Company ("Bear Creek"), Compañía Fresnillo ("Fresnillo") and ultimately MSX (a subsidiary of Metallica Resources Inc.) who, beginning in April 1995, completed the first feasibility study for the project in March 1997. In early 1998, Metallica executed a 50:50 joint venture agreement with Cambior Inc. ("Cambior") to further develop the property. Cambior's activities resulted in the completion of a second feasibility study for the project. Cambior sold its interest in MSX to Glamis Gold Ltd. ("Glamis") in May 2000.

In November 2000 Glamis completed a third feasibility study for the project which serves as the basis for the open pit run-of-mine heap leach currently in operation. In February 2003, Metallica acquired Glamis' 50 percent interest in the project, excluding a royalty on net proceeds which was subsequently acquired and cancelled by Metallica in 2004.

Construction of the Cerro San Pedro gold and silver, heap-leach, open-pit mine began in 2004. Construction of the mine was completed and commercial production commenced on May 1, 2007.

Geological Setting

The Cerro San Pedro mining district is located within the Parras Nappe section of the Eastern Sierra Madre fold belt of northeastern Mexico along the contact with the Central Mesa plateau to the west. The Parras Nappe is part of a larger system of Laramide-age, supracrustal anticlinoria comprising the Mexican fold and thrust belt. The local stratigraphic section is dominated by the early Cretaceous La Peña (Aptian) and Cuesta del Cura (Albian) Formations. Both formations represent deepwater fore-slope and basin facies deposited along the western margin of the Valles-San Luis Potosí carbonate platform. Lithologies consist of thin-to-medium bedded calcareous mudstones with locally interbedded shale, chert and carbonate slide breccias.

The San Pedro deposit is a gold-silver-zinc-lead plus minor copper Mineral Resource that is hosted within a late Cretaceous to early Tertiary monzodiorite porphyry. The porphyry has intruded a sequence of Cretaceous limestones that suffered broad-scale regional tectonic folding and faulting during the Laramide orogeny. The geometry of the San Pedro porphyry, as defined by surface mapping and drill hole intercepts, is that of an elongate (1.5 kilometres to 2.0 kilometres long by 200 metres to 400+ metres thick) wedge-shaped body emplaced along a westerly-dipping system of thrust faults. In general, the complex deformational history of pre-mineral faulting, folding, and intrusion of the San Pedro porphyry are the primary factors behind the localization of the mineralization in the Cerro San Pedro mining district.

Exploration

Historical exploration work by the Company's subsidiaries on the CSP deposit began in 1995. Exploration by the Company is summarized in the following table:

SUMMARY OF EXPLORATION WORK

New Gold Inc. – Cerro San Pedro Mine, Mexico

Year	Work Type	Results
1995 - 1997	Mapping and Sampling. Exploration and RC and core drilling: 49,000 m in about 213 holes. Feasibility Study (1st)	Proven and probable reserve estimated: 77.3 Mt @ 0.60 g/t Au, 24.8 g/t Ag (based on $360/oz gold, $5.25/oz silver)(1)
1997 - 2000	Mapping and Sampling. Exploration and core drilling: 7,612 m in about 53 holes Feasibility Study (2nd)	Proven and probable reserve estimated: 63.5 Mt @ 0.62 g/t Au, 24.6 g/t Ag (based on $300/oz gold, $5.50/oz silver).(1)
2000 - 2002	Feasibility Study (3rd)	Proven and probable reserve estimated: 50 Mt @ 0.77 g/t Au, 23.0 g/t Ag (based on $275/oz gold, $5.25/oz silver).(1)
2003 - 2008	Mine Development: Feb – Dec 2003 Construction – Jan 2004 to April 2007 Commercial Production – May 2007	Proven and probable reserve estimated: 61 Mt @ 0.59 g/t Au, 24.0 g/t Ag (based on $325/oz gold, $4.62/oz silver).
2008 - 2010	Exploration and core/RC drilling: 25,689 m in 49 holes	Refer to Mmineral Reserve and Mineral Resource statements as of December 31, 2010.

Notes:

1. These estimates are historical and should not be relied upon.

Mineralization

The mineralization at Cerro San Pedro has two principal forms: 1) gold and silver within iron oxide minerals, and 2) gold, silver, zinc, and lead (plus minor, locally occurring copper) within sulphides. Both styles of mineralization are hosted within a well-developed system of crosscutting fractures (stockwork) in the San Pedro porphyry and along faults and fractures that extend into the surrounding limestone country rock. In addition, secondary oxide-hosted gold and silver mineralization is present in the near-surface parts of the Cerro San Pedro district. Here, surficial weathering and oxidation has removed zinc, lead and copper from pre-existing primary sulphide minerals. The majority of the current Mmineral Resources and Reserves are contained within the gold and silver bearing oxide portion of the Cerro San Pedro deposit. Although no Mineral Resources or Reserves have been defined for the deeper sulphide-rich portion of the deposit, gold, silver, zinc, lead, and minor amounts of copper were mined from high-grade sulphide deposits along the contact of the San Pedro porphyry and limestone country rocks.

Sulphide-dominated mineralization at Cerro San Pedro occurs in two modes: 1) low-grade porphyry-hosted stockwork and disseminated sulphides, and 2) high-grade polymetallic semi-massive to massive sulphide mantos replacing the adjacent limestones. The dominant sulphide minerals are pyrite, sphalerite, and galena.

Drilling

In November 2008, MSX began its Cerro San Pedro Sulphide drilling project to understand the geometry of the sulphide mineralization. This mineralization extends from beneath the current area of open-pit mining to an area of historical underground mining approximately 500 metres to 600 metres to the south. The objective of the CSP Sulphide project is to explore the resource potential of the gold, silver, zinc, lead sulphide zone as it extends from beneath the gold-silver oxide pit toward the historic Asarco mine area (and possibly beyond). As of December 31, 2010, 49 holes totaling 25,689 metres of core and RC drilling had been completed on the Cerro San Pedro Sulphide drilling project.

The historic Cerro San Pedro drill hole database includes the results from four different drilling campaigns by four different companies: Bear Creek, Fresnillo, MSX-Metallica, and MSX under the Cambior-Metallica Joint Venture. The database for the current resource/reserve estimate includes gold and silver assay results for approximately 284 drill holes totaling 75,003 metres.

Contents of the database are summarized in the table below:

CERRO SAN PEDRO DRILL HOLE DATABASE
New Gold Inc. - Cerro San Pedro Mine, Mexico

		Core Holes		RC Holes		Total	
Company	**Year**	**No.**	**Metres**	**No.**	**Metres**	**No.**	**Metres**
Bear Creek	1982	-	-	3	276	3	276
Fresnillo	1992	-	-	49	9,518	49	9,518
Metallica - MSX	1995	-	-	47	11,970	47	11,970
Metallica - MSX	1996	28	8,568	78	20,895	106	29,463
Cambior - MSX	1997	11	2,650	-	-	11	2,650
Cambior – MSX Surface	1998	13	1,439	-	-	13	1,439
Cambior – MSX Underground	1998	42	3,523	-	-	42	3,523
New Gold – MSX	2008-10	42	24,178	7	1,511	49	25,689
	Total	**136**	**40,358**	**184**	**44,170**	**320**	**84,528**

For the current Mineral Resource estimate, 284 of the total 320 drill holes were used; 16 drill holes metre (three Bear Creek holes and 13 of the Fresnillo holes) were excluded due to a lack of supporting data (missing logging sheets). The area defined by the Mineral Resource estimate has generally been drilled on 50 metre centres. Much of the area centering on the current open pit Mineral Reserve has been drilled and sampled at a closer spacing approaching 25 metres.

The style and distribution of the Cerro San Pedro Mine mineralization makes it difficult to determine a single useful value that describes the relationship between the true thickness and the sample length. Similarly, the orientation of the mineralization is not easily definable due the heterogeneous nature of the veining, dissemination, and manto distribution.

Sampling and Analysis

All of the samples used in the resource estimate came from the area in and around the current open-pit operation. RC, diamond drill core and underground chip samples were collected. Detailed drill logs, chip boards, and sample records were prepared on site by the rig geologists, who oversaw all sampling activities at the drill rig.

The standard sampling procedure for RC drill holes involved systematic sampling at regular two metre intervals starting from the drill collar and continuing to total depth. Samples collected under dry conditions were split using a three-tiered Jones sample splitter. Due to poor ground conditions within the upper parts of the deposit, however, the majority of reverse circulation holes required the injection of water and the use of wet sampling methods in order to maintain optimum circulation and sample return.

Collection of wet drilling samples involved the use of a rotary wet sample splitter, which reduced recovered drill cuttings into two parts: one split was sent to Bondar-Clegg Laboratories (now part of the ALS Laboratory Group) for analysis, and one duplicate split was saved for future sample analyses and test work. Suspended fines were collected by adding an anionic flocculent to each sample at the start of each sample interval. Collected samples were then allowed to sit undisturbed, until sample fines had settled sufficiently after which excess water was decanted and the samples bagged for storage and shipment to the Bondar-Clegg sample preparation facility in San Luis Potosí.

Although every effort was made to optimize sample recovery, the abundance of historic mine workings and related collapse voids in the upper parts of the San Pedro deposit has at times made consistent sample recovery a problem. To overcome this, synthetic polymer (EZ-Mud® or Alcomer®) was routinely added to drilling water to increase fluid viscosity and effectively seal the outer part of the hole. In more difficult zones, sample recovery was maintained by the addition of bentonite or drilling foam. In some areas, however, the presence of large open voids precluded proper sample recovery until the drill bit had passed several metres back into solid rock. In an attempt to address this problem, a Digger® center-return hammer-bit was used in place of the conventional reverse circulation hammer.

Prior to 2008, the sampling procedure for core holes involved systematic sampling at regular two metre intervals, except where holes intercepted major lithologic/geologic contacts or encountered mine workings and voids. During 2008-09, systematic sampling took place at regular two metre intervals for the first two drill holes, after which the sampling interval was increased to regular three metre intervals which were used throughout the remainder of the campaign with the same exceptions listed above, including zones of manto mineralization. During 2008-09 zones of manto mineralization with ample core recovery were sampled at regular one metre intervals, with exceptions made at major geologic or mineralogical contacts. The majority of core holes were completed with HQ-sized core (6.4 centimetre diameter), with reductions to NQ-size core (4.8 centimetre diameter) where necessary. Two methods of core sample splitting were employed, depending on sample lithology. In 2009, one metallurgical hole was drilled with PQ-size core (8.5 centimetre diameter).

During the 2008-10 drill campaign, all core samples were cut using either a manual or hydraulic core splitter. Sample pieces measuring up to 10 to 15 centimetres were placed in the splitter lengthwise and cut. One half of the core was placed back into the core box while the other was placed in the appropriate sample bags. Each splitter was thoroughly cleaned by the operator(s) between samples using hand brushes. All work was supervised by a project geologist.

Prior to 2008, the preparation of bulk composites for column leach metallurgical testing involved the collection of approximately 500 kilograms of Begoñia Limestone, as well as the collection of three 200 kilograms of whole-core composites of porphyry oxide material. All samples selected for bulk compositing were submitted as separate sample intervals and were subsequently composited by McClelland Laboratories. The samples for bottle-roll leach tests were submitted as un-split two metre intervals. Head assays for these samples were subsequently entered into the drill assay database upon receipt of results from McClelland Laboratories. Density determinations of the various ore types were made on underground and core samples of mineralized porphyry. Split core samples of representative ore and waste rock lithologies were selected for Acid Rock Drainage (ARD) characterization and submitted to Hazen Laboratories, Golden, Colorado, USA, for analysis.

During 2009 and 2010, samples of high grade manto style sulphide, porphyry hosted sulphide and porphyry hosted mixed oxide-sulphide mineralization were collected from a series of large diameter core holes for metallurgical testing. Whole PQ sized core samples (6.35 centimetres diameter) were individually sealed and bagged to prevent oxidation and placed in 55 gallon barrels for shipment. Determinations of density and head assay along with mineralogical, grind, and flotation testwork have been completed by Dawson Metallurgical labs of Salt Lake City, Utah, USA. Results of this testwork will be incorporated into future Mineral Resource estimates and engineering development studies for the project.

Security of Samples

Prior to 2008, drill samples submitted for gold-silver fire assay were routinely sent to the Bondar-Clegg sample preparation facility in San Luis Potosí, where each sample was dried at approximately 150°C, weighed, and crushed to a minimum of 75% passing minus 10 mesh. Quality assurance was maintained by screening at least one sample from each daily submittal through a 10 mesh screen. The crushed sample was then passed through a Jones splitter and a representative 250 gram split was retained for subsequent pulverization. The remaining coarse rejects were rebagged and returned to the Cerro San Pedro Mine site for storage. The 250 gram split was then pulverized using a ring and puck pulverizer, reducing the sample to a minimum standard of 95% passing 150 mesh. Beginning in late 1995, Bondar-Clegg began separating each pulverized sample into separate 150 gram to 200 gram and 50 gram splits, the larger of which was forwarded to the Bondar-Clegg laboratory in Vancouver, British Columbia for gold-silver fire assay, and the smaller retained for storage at the Bondar-Clegg facility in San Luis Potosí. Consequently, an additional set of 50 gram sample pulps remains available for future analytical work.

For the 2008-09 drill program, all samples from holes 1-12 along with holes 17, 19-23, and hole 25 were submitted to ALS Chemex laboratory in Guadalajara, Jalisco, Mexico for sample preparation. Samples were first weighed and dried, if necessary. Entire samples were fine crushed to a minimum of 70% passing through minus 10 mesh (two millimetres). Quality assurance was maintained by screening at least one sample from each submittal through a minus 10 mesh screen. A riffle splitter was used to get splits of 250 grams which were pulverized to a minimum of 85% passing through minus 200 mesh (75 microns). In the case where the lab was instructed to create pulp duplicate samples, 500 grams of crushed material was pulverized and subsequently split. One 250 gram pulp was submitted as usual with the rest of the sequence and the duplicate was kept for check analyses at a later date by SGS Labs. Batches of 250 gram pulps were shipped to ALS Chemex in Vancouver, British Columbia, Canada for gold assay, silver analysis, and 32-element ICP analyses. Remaining coarse rejects were re-bagged and returned to the CSP mine site for storage. Remaining pulps were also returned and stored on site at CSP.

Holes 13-16, 18, 24, 26, and 28-43 were submitted to SGS Laboratories in Durango, Durango, Mexico for sample preparation. Samples were first weighed and dried, if necessary. Entire samples were fine crushed to a minimum of 90% passing through minus 10 mesh (2 millimetres). Quality assurance was maintained by screening at least one sample from each submittal through a minus 10 mesh screen. Splits of 1,000 grams using a riffle splitter were pulverized to a minimum of 90% passing through minus 200 mesh (75 microns). In the case where the lab was instructed to create pulp duplicate samples, 2000 grams of crushed material was pulverized and subsequently split. One 1000 gram pulp was submitted as usual with the rest of the sequence and the duplicate was kept for check analyses at a later date by ALS Labs. Batches of 1000 gram pulps were initially shipped to SGS Laboratories in Toronto, Ontario, Canada for gold assay, silver analysis, and 32-element ICP analyses. After mid-July 2009, all analyses were completed at the SGS laboratory in Durango. Remaining coarse rejects were re-bagged and returned to the CSP mine site for storage. Remaining pulps were also returned and stored on site at CSP.

Mineral Resource and Mineral Reserve Estimates

The Cerro San Pedro Mineral Resources effective December 31, 2010, are summarized in the "Measured and Indicated Mineral Resource Statement (Inclusive of Reserves) as of December 31, 2010" and "Inferred Mineral Resource Statement as of December 31, 2010" tables. See "Description of Business–Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Resources".

The Mineral Resource was delineated by an optimized shell at $1,000 per ounce gold and $18 per ounce silver below the December 28, 2010 topography surface. The sulphide portion of the resource was delineated with a shell at $1,000 per ounce gold, $18 per ounce silver, $1.00per pound zinc, and $0.75per pound lead below the oxide resource shell. A hard boundary for the optimization was established at the INAH buffer zone. This buffer zone represents a volume of rock for which no open pit mining will be allowed so as to not have an impact upon the current townsite.

The CSP Mineral Reserves, effective December 31, 2010, are summarized in the "Mineral Reserve Statement – as of December 31, 2010" table. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Reserves".

Mining Operations

The Cerro San Pedro Mine is an operating open pit mine with ore processing by heap leaching in a Merrill-Crowe circuit that recovers both gold and silver. Current mine production is a nominal 105,000 tonnes per day of total material, including a nominal 39,000 tonnes per day of ore that is hauled to the leach pad. For 2010, production was 118,708 ounces of gold and 2.2 million ounces of silver.

Mining is performed through a conventional truck/loader open pit mining method. Run of mine ore is hauled directly to the leach pad for processing.

At the leach pad, a weak cyanide solution is applied to dissolve the gold and silver and take it into solution. The solution is collected in the Merrill-Crowe plant where the zinc is added to the solution containing gold and silver. The zinc reacts with the cyanide and the gold and silver are precipitated in a solid form. The precipitate is collected on a series of filters. The gold and silver precipitate is sent to a furnace where the gold and silver are separated from the impurities and the molten metal poured out to create gold and silver doré bars assaying approximately 95% silver and 4% gold.

Doré is shipped from site to a refinery where the silver and gold are separated. The applicable Mexican income taxes are 30%. Mine equipment capital is included in the operating costs as the Company rents the mine equipment fleet. The major capital purchases remaining are for leach pad expansion.

The schedule for completing the closure activities is dictated by the requirements contained in the Environmental Authorization; specifically, the site reclamation must be completed within four years of final processing.

Exploration and Development

The deep penetrating Titan geophysical survey completed during the third quarter of 2010 has provided evidence that the San Pedro manto system remains open for another several hundred metres south of a recent drill intercept. Exploration of the San Pedro sulphide manto will continue during 2011.

Peak Gold Mines, Australia

The following disclosure relating to the Peak Gold Mines is based, in part, on information derived from the technical report entitled "Technical Report on Peak Gold Mines, New South Wales, Australia," dated January 1, 2009 (the "Peak Report"), as amended and restated on June 12, 2009. The Peak Report was prepared by Peter Lloyd, FAusIMM, Rex Berthelsen, FAusIMM, CPGeo, and Eric Strom, P.Eng., who are or were employees of the Company at the time and each are qualified persons under NI 43-101. Readers should consult the Peak Report to obtain further particulars about the Peak Gold Mines. The Peak Report is available for review under the Company's profile on the SEDAR website at www.sedar.com.

Project Description and Location

The Peak Gold Mines are located 8 kilometres south of the town of Cobar in New South Wales (NSW), Australia and are operated by Peak Gold Mines Pty Ltd ("PGM"), a subsidiary of the Company. The Peak Gold Mines comprise much of the Cobar mining district and consist of five separate ore deposits that are currently being mined from underground and a copper-gold processing plant. The deposits include, from south to north, the Perseverance, Peak, New Occidental, Chesney and New Cobar. The Peak Mines mineral properties cover approximately 855 square kilometres of mining leases and exploration licences. They include four Consolidated Mining Leases (CML 6, 7, 8 and 9) covering the Tharsis to Peak gold mine area, the Coronation-Beechworth area and Queen Bee area; plus a Mining Lease, Mining Purposes Lease and five Exploration Licenses (EL 5933, 6149, 6401, 6402 and 7355), all of which are held 100% by Peak.

In addition, Peak has a 75% farm-in agreement on an exploration lease (EL 5982) with Zintoba Pty Ltd. ("Zintoba") and also a 51% farm-in agreement on an exploration lease (EL 6127) with Lydail Pty Ltd. ("Lydail") EL 5982 is held in the name of Zintoba and is operated by Peak. EL 6127 is held in the names of PGM (51%) and Lydail (49%) and is operated by Peak. Peak entered into a Letter of Agreement with Lydail on 11th July 2003 and has earned a75% equity in EL 6127. The Peak Gold Mines leases and licenses, including farm-in or purchase agreements, cover approximately 93,813 hectares surrounding the Peak Gold Mines.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Peak Gold Mines are located accessible via an all-weather highway (Mitchell Highway #32) that extends between the cities of Sydney and Adelaide. Connection to the NSW rail service is available at Cobar via Nyngan and extends to the port at Newcastle. A regional airport services Cobar.

The Cobar region has a semi-arid climate and in years of normal rainfall receives on average about 416 millimetres of rainfall per year. Temperatures range from an average maximum temperature of 16°C in the winter to 33°C in the summer. There are no permanent streams or other water bodies on the PGM properties. Weather does not significantly affect the operations and mining is conducted year-round.

The landscape is predominantly flat, composed of sandy plains with minor undulations. A series of minor ridges striking approximately north-northwest to south-southeast, reflect a belt of more resistant sandstones and siltstones. Peak Mines is named after the 'Peak', a small conical hill, 324.3 metres above sea level, with the Peak deposit situated at its southern base. Vegetation is largely semi-arid low woodland, with minor seasonal creeks and rivers lined by taller eucalypt species.

The Cobar Water Board supplies untreated water to the Peak Mine via a 130-kilometre dedicated pipeline from the Bogan River west of Nyngan. PGM is entitled to 1,890 million litres per year, although it currently uses on average 300 million litres per year. Potable water is pumped from the Cobar Shire Council's water treatment plant to the site.

Maximum electricity consumption demand is 9 MW and annual consumption is approximately 79 GWh. Power is provided to the Peak Gold Mines via a 132 kV transmission line, to a substation at the Peak Gold Mines. Emergency power is available from two, 0.8-MW and one 0.65-MW diesel generating units on site, owned by PGM. This is sufficient power for emergency mine egress and to clear some of the processing lines.

History

There has been sporadic gold mining in the Cobar mining district since the 1870s. The district was historically better known for its copper deposits. The greatest period of activity at Peak Gold Mines was from 1896 to 1911 when the Conqueror, Brown and Blue Lodes were worked. Most gold mining in the Cobar district ceased by 1920.

The second phase of sustained mining in the district began in 1935, when New Occidental Gold Mines NL operated the New Occidental Mine. Between 1935 and 1952, the New Occidental Mine produced 700,000 ounces of gold.

Exploration by various companies was conducted through the late 1940s to 1980 in the district with no significant success. In early 1980, Rio Tinto plc. acquired various leases containing the New Occidental, New Cobar and Chesney mines. The Peak gold deposit was discovered in 1981 and PGM was formed to develop the deposit in 1987. A prefeasibility study was prepared in October 1985 which ultimately led to the completion of a final feasibility study in 1990.Commercial production commenced at the Peak gold mine in 1992.

Subsequent exploration and related technical investigations led to the development of the New Occidental and Perseverance deposits located to the north and south of the Peak mine respectively. In 1995, an exploration program exploring beneath the previously mined area of New Occidental was successful in outlining an inferred resource of three million tonnes grading 7.4 grams per tonne gold[1]. In July 2000, approval was received for development of the New Occidental deposit.

The Perseverance deposit was identified in the 1980s from a coincident gravity and magnetic anomaly centered on historic workings. Deep surface drilling in 1994 yielded a narrow zone of ore-grade gold mineralization. The depth discouraged further exploration until 1996 when a decision was made to proceed with further exploration from an 800 metres underground exploration drive from the base of the Peak Mine workings. Underground drilling commenced in 1997. Following additional investigations and studies, Perseverance was approved for development in December 2001.

Exploration at the Fort Bourke Hill historic workings, including shallow and deep diamond drilling, was conducted from 1989. Following the temporary loss of access to the Peak Mine shaft in mid-1998, PGM developed a trial open pit mine, the New Cobar mine, at the site in October 1998. The trial open pit continued until March 1999, extracting approximately 105,000 tonnes of ore. The trial mining led to the operation of the New Cobar open pit from 2001 until 2005. In 2005, development of a decline was completed from the New Cobar open pit to access reserves below the base of the pit.

Other exploration targets include the Gladstone, Dapville and Great Cobar deposits that have been identified through on-going exploration activities in the historic mining district.

Geological Setting

The Cobar Gold Field (“CGF”) is located on the eastern margin of the Early Devonian Cobar Basin. The Cobar Basin lies within the northern part of the Central Belt of the Lachlan Orogen. An extensive suite of Silurian “S”-type granitoids of the Wagga Tin Belt is exposed in the southern part of this region. The Eastern Belt of the Lachlan Orogen comprises a mixed Ordovician volcanic and sedimentary sequences characterized by the presence of extensive andesitic volcanic units, which are associated with porphyry-style copper-gold mineralization including the Goonumbla, Cadia and Browns Creek deposits. Epithermal-style mineralization including the Lake Cowal, Gidginbung and Peak Hill deposits, are also present within the Eastern Belt. The Western Belt is dominated by Ordovician and Devonian turbidite sequences and contains the extensive, structurally hosted gold deposits of the Victorian Gold Fields.

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[1] This estimate is historical in nature and should not be relied upon.

Regional crustal extension of the Lachlan Orogen in the Late Silurian created a series of north-south trending deepwater troughs and basins in the Cobar region. These include the Cobar Basin and, further to the south, the Raast and Mt. Hope Troughs. Onset of regional extension was also marked by the emplacement of Late Silurian S-type and I-type granitoids within the basement on the eastern margin of the Cobar Basin. The Cobar Basin was flanked by the Kopje Shelf to the east and the Winduck shelf to the west.

The Cobar Basin comprises predominantly siliciclastic (quartz-rich) turbidites of the Cobar Supergroup. The basin contains two stages of sedimentary fill. The lower part is characterized by coarse grained clastic sediments, while thickly bedded sediments define the upper portion regards these two fill sequences as representing syn-rift and post-rift stages, although there is a relatively subtle nature of this sub-division, which is based solely on the relative amounts of sandstone in the respective sequences. The lower unit, the Nurri Group, is a fining upwards sequence comprising shallow-water sediments that progress rapidly up into more extensive siliciclastic turbidites. The upper unit, the Amphitheatre Group, comprises more extensive low energy turbidites. The Amphitheatre Group defines an upward coarsening cycle followed by an abrupt change to thinner beds with detritus sourced from an uplifted north-western and western landmass. This unit occupies most of the Cobar Basin and is intercalated with sediments deposited on the western Winduck Shelf. Together, these sediments obscure the western margin of the Cobar Basin.

Exploration

The CGF is a mature mining district that has produced in excess of 2.75 million ounces of gold and 200,000 tonnes of copper since mining commenced in 1871. The currently producing mines within the CGF operated by PGM include, from south to north, the Perseverance, Peak, New Occidental, Chesney and New Cobar mines. In addition, PGM owns the historic Great Cobar mine located approximately 2 kilometres north of the New Cobar mine.

Mineral exploration of the CGF and surrounding region by the Company is an ongoing process focused on both the replacement of depleted reserves with new Mmineral Resources and the discovery of new deposits. The Company's exploration initiative is underpinned by a wealth of technical information which includes detailed geologic mapping, geochemical and geophysical surveys, metallurgical studies, and historic drilling and production data collected by the Company over the past 20+ years. Since the commencement of commercial production in 1992, PGM has produced in excess of 2 million ounces of gold, maintaining a steady rate of production of approximately 100,000 ounces gold per year through the continual replacement of depleted reserves with new Mineral Resources. Exploration activities at PGM are divided among near mine targets around the producing mines and regional targets on the Company's greater exploration licenses.

Exploration in the near mine environment principally involves a combination of surface and underground drilling to explore and delineate extensions to Mineral Resources around the known deposits. This work is regularly supplemented by down-hole geophysical surveys (electromagnetic methods) to identify mineralization suspected to occur in the vicinity of drill holes that fail to intercept significant mineralization on the first attempt. During 2010 the Company completed 46,718 metres of exploration and delineation drilling around four of its five mines. Results of this drilling have been incorporated into the Company's updated Mineral Resource estimate for 2010.

Exploration of earlier stage mineral prospects contained within PGM's mineral property holdings largely involves a combination of surface geochemical and geophysical surveys, preliminary drill testing of selected targets followed by delineation drilling where results warrant. During 2010, the Company completed 7,674 metres of exploration and delineation drilling below the historic Great Cobar mine. Results of this drilling have been incorporated into the Company's updated Mineral Resource estimate for 2010. The Company also completed 5,329 metres of preliminary reconnaissance drilling on three earlier stage targets within the greater region, which will be the subject of further evaluation in the future.

Mineralization

PGM's mines occur along a 10 kilometre section of the regional Rookery Fault shear zone which defines the eastern margin of the Cobar sedimentary basin. The mineral deposits of the CMF occur as structurally controlled vein style lodes developed at dilational flexures along shears and related fault splays of the Rookery Fault system. Individual deposits occur as steeply dipping lens shaped bodies with short surface dimensions (100 to 300 metres long by 20 metres or less in width) but considerable vertical extent (in excess of 1,200 metres). Gold and copper (plus subordinate lead and zinc) mineralization occurs in association with chalcopyrite, pyrite, pyrrohotite and magnetite within zones of extensive silicification and chlorite alteration. In general terms, the metal content of the deposits in the CMF changes from more gold rich in the south (e.g. Perseverance, Peak and New Occidental) to more copper rich in the north (e.g. Chesney, New Cobar and Great Cobar).

Drilling

A summary table of drill holes completed at the Peak Gold Mines to December 31, 2010 is presented below.

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Peak Gold Mines – Summary of Drilling Programs

Year	PROJECT AREA																				
	Perseverance			Peak			New Occidental			Chesney			New Cobar			Great Cobar			Other Targets		
	DDH Metres # holes	DD Metres # holes	RDH Metres # holes	DDH Metres # holes	DD Metres # holes	RDH Metres # holes	DDH Metres # holes	DD Metres # holes	RDH Metres # holes	DDH Metres # holes	DD Metres # holes	RDH Metres # holes	DDH Metres # holes	DD Metres # holes	RDH Metres # holes	DDH Metres # holes	DD Metres # holes	RDH Metres # holes	DDH Metres # holes	DD Metres # holes	RDH Metres # holes
Pre 2004	90,485 370	19,752 25	1,096 13	156,370 1,396	66,137 129	17,352 205	45,572 495	58,896 95	2,606 26	4,616 52	51,765 106	18,607 181	5,439 147	83,218 221	30,509 351	- -	26,143 54	5,838 73	- -	31,992 101	55,332 972
2005 - 2009	90,679 665	1,903 5	-	6,781 39	5,671 23	320 4	26,342 231	1,294 3	-	15,131 125	12,744 28	-	33,173 294	5,948 18	-	-	-	-	-	7,421 22	7,027 47
2010	30,672 222	906 1	-	-	-	-	5,350 15	-	-	2,640 32	-	-	4,363 25	2,787 4	-	-	7,674 11	-	-	5,329 3	-
TOTAL	211,836 1,257	22,561 31	1,096 13	163,151 1,435	71,808 152	17,672 209	77,264 741	60,190 98	2,606 26	22,387 209	64,509 134	18,607 181	42,975 466	91,953 243	30,509 351		33,817 65	5,838 73	0 0	44,742 126	62,359 1,019

Notes: DDH – Underground diamond drill core hole delineation
DD – Surface diamond drill core hole exploration
RDH – reverse circulation drill hole
Other Targets - Fortitude, Mt Boppy, Queen Bee, Stone Tank and Regional

Diamond drilling is performed by an independent contractor under the direct supervision of the Company. The Company uses NQ sized drill core (4.76 centimetre diameter) to intersect mineralization for resource definition drilling and LTK48 sized core (3.52 centimetre diameter) for the delineation of underground stope blocks. Diamond core is sampled in 1 metre intervals.

RC drilling is performed by independent contractor under the direct supervision of the Company. RC drilling is conducted with 13 to 14 centimetre diameter face-sampling bits to minimize contamination from material in the drill hole walls. Reverse circulation drilling samples are collected in a cyclone operated by the crew of the drill rig. Samples are then logged by the geologist and a representative split sent to the laboratory for assay.

Surface drill data available for the 2010 Mineral Resource estimate at the New Cobar mine was acquired from 22 discrete drill programs completed between 1973 and 2010. Of the holes drilled, 777 were selected for use in the Mineral Resource estimate which included 135 surface diamond holes, 324 LTK48 holes and 318 reverse circulation and percussion holes.

Surface drilling at the Chesney deposit includes nine different drill programs that were completed between 1987 and 2010. Of the holes drilled, 308 were selected for use in the 2010 mineral resource estimate which included 52 Surface diamond holes, 172 LTK48 holes and 84 reverse circulation and percussion holes. The unoxidized mineralization at Chesney has been drill tested to approximately 550 metres below surface by NQ diameter diamond drill holes. In addition, 16 smaller diameter AX and EX (2-3 centimetre) underground diamond core holes were drilled from the lowest level of the mine (270 metres below surface). In 2008, underground access was gained and a further 148 LTK48 holes were completed to the end of 2010. In total, 158 holes have been used to estimate the tonnage and grade of the mineralized system immediately below and in the hanging wall of historic workings.

New Occidental Mineral Resource estimates are based on 568 drill holes from drilling campaigns conducted between 1945 and 2010, which includes 21 surface diamond holes, 31 underground exploration holes and 516 delineation holes.

Four drilling campaigns were completed for the Peak Gold Mines between 1997 and 2000, plus a sporadic series of diamond drill holes between 1948 and 1995. The results of 80 drill holes from such programs were used in the Peak oxide resource estimates. The reverse circulation drill programs were sampled every 2 metres and the diamond drill core was sampled on various intervals of less than 2 metres. Three programs of exploration drilling, utilizing NQ/2 core, were conducted on Peak Deeps between 2003 and 2006. The results of 22 holes were used to update the Peak Deep resource model in December 2006. A further 18 holes were drilled during 2007 and were used to further delineate the Peak Uppers above 290L as well as Peak Deep portions of the Peak deposit. The underground mine at Peak was in operation from 1992 to 2002 with mining recommencing at a reduced rate in 2005. It has a very large and extensive database of exploration and delineation drill holes, underground mapping, muck sampling and production reconciliation data from which to estimate and reconcile a resource.

Almost all underground drilling at the Perseverance deposit was completed using HQ, NQ/NQ2 and LTK48-sized drilling equipment, except for a few wedged holes which were completed using heavy duty CHD-series drill rods. HQ-sized equipment was used to establish collars and complete up to 300 metres of parent hole to facilitate off-hole wedging and directional drilling. LTK48 core was used to assess the whole of Zone A, Zone B, Zone D and Hulk. Hercules lens is drilled much more sparsely. The Perseverance Mineral Resource estimate is based on 1,084 drill holes, which includes one surface diamond hole, 191 underground exploration holes and 892 LTK48 holes.

In 2010, the Company's ongoing Mmineral Resource development program at Peak Mines' operations resulted in the completion of 11,111 metres of exploration and delineation diamond drilling to replace mine depletion. This total includes 9,948 metres of underground drilling to delineate and explore for additional reserves in the Perseverance deposit, 68 metres of underground drilling to delineate reserves in the New Cobar deposit, and 1,094 metres of surface drilling to explore the Fortitude prospect south of the Company's Perseverance mine.

Sampling and Analysis

No records are available for the assaying protocols for the historic underground drilling at New Cobar, Chesney and New Occidental. It is believed that the samples were analyzed at the mine's onsite laboratory by fire assay for gold and wet chemical methods for base metals.

CRA RC samples were assayed for gold by fire assay and for silver, copper, lead, zinc, lithium and sodium by AAS at Analabs Adelaide. CRA drill core samples were usually analyzed for gold by fire assay and for base metals and silver by AAS methods. Some surface diamond core drilled during the 1970s and 1980s was assayed for gold using acid digestion with an AAS finish, but many of the mineralized intersections were later re-assayed by fire assay. The Company currently uses external laboratories for all core and RC chip analyses. All drill core is analyzed for gold, copper, lead, zinc, silver and bismuth.

Gold and Base Metal Analysis

Prior to 2004, special requirements, such as screen fire assay, were performed at the Analabs Orange laboratory for gold and base metal analysis. All gold samples include the S091 method, which is a silica wash in the pulveriser between samples. In 2004 the gold analysis methods were changed. A barren silica wash (method WSH78) is still included between each sample.

Prior to mid-2004, Analabs performed the base metal analyses at their laboratory in Townsville using the Inductively Coupled Plasma – Optical Emission Spectroscopy method (ICP-OES). Over-range (ore grade) base metal assays (typically above 1%) were repeated using a triple acid digestion with an AAS finish. Subsequent to mid-2004 the bulk of all base metal analyses were performed using a triple acid digestion on a 0.5gram pulp sample with an AAS finish.

Security of Samples

Core samples that are to be collected at site are stored within a secure shed in a fenced and locked yard behind the main gate at the offices of Peak Gold Mines.

Sample pulps and field splits of RC samples are also stored in a secure facility either at the mine or at the CRAE/RTE office in Bundoora, near Melbourne, Australia. Prior to November 1998, pulps were sent to the pulp storage facility in Bundoora. Since December 1998, all pulps have been stored at the Peak Gold Mines core shed.

Each sample dispatch is given a unique data processing order (DPO) number, which is used to track the sampling details (laboratory, assaying method, and sample preparation code) in a site database (Drillview). Original DPO sheets are on file at CRAE/RTE in Bundoora, or at the Peak Gold Mines offices.

Post-1975 assay reports issued by analytical laboratories detail the sample preparation and analytical codes used to perform the analyses. Original laboratory reports are filed by DPO at CRAE Bundoora and PGM. Sample preparation codes for all DPOs are detailed in Drillview.

Mineral Resource and Mineral Reserve Estimates

The Company currently has six deposits that have published Mineral Resources and/or Mineral Reserves within the Cobar gold field. The deposits, listed from south to north, are as follows:

- Perseverance
- Peak
- New Occidental
- Chesney
- New Cobar
- Great Cobar

All of the PGM Mineral Reserve and Mineral Resources have been estimated and classified in accordance with the guidelines set out in the AusIMM JORC Code. The JORC Code is recognized and consistent with the criteria laid out in the Canadian NI 43-101 and the Definition Standards adopted by CIM Council on December 11, 2005. The JORC Code differs from the CIM Definition Standards in the use of the terms "Ore Reserve" and "Proved" in the JORC Code compared to "Mineral Reserve" and "Proven" in the CIM Definition Standards. The criteria for estimating, classifying and reporting of Mineral Resources and Reserves under the two systems are essentially identical, however, with one notable difference being the requirement to report Inferred Mineral Resources separate from the total Measured and Indicated Mineral Resources under NI 43-101 and the CIM Definition Standards.

The Peak Gold Mines Mineral Resources inclusive of Mineral Reserves and ore reserves, effective December 31, 2010, are summarized in the "Measured and Indicated Mineral Resource Statement (Inclusive of Reserves) as of December 31, 2010" and "Inferred Mineral Resource Statement as of December 31, 2010" tables. See "Description of Business–Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Resources".

The Peak Gold Mines Mineral Reserves, effective December 31, 2010, are summarized in the "Mineral Reserve Statement – as of December 31, 2010" table. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Reserves".

Mining Operations

Mine production operations are located in four distinct underground zones, plus ore stockpiled from the completed open pit operation at New Cobar. Current mining is from zones which are contiguous to, or nearby, earlier mined out areas. Production operations have been underway at New Occidental since December 2001, while development commenced at Perseverance in October 2002 with production commencing in July 2003. The New Cobar open pit mine was completed in February 2004, with the mined ore stockpiled for subsequent treatment. The New Cobar underground development commenced in June 2004 and was commissioned in September 2005. The Chesney ramp development was commenced in 2006 and development of the first mining horizon began in the second quarter of 2008. For 2010, production was 95,180 ounces of gold and 15.3 million pounds of copper.

At Peak, Perseverance, New Occidental and New Cobar the mining method employed is bench stoping with a 20 metre sublevel interval. At Chesney a combination of bench stoping and open stoping will be employed using a 35 metre sublevel interval. Mining progresses from bottom up in each panel. Drives are developed along strike in the ore on each level, a slot is developed and ore is blasted into the void. Ore is extracted on retreat to the access crosscut. Waste rock is used to backfill the stoping void.

In wider sections of the ore body (plus 8 metre) and longer strike lengths, footwall or hanging wall drives are also developed. Once the mining void is large enough, waste rock is introduced to the mined out section of the stope in a modified Avoca style mining method in order to increase stability. Minimal pillars are required. An option of Cemented Rock Fill is being examined to assist mining in wide, high value zones.

PGM is using the standard ISO 14001 as a guideline for its environmental management system.

PGM has a responsibility under state law to rehabilitate areas of historic mining as well as current mining activities on its leases to an agreed end land use. As at December 31, 2010 the bank guarantee in favour of the Department of Primary Industries (New South Wales) was in the amount of A$10.2 million.

Both New South Wales state and Australian federal tax are levied on the proceeds from the PGM operations. Federal income tax, after appropriate eligible deductions, is imposed at 30%, while New South Wales state tax effectively is a mining royalty set at approximately 3% of gross revenue, before treatment charges and all other costs. Payroll tax of approximately 6% is incurred on the payroll.

Exploration and Development

Exploration in 2011 will continue to concentrate on extending the known Mineral Resources at Perseverance New Cobar and Chesney, continuing near mine exploration of satellite targets around known deposits and evaluating regional exploration prospects generated from the Peak Gold Mines regional targeting initiative.

New Afton Project, Canada

The following disclosure relating to the New Afton Project is based, in part, on information derived from the technical report entitled "Technical Report on the New Afton Project, British Columbia, Canada", dated December 31, 2009 (the "New Afton Report"). The New Afton Report was prepared by R. Dennis Bergen, P. Eng., David W. Rennie, P.Eng., and Kevin C. Scott, P.Eng., all of RPA, and each are qualified persons under NI 43-101. Readers should consult the New Afton Report to obtain further particulars about the New Afton Project. The New Afton Report is available for review under the Company's profile on the SEDAR website at www.sedar.com.

Project Description and Location

The New Afton Project is located approximately 350 kilometres northeast of Vancouver and 10 kilometres west of Kamloops in the south-central interior of British Columbia, on the site of the historic Afton Mine, a previous operation of Teck Resources Limited ("Teck").

The Company's holdings in the Project area comprise two groups: the Afton Group and the Ajax Group. The New Afton deposit lies within the Afton Group. The Afton Group consists of 44 mineral claims, a portion of which have been surveyed and are included in a mining lease that was issued by the Ministry of Energy, Mines and Petroleum Resources on November 9, 2006 (the "Afton Mining Lease"). The total area of the Afton Mining Lease and all other claims is 7,352.7 hectares.

New Gold became the owner of the Afton 1 – 11 claims (the "Original Claims") in September 1999, subject to a 10% net profit royalty owed to Westridge Enterprises Ltd. and Indo-Gold Development Ltd. (the "Optionors"). New Gold had an option exercisable on or before December 1, 2010 to purchase the Optionor's 10% net profit royalty for C$2 million. New Gold exercised the option in October 2010. In addition to the Original Claims, New Gold has staked other claims for its own account to consolidate its land position at the New Afton Project.

The Company holds surface rights on approximately 4,300 acres surrounding the New Afton Project. Reclamation permits covering the existing pits, plant facility and tailings pond, issued by the British Columbia Ministry of Energy and Mines, are held in the name of the previous operator, Teck.

The assets of the New Afton Project are security for obligations of the Company in respect of the Notes (see "Notes and Debentures" for more information).

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The New Afton Project is located on the south side of the Thompson River Valley, approximately 350 kilometres northeast of Vancouver and 10 kilometres west of Kamloops, British Columbia. The Trans-Canada Highway No. 1, just west of its junction with the Coquihalla Highway No. 5, passes through the middle of the Afton Mining Lease. Access to the mine site is by a mine road located off the Trans-Canada Highway.

The Kamloops area is in the rain shadow of the Coast Mountains. Precipitation is minor, averaging about 257 millimetres annually (of which 175 millimetres is rainfall), with light winter snow and infrequent rain in the spring and fall. The area has warm summers where temperatures can reach 38°C and cool winters where temperatures hover around the freezing mark.

Kamloops is a major transportation hub for highway, air and railroad. The city has an airport with daily air service from Vancouver, British Columbia and Calgary, Alberta and is serviced by both Canadian National and Canadian Pacific Railways. Kamloops is a natural resource-based city of 100,000 people. The area has a ready supply of trained workers, professionals and suppliers. BC Hydro transmission lines, a Terasen natural gas pipeline, and a Pembina oil pipeline traverse the mining lease north of the Afton pit. A water pipeline can deliver fresh water from Kamloops Lake to the mine site.

The surface and underground infrastructure at the New Afton Project includes: underground mine workings a conveyor gallery, a second access from the open pit, and ventilation raises to surface; an underground mobile equipment fleet and support facilities at both the upper, conveyor gallery portal and the portal in the open pit; dewatering facilities for pumping from the open pit to a storage area in Pothook Lake, which has been bermed to increase its volume; A new concentrator building with the SAG mill, ball mill and vertical mill mechanically installed, and a partially cleared and prepared tailings storage facility. Both the concentrator building and tailings pond are on land owned by others.

The landscape is characterized by hilly, till-covered, drumlinoidal terrain and dispersed, small, alkaline water bodies. The most significant topographic features within the mining lease are the Afton and Pothook open pits and the reclaimed waste rock dumps of the Afton Operating Corporation, the former operator. Vegetation consists of open grasslands and sparse pine forests as a consequence of a continental, semi-arid climate.

History

Exploration in the Afton area began in the mid-1800s, as prospectors pushed into the interior of British Columbia following the Fraser and Caribou gold rushes. The Afton property claims were staked over the Pothook workings in 1949. This was followed by sporadic, and largely unsuccessful, exploration work by a number of parties through the 1950s and 1960s.

In 1970, a private company called Afton Mines Ltd. (“Afton Mines”) obtained a drill intersection of 170 feet of 0.4% copper from what ultimately became the Afton deposit. For the next three years, over 150,000 feet of drilling was carried out by a number of operators. Teck and Iso Mines Ltd. acquired the Afton property in 1973, and initiated engineering and metallurgical studies. Production commenced at the Afton open pit mine in late 1977. At the start of production, the reserves were 34 million tons grading 1% copper, 0.016 ounces per ton gold, and 0.12 ounces per ton silver (30.8 million tonnes grading 1% copper, 0.58 grams per tonne gold, and 4.2 grams per tonne silver[1]). Mining took place on the property at the Afton, Crescent, Pothook, and Ajax pits. The mine closed in 1997.

In 1999, the Company acquired an option on the property, surrounded it with additional staking, and carried out surface drilling in the New Afton deposit. In 2001, the Company completed a Scoping Study based on drilling results to date. Further definition drilling was recommended to confirm the continuity of the mineralization. An Advanced Scoping Study completed in 2004 contemplated an underground mine, using a block caving method, feeding a conventional flotation mill operating at a rate of 9,000 tpd. Measured and Indicated Mineral Resources were 68.7 million tonnes grading 1.08% copper, 0.85 grams per tonne gold, and 2.62 grams per tonne silver.

In late 2004, a portal was collared on the south wall of the Afton pit, and 1,915 metres of decline and drift were driven to provide access for definition drilling and bulk sampling of the deposit. Diamond drilling, both from surface and underground, has been carried out more or less continuously. At the cut-off date for the 2006 Mineral Resource estimate, the total amount of diamond drilling was 84,755 metres in 182 holes.

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[1] These estimates are historical in nature and should not be relied upon.

The Company commissioned a Feasibility Study in 2005. The study, completed in 2007 (the "2007 Feasibility Study"), contemplated a block cave mine and conventional grinding/flotation mill operation with a daily throughput of 11,000 tonnes. Based on the December 2009 New Afton Report which updated the project status, Mineral Reserves comprised 47.4 million tonnes in the Probable category grading 0.95% copper, 0.69 grams per tonne gold, and 2.03 grams per tonne silver. Mine life was estimated to be 12 years, with preproduction capital costs of C$460.9 million and Life of Mine sustaining capital of C$172.3 million.

Underground development at the New Afton Project is currently underway, with milestones for 2011 including installation of a conveyer transport for ore and waste rock, completion of a production ventilation loop and installation of cave monitoring systems. Surface construction is also underway with milestones for 2011 including completion of the conveyer system surface discharge, completion of the mill's concrete infrastructure and the installation of mill equipment.

Geological Setting

The Afton area is underlain primarily by rocks of the Upper to Lower Palaeozoic Quesnel Terrane, a package of island-arc sedimentary rocks, volcanic assemblages and associated intrusive phases. Quesnel Terrane was accreted onto the North American continental margin during the Early to Mid-Jurassic and is distributed throughout the entire length of British Columbia. It forms part of the Intermontane Belt, which is host to many porphyry copper-gold-molybdenum deposits including Copper Mountain, Afton, Highland Valley, Mount Polley, Gibraltar, Kemess, and Galore Creek. In the immediate Project area, the Quesnel Terrane comprises Late Triassic to Early Jurassic Nicola Group island-arc volcanic and sedimentary rocks, and coeval alkalic to subalkalic intrusions of the Iron Mask batholith.

The New Afton deposit is hosted within the Cherry Creek member of the Iron Mask batholith complex. The Iron Mask complex is a multi-phase plutonic body exposed in a southeast-trending belt measuring 34 kilometres long by five kilometres wide. The Cherry Creek phase is a partially fault-bounded body trending east-northeast through the deposit area, curving to east side of the property to a more southeasterly trend. At Afton, the Cherry Creek intrusive is a variably and multiply brecciated assemblage of porphyritic and equigranular monzonite-monzodiorite. Cherry Creek rocks include fine-to-medium-grained pyroxene-hornblende monzodiorite and fine-grained biotite-monzonite, varying to more dioritic composition, and minor syenite. The principal host phase of the Cherry Creek is a magnetic fine-to-medium-grained porphyritic pyroxene-hornblende monzodiorite which forms a wedge of intrusive breccia between the Nicola and Pothook rocks. Contacts to the west and southwest are with Nicola Group volcanic rocks and to the east and southeast with the Pothook diorite.

The New Afton Project area is traversed by regional-scale fault zones which are believed to be the principal control to intrusion of the batholithic rocks, as well as the mineralization processes. North-to-northwest trending steep to moderate-dipping fault zones are primary controlling structures for emplacement of the Iron Mask intrusives. East- to-northeast-trending faults are important controls to hydrothermal alteration and mineralization. The faulting and associated fracturing also provided conduits for meteoric waters, which gave rise to weathering and supergene enrichment of the primary sulphide mineralization.

A steeply dipping body of serpentinized and sheared picrite has been entrained within the Hanging Wall Fault, a major structural control to the New Afton deposit. This unit separates strongly mineralized, pyrite-poor, potassically altered monzodiorite to the northwest from pyritic, sericite-carbonate-clay-chlorite-altered monzodiorite to the southeast. Ground conditions within the picrite are poor, which has hampered efforts to drill through it. As a result, drill information on the hanging wall side of the picrite is limited.

Exploration

In November 2004, an adit was collared in the former Afton open pit at 512 metres above sea level. A ramp was driven from this portal to provide access for underground sampling, infill drilling to confirm the Mineral Resources, and further exploration drilling to determine the full extent of the mineralization. Total drifting was 2,200 metres.

Diamond drilling from February 2005 to April 2006 totaled 30,778 metres in 78 holes, bringing the total amount of drilling on the Project to 84,755 metres in 182 holes. Drilling continued throughout 2006 and into 2007 on the C Zone, a deep extension to the New Afton ore body. Five exploration holes totaling 2,996 metres were drilled in the Pothook Pit area, which is approximately 0.5 kilometres east of the Afton mine pit. Drilling was also conducted on the Hanging Wall Zones, located under the east side of the Afton pit, in 2008. To date, 276 exploration diamond drill holes have been completed in the entire Project area, for an aggregate length of 130,439 metres.

In late 2005, New Gold contracted Fugro Airborne Surveys to complete 1,323 line-kilometres of airborne electromagnetic surveying of the Afton and Ajax claims, and Quantec Geoscience Ltd. was retained in 2008 to carry out Tensor Magnetotelluric and DC Resistivity and Induced Polarization surveys totaling 34.5 line - kilometres.

In addition to the work at Afton, New Gold has carried out relatively small exploration programs on the Ajax Group, which is located just over seven kilometres to the southeast of the Afton pit. Drilling on the Ajax Group in 2004 and 2006 totaled 4,635 metres in ten holes. During the period from 2006 to 2008, New Gold drilled another 16 holes totaling 6,820 metres. A radiometric survey, consisting of 44.73 line- kilometres, was carried out in 2007, along with collection of 2,040 geochemical soil samples.

Mineralization

The Afton deposits are copper-gold silica-saturated, alkalic porphyry style deposits. Hypogene mineralization comprises fine-grained disseminated chalcopyrite and relatively minor bornite or chalcocite. In weathered portions of the deposit, the chalcopyrite has been altered to bornite and chalcocite, and in the most intensely oxidized areas, native copper. Native gold is rarely observed. Gold and silver reportedly occur as electrum grains within the chalcopyrite and bornite.

The bulk of the deposit occupies a large tabular mass measuring 900 metres long by approximately 100 metres wide and spanning a vertical distance of approximately 350 metres. The zone dips vertically to steeply south-southeast and plunges at moderate angles to the southwest. Two subsidiary satellite bodies occur to the northeast of the Main Zone. One of these zones appears to branch off of the Main Zone and strikes in a somewhat more easterly trend, dipping steeply to the south-southeast. The other, which is further away from the Main Zone, has a similar strike to the Main Zone but dips at a flatter angle (approximately 60° southeast).

The deposit is porphyry-style, with very distinct structural controls. The primary mineralizing event was preceded by development of disseminated magnetite-pyrite. Primary economic sulphide mineralization occurred in association with potassic alteration (principally K-spar) resulting in destruction of the earlier magnetite-pyrite assemblage. Following this, carbonate veinlets (principally ankerite) developed along and surrounding the faults, along with varying amounts of pyrite, clay gouge, and sericite.

Subsequent faulting reshuffled portions of the deposit in a manner that is not completely understood. This has resulted in truncation of the zone along the Hanging Wall Fault in places, and apparent displacement of mineralized blocks. These blocks may occur as isolated pods in the hanging wall or may also be situated adjacent to the Main Zone such that they appear to comprise a continuous body of mineralization crossing the fault.

Drilling

All drilling completed to date on the New Afton Project has been diamond core drilling, conducted in a series of programs over a period spanning 2000 to 2008. Most of the drilling has been for exploration and resource definition. However, in recent years (2007 and later), geotechnical holes have been drilled for groundwater monitoring and collection of data for mine design. To date, 276 holes have been drilled for a total of 130,439 metres.

In 2008, drilling continued on the Wall Hanging Zones, with a total of 4,450 metres drilled in 15 surface holes. Drilling contractors used were Atlas Drilling Company, Western Exploration Diamond Drilling Ltd. and Connors Drilling Ltd.

New Gold now has a formal protocol for locating, monitoring, surveying, and logging the drill holes. Planned holes are plotted in plan and section to confirm the target and collar location. A geologist inspects the collar site, and the surveyors mark both the collar location and line. Once the drill has been set up, the geologist conducts an inspection, checks the orientation of the rig, and confirms with the driller. Daily site inspections are conducted by a geologist as the hole is being drilled.

Sampling and Analysis

For all drilling programs from 2007 onwards, a two-metre sampling interval has been maintained and is specified in the formal protocol maintained by New Gold. Samples are marked as described above. Technicians retrieve the boxes from the rack and convey them to the cutting shack. Core is sawn in half, and the sample is placed in a plastic bag marked with the tag number. The remaining half core is put back in the box for storage. Each day, the samples are placed in rice bags, which are then marked with the sample sequence and prepared for shipping. A daily manifest is prepared, detailing the sample numbers cut and packaged, and is provided to the laboratory. Samples are stored in a locked enclosure until pick-up by laboratory personnel. Each shipment is accompanied by the manifest, with a duplicate copy retained at site.

Starting in early 2007, New Gold commenced a program of assaying pulps by inductively coupled plasma ("ICP") in order to build a database of potentially deleterious elements. Starting in the walls, and progressing through the deposit to the opposite wall, every fifth sample was selected from the drill database. These samples were run using ICP.

Security of Samples

For the 2000 – 2003 drill programs, all samples were sorted, documented, dried (if necessary), roll crushed to -10 mesh, split into 250 gram subsamples, and then pulverized to 95% -140 mesh. Samples for copper metallics assay were split and pulverized into additional 250 gram subsamples of -10 mesh material, and the entire pulp was screened to -140 mesh. Gold and palladium were subsampled to 30 gram aliquots and analyzed with conventional fire assay using atomic absorption ("AA") and/or ICP. The minimum reported detection for gold and lead was 0.005 grams per tonne. Copper was determined by AA using aqua regia digestion. "Metallic" copper when required included two copper assays per sample. Silver geochemical analysis was by aqua regie digestion and AA. All equipment was flushed with barren material and blasted with compressed air between each sampling procedure.

With respect to the 2005 and subsequent drill programs, copper and silver assays were determined using standard acid digestion followed by AA. Gold and palladium were determined using fire assay followed by an AA finish. The one-in-five deleterious element samples were run for 30-element ICP.

Internal checks at the laboratory consist of a minimum two repeats, one blank, two re-splits, and two or three reference standards, one for copper, one for silver, or one combined copper-silver and one for gold-lead. If native copper is reported on the sample sheets, a metallic screen analysis is run in addition to the regular assay. Assay results and internal check results are checked and batches rerun if problems are observed.

Bulk density measurements are made using a water immersion method. Specimens are sealed in wax, weighed in air and in water, and the density determined by the ratio between the weight of displaced water and the weight of the sample. Correction is made for the volume of wax encasing the specimen.

The New Afton property is fenced and gated. After the core is logged and sawn, tied sample bags are locked in the Company's field office until picked up by personnel from Eco Tech for transport to their facilities. Drill core is stored in core racks at the locked, secure core shack. Rejects are kept at Eco Tech's office, and pulps are securely stored at New Gold's field office. The samples are in the custody of the Company's personnel or authorized designates from the drill to the lab.

Mineral Resource and Mineral Reserve Estimates

RPA has prepared an independent audit of an updated Mineral Resource block model prepared by the Company in 2010. The New Afton Mineral Resource statement is based on a copper-equivalent cut-off of 0.4% CuEq, as supported by the present financial model for the mine. The copper-equivalence calculation incorporates the value of the gold in the overall value of the resource body.

The New Afton Mineral Resources inclusive of Mineral Reserves, effective December 31, 2010, are summarized in the "Measured and Indicated Mineral Resource Statement (Inclusive of Reserves) as of December 31, 2010" and "Inferred Mineral Resource Statement as of December 31, 2010" tables. See "Description of Business–Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Resources".

The New Afton Mineral Reserves are summarized in the "Mineral Reserve Statement – as of December 31, 2010" table. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Reserves". The estimate is based on the resource block model prepared by the Company and reviewed by RPA.

Mining Operations

The New Afton deposit is being developed as a block cave mining operation to produce 4 Mtpa of copper-gold ore for processing in a flotation plant for the recovery of copper and gold in concentrates. Underground development is underway using New Gold crews which replaced the mining contractor crews and commenced development in February 2009. The new mill building has been erected and the grinding mills are mechanically installed. The focus is currently on underground development and project planning and engineering.

Engineering studies have indicated that the New Afton deposit is amenable to block caving and the Mineral Reserves have been estimated through the application of Gemcom's block cave modeling software to determine the mine production schedules. The deposit has been broken into three zones: B1, B2 and B3. The B1 and B2 blocks are closer to surface and will provide the initial mine production. Both the B1 and B2 blocks are expected to cave readily. The B3 block is deeper and the rock is more competent such that it may be necessary to implement some additional work to assist the cave development.

The B1 and B2 block undercut is approximately 120 metres above the B3 undercut. At each block an undercut will be developed along with an extraction level. At the extraction level, drawpoints will be developed on a 13 metre spacing. Ore will be mucked by load-haul-dump ("LHD") units and hauled to ore passes to drop to a tramming level 14 metres below, from where the ore will be trammed by large LHDs to the crusher. Ore from the B3 block will be hauled by 50-tonne truck to the crusher level. From the crusher, the ore will be conveyed to the mill via a 4.5 kilometre long conveyor system.

The mine is accessed by two portals for development, one in the open pit and the other being the conveyor portal near the mill. With the subsidence due to caving, the drift from the open pit will be lost and the secondary exit will be by conveyance in a ventilation borehole.

Mineral Processing

The New Afton mill has been designed to process 11,000 tpd, or 4 million tpa, of ore at full capacity and recover copper, gold, and silver. The mill will process a blend of primary, transition and supergene ores. The process will utilize conventional crushing, grinding, and concentration processes to separate valuable minerals from gangue into concentrates at marketable grades. Mineral separation will be achieved by gravity concentration and differential flotation. A regrinding stage will be included in the flotation circuit.

The tailings handling system will pump the combined tailings (from the rougher flotation circuit and the cleaner scavenger circuit) to the cyclone plant, a set of primary cyclones located adjacent to the tailings storage facility. The cyclone underflow product will be delivered to a skid-mounted secondary cyclone pack located on the top of the tailings dam. The sand or coarse fraction from these secondary cyclones will be used to construct the tailings dam and the secondary cyclone overflow product will be used to seal the wet side of that dam. A centreline construction method will be used to establish the tailings dam structure. There will be three seepage collection ponds below the dry side of the main tailings dam to recover and return seepage back to the tailings storage facility.

Environmental Considerations

The New Afton Project area lies at about 720 metres above sea level and drains into Kamloops Lake, the second-largest water body contained in the Thompson River watershed, a major tributary of the Fraser River. Much of the project area has been greatly altered such that natural undulating grasslands have been replaced by level rock dumps, open pits, and severely compacted borrow areas. The dominant water bodies are now related to mining-related impoundments.

On October 31, 2007, the Ministry of Energy, Mines and Petroleum Resources issued Mine Permit M229 approving the work system and reclamation program in respect of the New Afton Project. The Mine Permit obligates the New Gold to post reclamation security in the aggregate amount of C$9.5 million. As at December 31, 2010 the Company has posted C$8 million in the form of an irrevocable standby letter of credit.

Cost Estimates

As at December 31, 2010 the remaining preproduction capital budget for the Project is C$365 million. Sunk costs are not included in the capital summary. Capital cost estimate revisions and adjustments continue as New Afton Project optimization tasks are still underway. The mine capital costs are built up from first principles for the mine development activities together with quotations for major equipment items.

Taxes

The taxes applicable to the New Afton Project include the BC net proceeds tax of 2% (against revenue less certain operating costs), BC revenue tax of 13% (against gross proceeds less the cumulative expenditure amount), BC income tax at a rate of 10.5% and federal income tax at a rate of 15%. The provincial and federal income taxes are based on income less applicable capital allowances.

Participation Agreement

Two First Nations, the Kamloops Indian Band and the Skeetchestn Indian Band (the “Bands”), have asserted aboriginal rights and interests in an area comprising the New Afton Project. Discussions with these Bands commenced in February 2006, culminating in the execution of a formal agreement between the Bands and New Gold dated March 20, 2008, as amended March 30, 2011 (the “Participation Agreement”).

One of the principal objectives of the Participation Agreement is to establish a cooperative and mutually beneficial working relationship between the Bands and New Gold with respect to the development and operation of the New Afton Project. The Participation Agreement provides that the Bands consent to the New Afton Project and agree not to challenge before a court of law any New Gold interests or permits related to the Project. New Gold undertakes to provide the Bands with certain economic and social benefits including preferential hiring, education, training and business opportunities.

In accordance with the Participation Agreement, in each of 2009 and 2010 New Gold paid C$250,000 and in 2011 will pay up to $500,000 into a socioeconomic trust created for the benefit of Band members. Each year in which commercial production occurs at the mine, an amount of 0.5% of net smelter returns ("NSR"), or a minimum of C$250,000 a year, shall be paid by New Gold to the trust, with the minimum payment to be increased to C$500,000 for a given year if copper prices in that year exceed C$2.50 a pound. After the costs of developing, permitting, constructing, and equipping the mine have been repaid to New Gold, the payment to the trust will increase to the greater of C$1,000,000 a year, or 1% of NSR in that year. If copper prices exceed C$2.50 a pound in a given year, this payment will increase to 1.5% of NSR for that year, and if copper prices exceed C$3.00 a pound in a given year, this payment will increase to 2% of NSR for that year.

The Participation Agreement also grants the Bands a right of first refusal to purchase that portion of the Afton surface rights held by New Gold lying to the north of the Trans-Canada Highway and south of Kamloops Lake in the event New Gold decides to sell these lands in the future separately and distinctly from the New Afton Project.

Exploration and Development

Mine development is scheduled to continue until and after the commencement of production. The development of the B3 zone has been deferred to reduce the upfront capital costs. The mill is planned to be commissioned in the second quarter of 2012 with production in mid-2012. The Company will continue to use AMEC for engineering and procurement, but will conduct construction management for the remaining mill construction packages with its own team.

El Morro Project, Chile

The following disclosure relating to the El Morro Project is based, in part, on information derived from the technical report entitled "Feasibility NI 43-101 Technical Report for the El Morro Copper-Gold Project, Region III, Chile," dated May 9, 2008, readdressed to New Gold on August 26, 2009 (the "El Morro Report") and prepared by Richard Lambert, P.E., and Barton Stone, P.G. of Pincock, Allen & Holt who are qualified persons as defined under NI 43-101. In preparing the El Morro Report, previous technical reports authored by competent persons were used as background information. Readers should consult the El Morro Report to obtain further particulars about the El Morro Project. The El Morro Report is available for review on the SEDAR website located at www.sedar.com under the Company's profile.

Project Description and Location

The El Morro Project is located approximately 650 kilometres north of Santiago and approximately 140 kilometres by road east of the city of Vallenar in northern Chile, along one of the most prolific copper belts in the world, the Main Cordillera of the Copiapó Region (Region III) (Latitude 28º 38' South and Longitude 69º 53' West). Goldcorp is the operator and has a 70% interest in the project and the Company holds 30%. The project is situated near the water divide between the Huasco and Copiapó drainage systems.

Mineral Property Summary

The El Morro Project consists of a contiguous group of mineral mining and exploration concessions covering three separate centers of porphyry style copper-gold±molybdenum mineralization, referred to as the La Fortuna, El Negro and El Morro areas, namesake for the project. The combined El Morro Project mineral concession holdings total approximately 417 square kilometres in the area. The La Fortuna copper-gold deposit is the only porphyry center of the three within the outlines of the El Morro holdings containing measured and indicated resources. The La Fortuna property is a copper-gold mineral resource and reserve which has a completed feasibility study and is currently proceeding with the application detailed engineering to allow a production decision.

The El Morro Project area currently consists of 70,145 hectares which includes 201 exploration concessions and 219 exploitation concessions. The project operator is responsible for the protection and maintenance of all mining concessions at the project.

Surface rights for the El Morro Project are owned by the Los Huasco Altinos Community ("Los Huasco Altinos"), a grazing and livestock cooperative. In 2005, Falconbridge was granted a 30-year legal mining easement for 10,190 hectares that is intended to secure access to the future mine pit and mine facilities.

The operator holds a 30-year legal mining easement entered into with a land owner in 2006 that secures surface rights access to the projected location for an access road from the North Pan-American Highway to the project location, and the expected location of the power line and processing facilities for the project.

Encumbrances, Liens and Royalties

At the El Morro Project, 2,216 hectares of mining concessions are held through five purchase option agreements, two of which were executed by the Company and three of which were executed as a group by Falconbridge. The option agreements are summarized below.

1) Minera Metallica Limitada and BHP Chile S.A. Purchase Option Agreement – *BHP Option*
In July 2003, the Company and Falconbridge exercised an option and acquired certain mining exploitation concessions from BHP. The concessions are referred to as the BHP concessions and have a combined area of 1,849 hectares. BHP retained a 2% NSR royalty on any mining that occurs on the BHP mining concessions. In December 2004, the Company and Falconbridge acquired the 2% NSR royalty from BHP . The Company acquired a 30% interest in the royalty and Falconbridge acquired a 70% interest in the royalty.

2) Minera Metallica Limitada and Rene Martin Jure Purchase Option Agreement - *Martin Option*
In December 2001, the Company and Falconbridge exercised an option and acquired certain mining exploitation concessions. The exploitation concessions are referred to as the Cantarito and Tronquito mining properties and have a combined area of approximately 305 hectares. The third party has retained a 2% NSR royalty on any mining that occurs on the Cantarito and Tronquito mining concessions.

3) Falconbridge Chile Limitada and Santiago del Carmen Cayo Salinas, Luis Alberto Cayo Salinas and Johnny Cayo Salinas Purchase Option Agreements – *Cayo Options*
During 2001 and 2002, Falconbridge exercised three option agreements with the shareholders of Santa Julia Uno de la Sierra Fortuna, and acquired certain mining exploitation concessions.The concessions are referred to as the Santa Julia concessions and have a combined area of 61 hectares. Payments of $133,333 are due to each of the three shareholders of Santa Julia Uno de la Sierra Fortuna within two years of commencement of mining on the Santa Julia concessions.

As described under the heading "General Development of the Business – El Morro Project", Goldcorp (through its subsidiary) has agreed to fund 100% of Datawave's share of the development and construction capital for the El Morro Project. Under the funding arrangement with Goldcorp, the Company will not need to fund any of the project capital before completion of development and construction. A pledge exists over Datawave's shares in the El Morro Project to secure obligations relating to the carried funding. At December 31, 2010, the outstanding carried funding loan balance was $8.1 million including accrued interest ($3.7 million – 2009). Based on its current financial position, the Company expects the carried funding loan will be repaid directly out of the Company's share of cash flows from the El Morro Project.

Environmental Permitting Requirements and Status

The level of assessment required for a project can be either an Environmental Impact Assessment ("EIA") or an Environmental Impact Declaration ("DIA"). A DIA is a document that establishes that a project will comply with current norms and environmental standards via a description of the project and its surrounding environment and is typically required for a less advanced project.

An EIA for the El Morro Project was approved in March 2011. The granting of the EIA facilitates commencement of construction for the project and site specific licenses and permits will be obtained during the course of project implementation.

Water rights are a sensitive issue in arid regions of Chile. The project operator intends to install a desalination facility to meet the requirements for potable and industrial water during construction and operation of the project.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Current access to the El Morro Project is through the town of Vallenar which is situated at kilometre 663 of the Pan-American Highway. From Vallenar, the road access, at the current time, follows 72 kilometres of paved road to the east to Chanchoquin and then continues another 73 kilometres to the east-northeast via the Totoral gravel/dirt road. The site is approximately 15 kilometres from the Argentine border. The nearest port facility is at Huasco, some 230 kilometres west of the mine site, and will be accessed via a new road to be constructed from the proposed mine through Algarrobal joining the Pan-American highway to Vallenar. The proposed mine and plant site has a median yearly temperature of 25º C. Precipitation is less than 200mm a year and occurs primarily as snow during the Andean winter months.

The El Morro Project site at an elevation of 4,000 to 4,200 metres above sea level is a high altitude Cordilleran desert environment, part of the Atacama Desert region, devoid of any significant plant life. The site has an extensive network of drill access roads and drill pads over the La Fortuna porphyry system. A portal access and associated support buildings surround an underground decline tunnel, driven into the deposit to obtain metallurgical and geologic samples because the surface geology is obscured by post-mineral gravel deposits.

Vallenar, like many towns in northern Chile, has a resident historic mining expertise amongst portions of the population. A 1988 hydrogeological study of the Algarrobal-Hacienda Castilla area has shown that the actual hydraulic capacity of the aquifer would not be able to sustain the existing water rights, even without the development of the El Morro deposit. Due to the shortage of water in the proposed mine area, it was concluded that a seawater desalination plant would offer the most reliable water supply over the lifetime of the mine operation.

As part of a development plan, it was proposed the construction of an entirely new access route to the project from the Pan American highway to avoid the potential issues with local agricultural interests located along both river valley systems (the Huasco and the Algarrobal) that drain from the project area. This approach also minimizes potential land ownership issues along the right-of-way because virtually the entire route of the roadway is on land owned by a single group. The new construction will require its own specific permits.

Electric power required for the project will be supplied by the Chilean central power grid from a new substation to be installed at Algarrobal located 50 kilometres north of the existing Maintencillo substation near Vallenar and 83 kilometres south of the Cardones substation near Copiapó. Two overhead transmission lines will distribute power from the Algarrobal substation to the El Morro mine site facilities.

The proposed development focused on the building of a concentrate filtration plant near the Pan American highway near the community of Las Cunas which is also on the proposed new access road to the El Morro site.

At the La Fortuna site, sufficient open ground is available for waste piles, stockpiles, tailings and potential leach pads for the operation envisioned. Key technical issues for developing the project will be local topography, ground support strength, geotechnical characteristics, existing drainage systems and snowfall in the winter.

History

In 1832, Juan Godoy discovered the Chanarcillo silver mines south of Copiapó, and the silver mining rush extended afterwards in the 1850s to Chimberos and Tres Puntas north of Copiapó in the same Coastal Range belt. To improve the transport of ores to overseas smelters the first railroad in the country was built in 1850 to join Copiapó and Caldera. During the second half of the 19th century, mining concentrated in the copper veins in the coastal area, especially in the Carrizal district.

In 1916, mining began at the Potrerillos porphyry copper deposit, which is now closed. The Potrerillos smelter has continued to operate by receiving concentrates mainly from the nearby El Salvador mine which is also in its final years of production. The Potrerillos smelter has a capacity to treat 680,000 tpy of concentrates.

In the 1980s exploration activities in the region concentrated in the epithermal gold-silver-copper deposits of the Maricunga district in the Altiplano northeast of Copiapó, leading to the commissioning of La Coipa, La Pepa and the operations of Minera Can Can. During the same period in the 1980s and 90s along the Atacama Fault Zone in the Coastal Cordillera, Candelaria and Manto Verde iron oxide-copper-gold mines were developed, and old deposits in the Tierra Amarilla district (Punta del Cobre, Carola, Ojos del Salado) were revamped, and contributed to the feed of ENAMI's 315,000 tpy of concentrates smelter in Paipote near Copiapó. Additional epithermal gold deposits were developed in the 1990s in the Altiplano east of Copiapó including Refugio and Marte deposits.

Since the 1940s, mining in the Huasco province, where the El Morro Project is located, concentrated on iron ore mining along the southern extension of the Atacama Fault Zone near the coast with the surviving operations being Compania Minera del Pacifico (CMP) at Algarrobo and Los Colorados near Vallenar.

Geological Setting

The El Morro Project is located along the Eocene-Oligocene porphyry copper belt of northern Chile, host to some of Chile's most prolific mining districts. Major mines along the belt include Collahuasi, Quebrada Blanca, Chuquicamata, La Escondida, El Salvador and Potrerillos. The El Morro Project is located along a southern extension of the belt and represents one of the newest porphyry copper occurrences under development in Chile today.

The El Morro Project is situated within a 15 kilometre wide by 30 kilometre long north - south trending structural graben consisting of Paleozoic to Permo - Triassic basement rocks. The western edge of the graben corresponds to the southern extension of the Domeyko fault system, the main controlling structural feature for the prolific Eocene – Oligocene copper porphyry belt of northern Chile. Within the graben, basement rocks are principally covered by Mesozoic and Cenozoic stratified sedimentary and volcanic rocks. At El Morro, these units are intruded by a cluster of calc-alkalic granodioritic to dioritic porphyry stocks and dikes that have been emplaced at the intersection of two major NNE and WNW-trending regional fault systems. Younger Tertiary age post-mineral volcanic rocks and gravels locally overlie all older rock types, and may conceal additional prospective porphyry centers.

Mineral Resources within the El Morro Project area have so far been defined in the La Fortuna and the namesake El Morro areas. La Fortuna is a classic copper-gold porphyry deposit. Mineralization occurs within and around a vertical cylinder-shaped igneous intrusive body ("porphyry stock") of granodioritic to dioritic composition that has been emplaced at a major fault intersection within a sequence of older volcanic and sedimentary rocks. Copper-gold mineralization occurs within a well-developed system of cross-cutting veins ("stockwork") containing pyrite, magnetite and variable amounts of copper-bearing sulphide minerals that include chalcopyrite, bornite, and chalcocite. Molybdenum content at La Fortuna is negligible. The deposit consists of an upper oxidized zone of barren to weak "leached" copper-gold mineralization, an intermediate zone secondarily enriched copper sulphides ("supergene blanket") and associated gold mineralization, and a deep zone of primary "hypogene" copper-gold sulphides. Potentially economic portions of the La Fortuna Mineral Resource occur entirely within the secondary supergene and primary hypogene sulphide zones.

The El Morro deposit consists of disseminated and stockwork copper-gold sulphide mineralization hosted entirely within a sequence of volcanoclastic sedimentary rocks. Although a porphyry intrusive source to the mineralization is strongly suspected, drilling to date has so far not identified one. The deposit consists of an upper oxidized and barren leached cap, an intermediate supergene enrichment blanket of secondary chalcocite and pyrite, and a lower zone of primary pyrite-chalcopyrite mineralization.

Exploration

In 1997, Metallica acquired the BHP properties under an option agreement with BHP, claimed adjacent exploration ground to the west in the namesake El Morro area and in 1998 signed a purchase option agreement with Sociedad Legal Minera Tronquito and Sociedad Legal Minera Cantarito (Rene Martin-Osvaldo Frias), consolidating its control over a total area of 3,354 hectares. During the two year period from 1997 to 1998, Metallica conducted general reconnaissance, geochemical and geophysical studies to identify prospective areas for drilling.

In 1999, Metallica completed 3,213 metres of drilling in 18 holes divided among four areas within the El Morro Project holdings: El Morro (eight holes), La Fortuna (four holes), Cantarito (four holes) and El Negro (two holes). This work resulted in the discovery of porphyry-type copper-gold-molybdenum mineralization in the El Morro area where the best reverse circulation hole RDM-2 and its twin core hole DDHM-1intersected 170 metres of mineralization averaging 0.83% copper, 0.26 grams per tonne gold and 0.014% molybdenum. Several unsuccessful attempts were made to negotiate the acquisition of the small Santa Julia property which covered the area of the old mines. As a result of the successful 1999 drilling campaign, Metallica expanded its holdings on El Morro ground with additional exploration claims, its holdings eventually totaling 14,300 hectares. During this two year period from 1997 to 1999, Metallica drilled 3,213 metres of reverse circulation in 17 holes divided between the four areas of El Morro (seven holes), La Fortuna (four holes), Cantarito (four holes) and El Negro (two holes). Additionally one core hole was drilled at El Morro to a depth of 500 metres.

In September 1999, Noranda Chile Ltda. signed a joint venture agreement with Metallica that included the underlying agreements with BHP and the Sociedad Legal Minera Cantarito & Tronquito, and committed Noranda to fund the exploration effort on the property going forward. The Santa Julia property was subsequently purchased and integrated into the Joint Venture. Noranda's exploration efforts concentrated on expanding the El Morro discovery with diamond drilling on 200 metre spacing. Although consistent mineralization was intersected, no porphyry intrusive source to the mineralization was identified and the attention turned to the La Fortuna area where reconnaissance drilling in 2000 confirmed the presence of a mineralized copper-gold bearing porphyry intrusive which has been the primary focus of exploration and development activities by Noranda and its successor companies Falconbridge Ltd. and Xstrata to date. During the period 2000 to 2006, 14 holes were drilled at El Morro: 146 holes (including 58,461metres in 141 diamond holes) at La Fortuna; 26 holes at El Negro, and two holes at Cerro Colorado. Additionally magnetic and electrical geophysical surveys were conducted over all the mineralized indications as well as geochemical soil sampling and chip sampling. In 2003, Noranda estimated inferred resources for the El Morro deposit at 45 Mt at 0.50 % copper and 0.18 grams per tonne gold corresponding to the enriched sulphide horizon beneath a 40-140 metre thick leached cap; with the mineralization exhibiting strong structural control. The drilling at El Morro intersected country rocks and dacitic dykes up to 30 metres wide possibly related to the mineralizing event.

Exploration in 2007 focused on infill drilling of 14 new drill holes to increase the knowledge and volume of measured resources within the first five years of the mine and also to improve the quality of the reserves within the pit design.

Mineralization

The La Fortuna deposit is a typical copper-gold porphyry system consisting of multiple phases of similar composition intrusives, concentrated within a near vertical ovate cylinder of alteration and mineralization. The porphyritic copper-bearing igneous rocks are intrusive into host volcanic and sedimentary rocks which have also been altered and mineralized with copper but to a much lesser degree, and the mineralization falls off dramatically with distance from the host intrusives.

Most porphyry systems, La Fortuna included, consist of variable intensities of quartz veinlet swarms, breccia zones and rarely large vein zones. PAH noted that no large veins wider than 20 centimetres were observed in the core examined; the bulk of mineralization was associated with intense vein stockworks of narrow veinlets.

Three “belts” of eastward younging Eocene-Oligocene intrusives occur in the El Morro District. The Western Group crops out along the western border of the El Morro District as very irregular medium-sized plutons that intrude Triassic and Cretaceous strata. Further to the east the Central Late Eocene Group encompasses a cluster of variably altered porphyritic stocks, dykes and sills associated with the altered/mineralized zones of El Negro, La Fortuna, Cantaritos and El Morro; those to the east of Quebrada Larga and Quebrada Piuquenes, near the center of the El Morro District, are partially covered by Miocene rocks (Cantaritos gravels). The Eastern Group includes a string of larger and essentially unaltered shallow level dacitic sub volcanic bodies which intrude Cretaceous and Eocene strata.

Drilling

Xstrata and predecessor companies completed 98,575 metres of drilling in 273 drill holes on the El Morro Project as of the end of December 2007. This total includes RC holes completed prior to 2005 which have contributed to the geologic interpretation incorporated into the current resource estimate; however, assay data from RC holes have not been used in the estimation of metal grades for the La Fortuna Mineral Resource. No new drilling has been conducted at El Morro since 2007.

Exploration drilling at El Morro has included programs conducted by BHP in 1993 and 1994, by the Company 1999, by Falconbridge from 2000 to 2005, by Falconbridge – Xstrata in 2006, and Xstrata in 2007. These programs are summarized in the table below.

El Morro Project – Summary of Exploration Drilling Programs

	TARGET AREA											
	La Fortuna		**El Morro**		**El Negro**		**Cantarito**		**Other Areas**		**TOTAL**	
Company (year)	**DDH** Metres (no. holes)	**RDH** Metres (no. holes)	**DDH** Metres (no. holes)	**RDH** Metres (no. holes)	**DDH** Metres (no. holes)	**RDH** Metres (no. holes)	**DDH** Metres (no. holes)	**RDH** Metres (no. holes)	**DDH** Metres (no. holes)	**RDH** Metres (no. holes)	**DDH** Metres (no. holes)	**RDH** Metres (no. holes)
BHP (1993-1994)	400 (1)	3,167 (13)				100 (1)		1,376 (14)			400 (1)	4,643 (28)
Metallica (1999)		908 (4)	500 (1)	1,547 (7)		418 (2)		340 (4)			500 (1)	3,213 (17)
Falconbridge (2000)	1,160 (4)		2,949 (11)						199 (1)		4,308 (16)	0
Falconbridge (2000-2001)	9,385 (21)				4,972 (16)				904 (3)		15,261 (40)	0
Falconbridge (2002)	8,248 (16)	1,538 (5)		1,094 (3)	749 (3)	912 (3)		394 (1)		2,536 (10)	8,997 (19)	6,474 (22)
Falconbridge (2005)	9,932 (23)										9,932 (23)	0
Falconbridge (2006)	28,719 (74)										28,719 (74)	0
Xstrata (2006-2007)	15,913 (32)										15,913 (32)	
TOTAL	73,757 (171)	5,613 (22)	3,449 (12)	2,641 (10)	5,721 (19)	1,430 (6)		2,110 (19)	1,103 (4)	2,536 (10)	84,030 (206)	14,330 (74)

Notes: DDH – diamond drill core hole
RDH – reverse circulation drill hole

All drill logs and assay data sheets for all of the holes are stored in a secure location by the project operator, and drill hole locations, sample intervals and assays have been compiled into a digital computer database.

The area covered by the 55 by 55 metre grid covers the central sulphide dominated portion of the deposit and approximates the portion of the Mineral Resource that has been classified as a “Measured” Mineral Resource and extends through a volume of approximately 450 metres east-west by 650 metres north-south by 450 metres deep. Surrounding this area is a 200 metre ring of wider spaced drilling at a nominal 100 to 150 metre spacing with drill hole orientations similar to those in the smaller grid previously described above, and approximating the portion of the Mineral Resource that has been classified as an “Indicated” Mineral Resource.

The sulphide mineralization contained within the secondary enrichment zone (supergene blanket) and the underlying primary hypogene zone make up the bulk of the contained copper-gold resource and have been well delineated by drilling to a depth of approximately 600 metres. Deeper portions of the copper-gold resource, occurring entirely in primary hypogene mineralization, have been only partially delineated. Nine deep holes drilled in October and November of 2006 show copper and gold grades increasing at deeper levels without indications of any termination of grade at the bottom of the holes.

Down Hole Surveys

Down-hole deviation directional surveys were done on all diamond core holes using either a single shot Sperry Sun instrument (50m down-hole intervals), a digital gyroscope, or a “Maxibore” instrument (3m down-hole intervals). Single shot surveying was used for only a few of the early exploration holes, while all delineation holes drilled after 2000 were surveyed with either the gyroscope or Maxi-bore instruments. Down-hole surveys were done on some of the reverse circulation holes; however, assay data from these holes have not been used for the estimation of Mineral Resource grade.

The general cumulative down-hole deviation of drill holes at La Fortuna averages one degree per 100 metres in all core holes, representing a small amount of deviation. The risk of mislocated drill hole placements or position is considered low because:

- The lack of vegetation in the project area permits nearly complete line-of-sight visibility to all points, lessening the possibility of surveying errors.
- All inclined drill holes were surveyed at a maximum interval of 50 metres down-hole, with the majority of holes surveyed at much closer intervals.

Three sizes of standard core diameters have been used in all drilling at La Fortuna – PQ (83.1 millimetre diameter), HQ3 (63.5 millimetre diameter) and NQ3 (47.6 millimetre diameter) core sizes. Core was collected using standard wireline retrieval methods.

Sampling and Analysis

Sampling diamond drill core is conducted according to standard industry practices. Sampling technicians followed specific sampling protocols under supervision by Xstrata. Drill core was split and half preserved for reference in Xstrata offsite storage facilities. Only core samples and their assays have been used for the interpolation of metal grades in the current resource estimation.

Diamond drill core included three sizes PQ (83.1 millimetre), HQ (63.5 millimetre) and NQ (47.6 millimetre) core diameters. Except for two holes drilled prior to 2000, diamond drilling at the project has been directed by Noranda and subsequently Falconbridge and most recently by Xstrata, successor companies to each other. Drilling work has been performed by independent contractors that have included Connors in 2000 and 2001, Ausdrill in 2002, and Connors again in 2005, 2006, and 2007. Core was stored in wooden boxes and brought to the project core processing facility where it was photographed, logged for geologic and geotechnical information, and sampled for assay by taking half splits at regular two metre intervals.

All density and specific gravity studies to date have been conducted on drill core samples. Beginning in 2002, density samples were taken at regular four metre intervals for all diamond drill holes drilled at La Fortuna. Bulk density determinations show a good representation of major lithology, mineralization and alteration units relative to the total number of metres drilled within each unit. The data also show good spatial coverage throughout the La Fortuna Mineral Resource. The density data have been further validated by sending approximately five percent of the duplicate data to a second commercial laboratory. The results show a very good correlation between the two data sets. Tonnage factors for resource estimation were derived by calculating an average bulk density based on drill core density data for each lithology and mineral zone combinations and then applied as a global average to the block model lithology code.

Security of Samples

Drill core recovery measurements were collected for each hole as it was being drilled and has been done for all diamond drilling. Core recovery averaged better than 80% for 95% of the core intervals. The zones with low recovery are typically associated with the first 20 to 30 metres below the surface which corresponds with the leached-weathered portion of the deposit.

In 2002, Noranda implemented revised sampling and logging procedures for the El Morro Project. Subsequent Xstrata programs have continued the Noranda sampling and logging procedures. Internal reviews and independent audits have confirmed the high quality of the sampling and assaying QA/QC procedures employed during the Noranda-Falconbridge drill programs which constitute the bulk of the drilling used in the preparation of the current resource estimate.

Assay data from the diamond drill holes for the El Morro Project were controlled by sending 53 duplicate pulp samples to ALS Laboratories in Vancouver, B.C. Canada to verify the original assays done by Bondar Clegg laboratories in Coquimbo, Chile. An analysis of the data by Charles Beaudry of Noranda concluded that copper assays are unbiased whereas gold assays are 10 to 15 percent high relative to the check results. There were, however, only nine pulp duplicates with gold grades greater than 0.2 grams per tonne gold, and the absence of standards in the Beaudry study precludes any resolution as to which laboratory is the more accurate.

After a round-robin exercise comparing sample preparation and assays between five laboratories, ACME Analytical Laboratory S.A. was selected by Xstrata for the 2005 definition drilling program. ACME installed a sample preparation facility at the project site and pulps were shipped to their analytical facilities in Santiago for digestion and assay. ALS Chemex acted as the control laboratory during that program. Prior to the 2006 Xstrata definition drill program, a second round robin exercise was completed comparing sample preparation, assay preparation and the results between the laboratories. Results of the program were reviewed and revisions made to procedures for drill samples for the 2006 drill program. Smee and Associates Consulting Ltd., Vancouver, B.C. was responsible for reviewing, revising and approving procedural changes for the 2006 drill program. Actlabs in La Serena, Chile was awarded the contract as the primary laboratory for assaying drill samples from the 2006 and 2007 drill program. ALS Chemex continued as the referee laboratory for 2006 and 2007.

Assay accuracy and precision of routine analyses were assessed continuously throughout the various data acquisition programs of the project (after Noranda) using a program of check assays and analysis of in-house reference standards materials. The correlation shown by check-assay pairs is generally very good, indicating good analytical precision for total copper. Round-robin assay results used to characterize the standards indicate generally good performance by the primary laboratory.

According to the results of these QA/QC programs the sample preparation and assaying have acceptable errors of precision and no apparent bias can be observed. Precision at the 95 percent Confidence Interval varies between 0.12 percent and 6.69 percent for the suite of five standards that includes both copper and gold. The QA/QC program outlines have been checked and validated by internal and external reviews, and both cases have confirmed the observations previously stated above. PAH believes that the assays from the drilling program and the associated QA/QC procedures meet the standards required for reserve and resource calculations for a feasibility level study.

Mineral Resource and Mineral Reserve Estimates

The updated El Morro Project Mineral Resources and Reserve statements as of December 31, 2010 are summarized in the "Measured and Indicated Mineral Resource Statement (Inclusive of Reserves) as of December 31, 2010", "Inferred Mineral Resource Statement as of December 31, 2010" and "Mineral Reserve Statement – as of December 31, 2010" tables respectively. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates".

The El Morro Project is envisioned as an open pit mine supplying material for crushing and processing in a copper flotation mill producing a copper-gold concentrate. Production is planned for 90,000 tonnes ore per day.

The El Morro Report was based on a Mineral Resource model and report developed for the 2007 feasibility study by Xstrata and independently audited by AMEC. Mineral Reserves pit optimization and mine planning considered:

- Pit Optimization
- Mine Planning
- Waste Facility Design
- Equipment Fleet Specification
- Operating and Capital Cost Calculations

The economic parameters applied to calculate block values for pit optimization work based on a break-even profit cutoff using $1.25 per pound copper and $500 per troy ounce gold which equates to a cut-off grade of approximately 0.30 percent copper-equivalent.

Mining Operations

Operations at the El Morro Project are expected to produce an annual average of 556,000 dry tonnes per year of copper concentrate, containing 361 million pounds of copper, and 331,000 ounces of gold. Annual average production of by-product silver is expected to be 532,000 ounces.

Total closure costs are estimated in the $40 to $50 million range prior to taking the salvage value of the assets into account. Net closure costs are estimated to be around $26.3 million. Chile does not require reclamation and closure bonding. Based upon follow up monitoring and testing results (i.e., geochemistry, and pit water hydrology and quality), these activities and estimates may need to be adjusted to account for actual site conditions at closure.

The project economic model, as defined in the current El Morro Report, which is based on the capital cost and operating parameters recreated and reviewed by PAH, shows a positive after tax internal rate of return of 14.7% and a Net Present Value of $1.09 billion when discounted at a rate of 8% and using long-term prices of $2.80 per pound for copper and $625 per ounce for gold. Project payback occurs at 4.7 years.

The principal corporate taxes levied in Chile are:

- a general income tax levied on both legal entities and individuals; and
- a value-added tax (VAT) levied up to the consumer level.

For the economic model, no VAT was applied as it is assumed that as an exporter the mine owners would be exempt.

Exploration and Development

In November 2008, the project entered into the permitting stages with delivery of the projects Environmental Impact Statement to the Chilean Authorities. An EIA for the El Morro Project was approved in March 2011. The granting of the EIA facilitates commencement of construction for the project and site specific license and permits will be obtained during the course of project implementation.

RISK FACTORS

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration, development and operation of mining properties. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in the forward-looking information relating to the Company.

In addition to the other information presented in this Annual Information Form, the following risk factors should be given special consideration when evaluating trends, risks and uncertainties relating to the Company's business. Any of the following risks could have a material adverse effect upon the Company, its business and future prospects. In addition, other risks and uncertainties not presently known by management of the Company could impair the Company, its business and prospects in the future.

Commodity Price Risk

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 the Company's 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.

As part of the Western Goldfields Business Combination, the Company acquired gold contracts which mitigate the effects of price changes. On May 27, 2009 the Company assumed liability for gold forward sales contracts for 429,000 ounces of gold at a price of $801 per ounce. As at December 31, 2010, the remaining gold contracts represent a commitment of 5,500 ounces per month for 48 months with the last commitment deliverable in December 2014 for a total of 264,000 ounces.

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.

There is no assurance that any commodity-hedging program designed to reduce the risk associated with fluctuations in metal prices will be successful. Hedging may not protect adequately against declines in the price of the hedged metal. Although hedging may protect New Gold from a decline in the price of the metal being hedged, it may also prevent New Gold from benefiting fully from price increases.

Litigation

New Gold is party to legal proceedings, which, if decided adversely to New Gold, may have a material adverse effect on the financial or business position or prospects of New Gold. Shareholders are urged to read the description of the pending legal proceedings set out under the heading "Legal Proceedings and Regulatory Actions".

Foreign Operations

The Company's operations are currently conducted in the United States, Australia, Mexico, Canada and Chile 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; labour unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; corruption; unstable legal system; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, social unrest, currency controls and governmental regulations that favour 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 including, 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; and

- the lack of certainty with respect to foreign legal systems, which may not be immune from the influence of political pressure, corruption or other factors that are inconsistent with the rule of law.

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.

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.

Permitting

The Company's operations in the United States, Mexico, Australia, Canada and Chile are subject to receiving and maintaining permits from appropriate governmental authorities. Although the Company's mining operations currently have all required permits for their operations as currently conducted, there is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the existing operations, additional permits for any possible future changes to operations, or additional permits associated with new legislation. Prior to any development on any of its properties, the Company must receive permits from appropriate governmental authorities. There can be no assurance that the Company will continue to hold all permits necessary to develop or continue operating at any particular property.

The Company is also involved with ongoing challenges relating to its environmental impact statement for the Cerro San Pedro Mine. There is a lack of certainty with respect to foreign legal systems, which may not be immune from the influence of political pressure, corruption or other factors that are inconsistent with the rule of law. See "Legal Proceedings and Regulatory Actions".

Exploration, Development and Operating Risk

Although the Company's activities are primarily directed towards mining operations and the development of mineral deposits, its activities also include the exploration for and development of mineral deposits.

Mining operations generally involve a high degree of risk. The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold, silver and copper including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although appropriate precautions to mitigate risk are taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish Mineral Reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the Company or any of its joint venture partners will result in a profitable commercial mining operation.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, or government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Whether a mineral deposit will be commercially viable depends on a number of factors, including but not limited to: the particular attributes of the deposit, such as size, grade, metallurgy and proximity to infrastructure; metal prices which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company being unable to receive an adequate return on invested capital.

New Afton Development Risk

The New Afton Project is currently at the construction stage of its development. Construction and development of the project is subject to numerous risks, including, but not limited to, delays in obtaining equipment, material and services essential to completing construction of the project in a timely manner; changes in environmental or other government regulations; currency exchange rates; financing risks; labour shortages; and fluctuation in metal prices. There can be no assurance that the construction will continue in accordance with current expectations or at all.

Exploration, Development and Resource and Reserve Estimates

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

Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in reserves or resources, grades, dilution estimates or recovery rates may affect the economic viability of a project.

The estimated reserves and resources described in this Annual Information Form should not be interpreted as assurances of mine life or of the profitability of future operations. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

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

Uncertainty in the Estimation of Mineral Reserves and Mineral Resources

The figures for Mineral Reserves and Mineral Resources contained in this Annual Information Form are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realized or that Mineral Reserves could be mined or processed profitably. There are numerous uncertainties inherent in estimating Mineral Reserves and Mineral Resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Short-term operating factors relating to the Mineral Reserves, such as the need for orderly development of the ore bodies or the processing of new or different ore grades, may cause the mining operation to be unprofitable in any particular accounting period. In addition, there can be no assurance that gold, silver or copper recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Fluctuation in gold and copper prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revision of such estimate. The volume and grade of reserves mined and processed and recovery rates may not be the same as currently anticipated. Any material reductions in estimates of Mineral Reserves and Mineral Resources, or of the Company's ability to extract these Mineral Reserves, could have a material adverse effect on the Company's results of operations and financial condition.

Uncertainty Relating to Inferred Mineral Resources

Inferred Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Due to the uncertainty which may attach to Inferred Mineral Resources, there is no assurance that Inferred Mineral Resources will be upgraded to proven and probable Mineral Reserves as a result of continued exploration.

Need for Additional Mineral Reserves and Mineral Resources

New Gold must continually explore to replace and expand its Mineral Reserves and Mineral Resources. The life-of-mine estimates included in this Annual Information Form for each of New Gold's operating mines are based on New Gold's best estimate given the information available to the Company. These estimates may not be correct. New Gold's ability to maintain or increase its annual production of gold, silver and copper depends in significant part on its ability to find new Mineral Reserves and Mineral Resources and bring new mines into production, and to expand Mineral Reserves and Mineral Resources at existing mines.

Acquisition Strategy

As part of New Gold's business strategy, it has sought and will continue to seek new operating and development opportunities in the mining industry. In pursuit of such opportunities, New Gold may fail to select appropriate acquisition candidates or negotiate acceptable arrangements, including arrangements to finance acquisitions or integrate the acquired businesses and their personnel into New Gold. The Company cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favourable terms, or that any acquisitions or business arrangements completed will ultimately benefit New Gold's business.

Currency Fluctuations

The Company operates in the United States, Mexico, Australia, Canada and Chile. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars. The three main types of foreign exchange risk for the Company can be categorized as follows:

- Transaction exposure: the Company's operations sell commodities and incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate;

- 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, investments, accounts receivable, reclamation deposits, accounts payable and accruals, reclamation and closure cost obligations and long-term debt; and

- Translation exposure: the Company's functional and reporting currency is U.S dollars, other than New Afton, whose functional currency will be Canadian dollars. The parent entity and the Company's operations translate their financial statements from their host currencies to U.S. dollars, with translation foreign exchange gains and losses included in the determination of profit or loss. Therefore, exchange rate movements in the Australian dollar, Mexican peso, Chilean peso and the Canadian dollar can have a significant impact on the Company's consolidated operating results. The Company will translate New Afton's Canadian dollar balances to U.S. dollars through the cumulative translation account in equity; therefore, only foreign currency transaction gains and losses for this entity will be reflected in the consolidated operating results.

Environmental Risks and Hazards

The Company is and will be subject to environmental regulation in the United States, Mexico and Australia where it operates, as well as in Canada and Chile where it has development properties. In addition, the Company will be subject to environmental regulation in any other jurisdictions in which the Company may operate or have development properties. These regulations mandate, among other things, the maintenance of air and water quality standards, land use standards and land reclamation. They also set out limitations on the generation, transportation, storage and disposal of solid, liquid and hazardous waste.

Environmental legislation is evolving in a manner which will require, in certain jurisdictions, stricter standards 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. No certainty exists that future changes in environmental regulation, if any, will not adversely affect the Company's operations or development properties. Environmental hazards may exist on the Company's properties which are unknown to management at present and which have been caused by previous owners or operators of the properties.

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 may be curtailed or prohibited from continuing its mining operations or from proceeding with planned exploration or development of mineral properties.

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

Production at certain of the Company's mines involves the use of sodium cyanide which is a toxic material. Should sodium cyanide leak or otherwise be discharged from the containment system then the Company may become subject to liability for cleanup work that may not be insured. While appropriate steps will be taken to prevent discharges of pollutants into the ground water and the environment, the Company may become subject to liability for hazards that it may not be insured against.

Retention of Key Personnel

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

Labour and Employment Matters

While New Gold has good relations with both its unionized and non-unionized employees, production at New Gold's mining operations is dependent upon the efforts of the Company's employees. In addition, relations between New Gold and its employees may be impacted by changes in the scheme of labour relations which may be introduced by the relevant governmental authorities in whose jurisdictions the Company carries on business. Adverse changes in such legislation or in the relationship between New Gold and its employees may have a material adverse effect on New Gold's business, results of operations and financial condition.

Current Global Financial Condition

Current global financial conditions have been subject to increased volatility. Government debt and the risk of sovereign defaults in many countries have been causing significant uncertainties in the markets. High levels of volatility and market turmoil could adversely impact planned growth and the trading price of the Company's securities.

Financing Risks

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 favourable.

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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at December 31, 2010, the Company had working capital of $484.8 million and considers that, together with cash flows from operations, this will be sufficient to support the Company's normal operating requirements through its current reporting period. 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 continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations.

The Company believes that external financing (which may include bank borrowings and future debt and equity offerings) will not be required to complete its major development projects. In addition, the Company believes that it will not need external financing to repay its long–term debt due in 2014 and 2017. A period of continuous low copper and gold prices may necessitate the deferral of capital expenditures which may impact production from mining operations, which could have a material adverse effect on the Company. These statements are based on the current financial position of the Company and are subject to change if any acquisitions or external growth opportunities are realized.

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 short-term investments and variable interest rate charges on any funds that it may draw under the Facility.

Insurance and Uninsured Risks

New Gold's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, hurricanes and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to New Gold's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although New Gold maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with a mining company's operations. New Gold may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as loss of title to mineral property, environmental pollution, or other hazards as a result of exploration and production is not generally available to New Gold or to other companies in the mining industry on acceptable terms. New Gold might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, community, government or other interference in the maintenance or provision of such infrastructure could adversely affect New Gold's operations, financial condition and results of operations.

Climate Change Risks

Governments are moving to enact climate change legislation and treaties at the international, national, state, provincial and local levels. Where legislation already exists, regulations relating to emission levels and energy efficiency are becoming more stringent. Some of the costs associated with meeting more stringent regulations can be offset by increased energy efficiency and technological innovation. However, if the current regulatory trend continues, meeting more stringent regulations is anticipated to result in increased costs.

Sea level rise: The Company's operations are not directly threatened by current predictions of sea level rise. All of the Company's operations are located inland at elevations from 100 metres to 4,000 metres above sea level. However, changes in sea levels could affect ocean transportation and shipping facilities, which are used to transport supplies, equipment and personnel to the Company's operations and products from those operations to world markets.

Extreme weather events: Extreme weather events (such as increased frequency or intensity of hurricanes, increased snow pack, prolonged drought) have the potential to disrupt operations at the Company's mines. Where appropriate, the Company's facilities have developed emergency plans for managing extreme weather conditions; however, extended disruptions to supply lines could result in production interruptions.

Resource shortages: The Company's facilities depend on regular supplies of consumables (diesel, tires, etc.) and reagents to operate efficiently. In the event that the effects of climate change cause prolonged disruption to the delivery of essential commodities, the Company's production efficiency is likely to be reduced.

New Gold will continue to assess energy efficiency opportunities across all of its operations with the goal of reducing both costs and greenhouse gas emissions. The Company will also continue to address the potential physical risks of climate change by including extreme weather conditions in emergency response plans as required.

Title to Some of the Company's Mineral Properties may be Challenged or Defective

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of such properties will not be challenged or impaired. Third parties may have valid claims underlying portions of our interest, including prior unregistered liens, agreements, transfers or claims, including aboriginal land claims, and title may be affected by, among other things, undetected defects. As a result, we may be constrained in our ability to operate our properties or unable to enforce our rights with respect to our properties. An impairment to or defect in our title to our properties could have a material adverse effect on our business, financial condition or results of operations.

Competition

The mining industry is competitive in all of its phases. New Gold faces strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, precious and base metals. Many of these companies have greater financial resources, operational experience and technical capabilities than New Gold. As a result of this competition, New Gold may be unable to maintain or acquire attractive mining properties on terms it considers acceptable or at all. Consequently, New Gold's revenues, operations and financial condition could be materially adversely affected.

Market Price of the Company's Securities

The common shares of the Company are listed on the TSX and the NYSE-AMEX and the Company's warrants, the notes and the debentures are listed on the TSX. Securities of mining companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. The price of the common shares, warrants, notes and debentures are also likely to be significantly affected by short-term changes in gold, silver or copper prices or in its financial condition or results of operations as reflected in the Company's quarterly earnings reports.

As a result of any of these factors, the market price of the common shares, warrants, notes and debentures at any given point in time may not accurately reflect New Gold's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. New Gold may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Future Sales of Common Shares by Existing Shareholders

Sales of a large number of common shares in the public markets, or the potential for such sales, could decrease the trading price of the common shares and could impair New Gold's ability to raise capital through future sales of common shares. New Gold has previously completed private placements at prices per share which are lower than the current market price of the common shares. Accordingly, a significant number of shareholders of New Gold have an investment profit in the common shares that they may seek to liquidate. Substantially all of the common shares can be resold without material restriction either in the United States, in Canada or both.

NOTES AND DEBENTURES

Notes

In June and July 2007, the Company issued an aggregate of 237,000 Series D units ("Units") for an aggregate principal amount of C$237 million. Each Unit consisted of a C$1,000 principal amount note ("Note") and 100 common share purchase warrants ("Warrants"). Each Warrant is exercisable to purchase one common share of the Company at a price of C$15 per share until June 28, 2017. The Notes and Warrants are listed for trading on the Toronto Stock Exchange ("TSX").

The Notes and the Warrants were issued under a note indenture ("Note Indenture") and a warrant indenture ("Warrant Indenture"), respectively, dated as of June 28, 2007 between the Company and Computershare Trust Company of Canada ("Trustee"). On April 17, 2008, the Company and the Trustee entered into an amended and restated note indenture ("Amended Note Indenture"). The Amended Note Indenture converts the Notes from subordinated unsecured notes to senior secured notes. The Notes are secured by a charge ("New Afton Security Interest") on the assets ("New Afton Project Assets") comprising and relating to the New Afton Project. Subject to Permitted Encumbrances (as defined in the Amended Note Indenture), the New Afton Security Interest constitutes a first ranking charge on the New Afton Project Assets. As well, under a supplemental warrant indenture to the original Warrant Indenture, holders of the Notes were granted an additional 4,150,000 warrants (the "Consent Fee Warrants) on completion of the Peak/Metallica Business Combination on the same terms as the original Warrants.

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

The Amended Note Indenture provides that in the event of a change of control of the Company or in the ownership of the New Afton Project, the Company may or must offer, depending on the circumstances, to redeem the Notes at prices ranging from 120% to 100% of the principal amount of the Notes to be redeemed. In addition, if 50% of the New Afton Cash Flow (the "New Afton Excess Cash Flow") for any fiscal year exceeds $10 million the Company must make an offer to redeem the Notes in an aggregate principal amount equal to the New Afton Excess Cash Flow on a pro rata basis.

The Notes are direct, secured senior debt obligations of the Company in respect of the New Afton Project.

In January 2009, the Company acquired C$50 million face value of its Notes for C$30 million from noteholders. This resulted in reductions of principal of C$50 million and interest of approximately C$5 million per year.

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

Subordinated Convertible Debentures

In June 2007, the Company issued 55,000 5% subordinated convertible debentures (the "Debentures") for an aggregate principal amount of C$55 million. The Debentures were issued pursuant to a debenture indenture dated June 28, 2007 between the Company and the Trustee (the "Debenture Indenture"). The Debentures are listed for trading on the TSX.

Each Debenture has a principal amount of C$1,000 bears interest at a rate of 5% per annum and is convertible by the holders into common shares of the Company at any time up to June 28, 2014 at a conversion price of C$9.35 per share. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year**.**

The Debentures do not allow forced conversion by the Company before 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 (C$11.69). The Note Indenture provides that the Company will not prepay the Debentures in cash.

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

The Debentures are direct debt obligations of the Company, are not secured by any mortgage, pledge or charge and will be subordinate to any secured indebtedness of the Company and the Notes. The Debenture Indenture does not restrict the Company from incurring further indebtedness or from mortgaging, pledging or charging its property or assets to secure any indebtedness of the Company.

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

DIVIDENDS

To date, New Gold has not paid dividends on its shares. The Company currently intends to retain future earnings, if any, for use in its business and does not, at this time, anticipate paying dividends on its shares. Any determination to pay any future dividends will remain at the discretion of the Company's board of directors and will be made taking into account its financial condition and other factors deemed relevant by the board.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

The Company is authorized to issue an unlimited number of common shares without par value, of which 400,800,027 common shares were issued and outstanding at March 29, 2011. Holders of common shares are entitled to receive notice of any meetings of shareholders of the Company, to attend and to cast one vote per common share at all such meetings. Holders of common shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the common shares entitled to vote in any election of directors may elect all directors standing for election.

Holders of common shares are entitled to receive on a pro-rata basis such dividends, if any, as and when declared by the Company's board of directors at its discretion from funds legally available therefore and upon the liquidation, dissolution or winding up of the Company are entitled to receive on a pro-rata basis the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro-rata basis with the holders of common shares with respect to dividends or liquidation. The common shares do not carry any pre-emptive, subscription, redemption or conversion rights.

TRADING PRICE AND VOLUME

Common Shares

The common shares of the Company are listed and posted for trading on the TSX and the NYSE Amex in each case under the symbol "NGD". The following table contains information relating to the trading of the common shares in Canadian dollars on the TSX for the months indicated.

2010	High (C$)	Low (C$)	Volume
January	5.19	3.85	73,504,972
February	5.14	4.21	63,646,288
March	4.98	4.22	42,373,385
April	6.02	4.41	78,638,254
May	6.67	5.40	85,134,374
June	6.97	6.39	61,791,528
July	6.56	4.92	72,557,810
August	6.92	5.11	37,607,644
September	6.97	5.79	62,354,950
October	7.60	6.65	34,628,280
November	9.75	7.62	46,069,060
December	10.30	8.94	31,197,019

The price of the common shares as quoted by the TSX at the close of business on December 31, 2010 was C$9.68 and on March 29, 2011 was C$11.05.

Series A Warrants

The Company's Series A Warrants are listed and posted for trading on the TSX under the symbol "NGD.WT.A". Holders are entitled to purchase one common share for C$15.00 for each warrant held. These warrants expire June 28, 2017. The following table contains information relating to the trading of the Company's Series A Warrants in Canadian dollars on the TSX for the months indicated.

2010	High (C$)	Low (C$)	Volume
January	0.73	0.49	2,640,927
February	0.92	0.60	1,417,230
March	0.92	0.71	726,262
April	0.97	0.82	730,205
May	1.25	0.85	1,835,714
June	1.49	1.17	1,575,377
July	1.40	0.90	1,371,658
August	1.55	1.10	748,517
September	1.90	1.45	1,728,308
October	2.38	1.58	716,880
November	3.05	2.17	1,285,861
December	3.15	2.60	783,079

The price of the Series A Warrants as quoted by the TSX at the close of business on December 31, 2010 was C$2.84 and on March 29, 2011 was C$3.40.

Series B Warrants

The Company's Series B Warrants are listed and posted for trading on the TSX under the symbol "NGD.WT.B". Holders are entitled to purchase one common share for C$15.00 for each 10 warrants held. These warrants expire April 3, 2012. The following table contains information relating to the trading of the Company's Series B Warrants in Canadian dollars on the TSX for the months indicated.

2010	High (C$)	Low (C$)	Volume
January	0.050	0.030	11,890,827
February	0.040	0.035	4,226,373
March	0.040	0.030	9,079,433
April	0.040	0.030	5,080,350
May	0.040	0.030	8,160,740
June	0.040	0.030	13,464,461
July	0.035	0.030	3,384,460
August	0.045	0.030	3,172,200
September	0.055	0.035	12,545,517
October	0.050	0.040	9,140,800
November	0.090	0.045	19,070,157
December	0.100	0.075	23,260,423

The price of the Series B Warrants as quoted by the TSX at the close of business December 31, 2010 was C$0.090 and on March 29, 2011 was C$0.065.

Series C Warrants

The Company's Series C Warrants are listed and posted for trading on the TSX under the symbol "NGD.WT.C". Holders are entitled to purchase one common share for C$9.00 for each 10 warrants held. These warrants expire November 28, 2012. The following table contains information relating to the trading of the Company's Series C Warrants in Canadian dollars on the TSX for the months indicated.

2010	High (C$)	Low (C$)	Volume
January	0.240	0.140	1,631,500
February	0.180	0.130	333,400
March	0.165	0.100	3,574,177
April	0.205	0.110	1,410,803
May	0.230	0.150	1,267,500
June	0.245	0.150	7,832,666
July	0.230	0.135	9,639,000
August	0.250	0.185	2,312,827
September	0.255	0.200	2,296,900
October	0.255	0.205	8,668,096
November	0.330	0.240	3,931,785
December	0.380	0.310	1,643,750

The price of the Series C Warrants as quoted by the TSX at the close of business on December 31, 2010 was C$0.360 and on March 29, 2011 was C$0.40.

Notes

The Notes are listed and posted for trading on the TSX under the symbol “NGD.NT”. The following table sets forth information relating to the trading of the Notes in Canadian dollars on the TSX for the months indicated.

2010	High ($)	Low ($)	Volume
January	108.00	102.00	119,010
February	106.50	105.00	15,410
March	109.75	106.80	43,300
April	108.50	107.00	20,200
May	107.25	103.50	185,210
June	107.00	104.50	722,220
July	107.50	105.00	1,670
August	108.00	106.00	40,740
September	107.95	106.00	44,340
October	108.70	107.00	57,730
November	108.50	107.21	37,740
December	108.25	107.50	17,180

The price of the Notes as quoted by the TSX at the close of business on December 31, 2010 was C$107.99 and on March 29, 2011 was C$106.50.

Debentures

The Debentures are listed and posted for trading on the TSX under the symbol “NGD.DB”. The following table sets forth information relating to the trading of the Debentures in Canadian dollars on the TSX for the months indicated.

2010	High ($)	Low ($)	Volume
January	102.00	99.50	4,453
February	101.00	99.50	4,770
March	101.00	100.00	3,600
April	102.00	100.50	4,280
May	105.00	102.00	4,020
June	110.50	102.75	34,710
July	110.00	100.00	950
August	107.00	106.00	2,650
September	106.00	105.00	4,910
October	107.51	105.25	151,850
November	119.00	109.45	3,340
December	-	n/a	n/a

The price of the Debentures as quoted by the TSX at the close of business on November 30, 2010, the last trading day prior to year end was C$119.00 and on March 29, 2011 was C$130.

DIRECTORS AND OFFICERS

The names, positions or offices held with the Company, province/state and country of residence, and principal occupation of the directors and executive officers of the Company as at March 29, 2011 are set out below. In addition, the principal occupations of each of the Company's directors and executive officers within the past five years are disclosed in their brief biographies.

As of March 29, 2011, directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 13,951,515 common shares of the Company, representing approximately 3.48% of its issued and outstanding shares.

The term of the directors of the Company expires at the annual general meeting of shareholders where they can be nominated for re-election. The officers hold their office at the discretion of the board but typically on an annual basis, after the annual general meeting, the directors pass resolutions to appoint officers and committees.

JAMES ESTEY Ontario, Canada Director since: July 8, 2008 Independent	James Estey is the retired Chairman of UBS Securities Canada Inc. and has more than 30 years of experience in the financial markets. Mr. Estey joined Alfred Bunting and Company as an institutional equity salesperson in 1980 after working at A.E. Ames & Co. for seven years. In 1994, Mr. Estey became the head of the Canadian Equities business, and in 2002 he was appointed President and Chief Executive Officer of UBS Securities Canada. In January 2008, Mr. Estey assumed the role of Chairman. He serves on the boards of CNSX, Range Royalty Management Ltd. and Endurance Energy Ltd. He also serves on the boards of The Estey Centre for Law and Economics in International Trade and St. Clements School, and is on the Advisory Board of the Edwards School of Business. Mr. Estey's principal occupation is a Corporate Director.
ROBERT GALLAGHER British Columbia, Canada Director since: June 30, 2008 Non-Independent	Robert Gallagher's principal occupation is the President and Chief Executive Officer of New Gold. Mr. Gallagher has worked in the mining industry for over 32 years and spent 15 years with Placer Dome Inc. and seven years with Newmont Mining Corporation, most recently as Vice President, Operations, Asia Pacific. Before the business combination of Peak Gold, Metallica and New Gold, Mr. Gallagher was the President and Chief Executive Officer of Peak Gold from February 2008. Mr. Gallagher holds a Bachelor of Applied Science in Mineral Processing.

VAHAN KOLOLIAN Ontario, Canada Director since: June 1, 2009 Independent	Vahan Kololian is the founder and Managing Partner of TerraNova Partners LP, which invests in the industrial, services and resource sectors. Since 2002, Mr. Kololian has been Chairman of KK Precision Inc., a private engineering and manufacturing company. Mr. Kololian started his career in investment banking in 1980 with Burns Fry Limited (now BMO Nesbitt Burns). Since 1990, he has held leadership positions in private equity partnerships. Mr. Kololian also serves on the board of Manicouagan Minerals Inc., a public mineral exploration company. Mr. Kololian holds BA and LL.B. degrees. Mr. Kololian is also co-founder and Chairman of the Mosaic Institute, whose purpose is to bring together Canadians of differing ethnicities whose homelands are in conflict, with the objective of developing new foreign policy ideas directed towards the region in conflict. Mr. Kololian's principal occupation is the Managing Partner of TerraNova Partners LP.
MARTYN KONIG Surrey, United Kingdom Director since: June 1, 2009 Independent	Martyn Konig has 29 years' experience in investment banking and the commodity markets. He is Executive Chairman and President of AIM and TSX listed European Goldfields Limited (EGU:CN) and was Chief Executive Officer of the Blackfish Capital Group from 2005 until August 2009. He has extensive experience in the natural resource sector, which includes senior management responsibility in resource finance and commodity trading operations at various international investment banks. Mr. Konig was a main Board Director of NM Rothschild and Sons Ltd. for 15 years and held senior positions at Goldman Sachs and UBS. Mr. Konig is a Barrister and Fellow of the Chartered Institute of Bankers. Mr. Konig's principal occupation is the Executive Chairman and President of European Goldfields Limited.
PIERRE LASSONDE Ontario, Canada Director since: June 30, 2008 Independent	Pierre Lassonde is the Chairman of Franco-Nevada Corporation. He formerly served as President of Newmont Mining Corporation from 2002 to 2006 and resigned as a director and Vice Chairman of Newmont effective as of November 30, 2007. Previously Mr. Lassonde served as a director and President (1982 to 2002) and Co-Chief Executive Officer (1999 to 2002) of Franco-Nevada Corporation. Mr. Lassonde's principal occupation is the Chairman of Franco-Nevada Corporation.
CRAIG NELSEN Colorado, United States Director since: June 30, 2008 Independent	Craig Nelsen was previously the Chairman of Metallica Resources Inc. He has been the President and Chief Executive Officer of Avanti Mining Corporation since 2007. He previously served as Chief Executive Officer of that company from 1994 to 1999. Mr. Nelsen also served as the Executive Vice President, Exploration, for Gold Fields Limited from 1999 to 2007. Mr. Nelsen's principal occupation is the President and Chief Executive Officer of Avanti Mining Inc.

RANDALL OLIPHANT Ontario, Canada Director since: June 1, 2009 Non-Independent	Randall Oliphant's principal occupations are as the Executive Chairman of New Gold and as the President and Chief Executive Officer of Silver Bear Resources Inc. Mr. Oliphant is on the Advisory Board of Metalmark Capital LLC (formerly Morgan Stanley Capital Partners), and serves on the boards of WesternZagros Resources Ltd. and Franco-Nevada Corporation. Since 2003, Mr. Oliphant has served on the boards of a number of public and private companies and not-for-profit organizations. From 1999 to 2003, he was the President and Chief Executive Officer of Barrick Gold Corporation. From 2006 to 2009, he was Chairman of Western Goldfields Inc. Mr. Oliphant is a Chartered Accountant.
IAN TELFER(1) British Columbia, Canada Director since: June 30, 2008 Independent	Ian Telfer is the Chairman of Goldcorp Inc. and previously served as President and Chief Executive Officer of Goldcorp Inc. from February 2005 until its merger with Glamis Gold Ltd. in November 2006. Mr. Telfer was previously Chairman and Chief Executive Officer of Wheaton River and has over 26 years of experience in the precious metals business. Mr. Telfer is a Chartered Accountant.
RAYMOND THRELKELD North Carolina, United States Director since: June 1, 2009 Non-Independent	Raymond Threlkeld has over 32 years of mineral industry experience. From 2005 to 2009, Mr. Threlkeld was the Chief Operating Officer of Silver Bear Resources Inc. From 2006 to 2009, he was the President and Chief Executive Officer of Western Goldfields Inc. From 1996 to 2005 Mr. Threlkeld held various senior management positions in precious metal mine development with Barrick Gold Corporation and Coeur d'Alene Mines Corporation including the development of the Pierina Mine in Peru, the Bulyanhulu Mine in Tanzania and the Veladero Mine in Argentina. Mr. Threlkeld has had exploration acquisition success in the Western United States in addition to his management and project development experience. Mr. Threlkeld's principal occupation is the President and Chief Executive Officer of Rainy River Resources Ltd.
BRIAN PENNY Ontario, Canada Executive Vice President and Chief Financial Officer	Mr. Penny has over 23 years of experience in mine finance and accounting. He has been the Executive Vice President and Chief Financial Officer of the Company since June 2009. He was the Chief Financial Officer of Western Goldfields from 2006 to 2009. Since 2005, Mr. Penny is also the Chief Financial Officer of Silver Bear Resources Inc. Since 2004, Mr. Penny has been a Director of, and chairs the Audit Committee of Equinox Minerals Limited. Mr. Penny was the Chief Financial Officer of Kinross Gold Corporation 1993 – 2004. Mr. Penny is a Certified Management Accountant. Mr. Penny's principal occupation is the Executive Vice President and Chief Financial Officer of New Gold.

JAMES CURRIE British Columbia, Canada Executive Vice President and Chief Operating Officer	Mr. Currie is a mining engineer with over 31 years of experience in the mining industry, having worked on projects in North and South America, Asia and Africa. Mr. Currie was previously the Vice President Operations of New Gold and Vice President Operations for Miramar Mining Corp. in Vancouver, and was responsible for the development of Miramar's 10 million ounce gold resource at Hope Bay in the Canadian Arctic. Prior to that, Mr. Currie held the position of General Manager of Mauritanian Copper Mines SA. Mr. Currie's principal occupation is the Executive Vice President and Chief Operating Officer of New Gold.
JOHN MARSHALL British Columbia, Canada Vice President, Human Resources	Mr. Marshall has over 23 years' experience in human resources spanning the energy, semiconductor and banking industries. He was previously the Director of Worldwide Human Resource Operations for PMC-Sierra Inc. where he managed human resources operations for employees in over 10 countries. Prior to PMC-Sierra, Mr. Marshall held various human resources roles at Duke Energy, Westcoast Energy and NatWest Group plc. Mr. Marshall's principal occupation is the Vice President, Human Resources of New Gold.
MARK PETERSEN Colorado, United States Vice President, Exploration	Mr. Petersen is an economic geologist with over 28 years of mining industry experience in the Americas. Previously, Mr. Petersen held the position of Vice President of Exploration for Metallica Resources Inc., where he was responsible for leading the exploration and development of the Cerro San Pedro project in Mexico, acting as the company's technical liaison for the El Morro joint venture project in Chile, developing and managing a portfolio of earlier stage exploration projects in Chile, Brazil, and Alaska, and directing generative exploration work throughout the Americas. Prior to his term with Metallica, Mr. Petersen held positions as an exploration geologist with Lac Minerals Inc. and predecessor companies Bond Gold Inc. and St. Joe Gold Inc. Mr. Petersen's principal occupation is the Vice President, Exploration of New Gold.
HANNES PORTMANN Ontario, Canada Vice President, Corporate Development	Mr. Portmann has been working with mining companies in a financial capacity since his career began. Before joining Western Goldfields in 2008 he was an Associate in the Merrill Lynch Investment Banking Mining Group, where he worked in an advisory role on merger and acquisition mandates as well as equity and debt offerings. Previously, Mr. Portmann held roles in both the assurance and advisory practices of PricewaterhouseCoopers LLP. Mr. Portmann holds a Bachelor of Science in Mining Engineering from Queen's University, a Masters of Management and Professional Accounting from the Rotman School of Management, University of Toronto and is a Canadian Chartered Accountant. Mr. Portmann's principal occupation is the Vice President, Corporate Development of New Gold.

SUSAN TOEWS British Columbia, Canada Vice President, Legal Affairs and Corporate Secretary	Ms. Toews has over 18 years corporate, securities legal experience and was previously Corporate Secretary of Peak Gold Ltd. She was also previously General Counsel at egX Canada, an emerging marketplace working toward the securitization of real estate assets and Senior Legal Counsel with the British Columbia Securities Commission (BCSC). She was the BCSC representative on the Canadian Securities Administrators committee that developed the national rule on disclosure of corporate governance, corporate governance guidelines and the national rule on auditor oversight. Ms. Toews holds a Bachelor of Arts (Hons.) from the University of Victoria and a Bachelor of Laws from the University of Saskatchewan. Ms. Toews principal occupation is the Vice President, Legal Affairs and Corporate Secretary of New Gold.

Notes:

(1) Ian Telfer, currently a director of the Company will not stand for re-election at the Company's Annual General and Special Meeting to be held on May 4, 2011.

Standing Committees of the Board

There are currently four standing committees of the Board; the Audit Committee, the Compensation Committee; the Corporate Governance and Nominating Committee and the Health, Safety, Environment and Sustainability ("HSE&S") Committee. The following table identifies the members of each of these Committees:

Board Committee	Committee Members	Status
Audit Committee	James Estey (Chair) Vahan Kololian Martyn Konig	Independent Independent Independent
Compensation Committee	Vahan Kololian (Chair) Pierre Lassonde Ian Telfer(1)	Independent Independent Independent
Corporate Governance and Nominating Committee	James Estey (Chair) Martyn Konig Ian Telfer(1)	Independent Independent Independent
HSE&S Committee	Craig Nelsen (Chair) Vahan Kololian Raymond Threlkeld	Independent Independent Non-Independent

Notes:

(1) Ian Telfer, currently a director of the Company will not stand for re-election at the Company's Annual General and Special Meeting to be held on May 4, 2011.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or executive officer of the Company is, or within 10 years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company (including New Gold) that, (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, (i) is, or within 10 years prior to the date hereof has been, a director or executive officer of any company (including New Gold) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than Mr. Telfer, who was Vice Chairman of a technology company when it made an assignment in bankruptcy on July 31, 2001 and Mr. Kololian who was a board member (but had previously resigned from the board) of a business services company that filed for voluntary bankruptcy on about June 23, 2010; or (ii) has, within 10 years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Certain directors and officers the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Randall Oliphant and Pierre Lassonde are currently directors of Franco-Nevada Corporation which holds a royalty interest in New Gold's Mesquite Mine and Cerro San Pedro Mine and Ian Telfer is Chairman of Goldcorp Inc. which has a 70% interest in the El Morro Project. The Company has adopted a Code of Business Conduct and Ethics that addresses potential conflicts of interest.

AUDIT COMMITTEE

Audit Committee Charter

The Company's Audit Committee Charter is set out in full in Schedule "A".

Composition of the Audit Committee

The following directors are members of the Audit Committee as at March 30, 2010:

James Estey - Chair	Independent [1]	Financially literate [2]
Martyn Konig	Independent [1]	Financially literate [2]
Vahan Kololian	Independent [1]	Financially literate [2]

[1] A member of an Audit Committee is independent if the member has no direct or indirect material relationship with the Company which could, in the view of the Board of Directors, reasonably interfere with the exercise of a member's independent judgment.

[2] An individual is financially literate if he has the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

Relevant Education and Experience

The education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as a member of the Audit Committee is as follows:

James Estey, the Chairman of the Audit Committee, has more than 30 years of experience in the financial markets. Mr. Estey joined Alfred Bunting and Company as an institutional equity salesperson in 1980 after working at A.E. Ames & Co. for seven years. In 1994, Mr. Estey became the head of the Canadian Equities business, and in 2002 he was appointed President and Chief Executive Officer of UBS Securities Canada. In January 2008 Mr. Estey assumed the role of Chairman. He serves on the boards of CNSX, Range Royalty Management Ltd. and Endurance Energy Ltd. He also serves on the boards of The Estey Centre for Law and Economics in International Trade St. Clements School, and is on the Advisory Board of Edwards School of Business.

Martyn Konig has 29 years' experience in investment banking and the commodity markets. He is Executive Chairman and President of AIM and TSX listed European Goldfields Limited (EGU:CN) and was Chief Executive Officer of the Blackfish Capital Group from 2005 until August 2009. He has extensive experience in the natural resource sector, which includes senior management responsibility in resource finance and commodity trading operations at various international investment banks. Mr. Konig was a main Board Director of NM Rothschild and Sons Ltd. for 15 years and held senior positions at Goldman Sachs and UBS. Mr. Konig is a Barrister and Fellow of the Chartered Institute of Bankers.

Vahan Kololian is the founder and Managing Partner of TerraNova Partners LP, which invests in the industrial, services and resource sectors. Since 2002 Mr. Kololian has been Chairman of KK Precision Inc., a private engineering and manufacturing company. Mr. Kololian started his career in investment banking in 1980 with Burns Fry Limited (now BMO Nesbitt Burns). Since 1990 he has held leadership positions in private equity partnerships. Mr. Kololian also serves on the board of Manicouagan Minerals Inc., a public exploration company focusing primarily on gold projects. Mr. Kololian is also co-founder and Chairman of the Mosaic Institute, whose purpose is to bring together Canadians of differing ethnicities whose homelands are in conflict, with the objective of developing new foreign policy ideas directed towards the region in conflict. Mr. Kololian holds BA and LL.B. degrees.

Pre-Approval Policies and Procedures

The Committee is responsible for the pre-approval of all audit, audit-related and non-audit services provided by the independent auditor. The Chair of the Committee is responsible for proper implementation of and compliance with this policy. In accordance with this policy, 100% of external auditor services described below were pre-approved by the Audit Committee.

The Committee has delegated to the Chair the authority to pre-approve the following and to report such approvals to the Committee as a whole at the next Committee meeting:

- all services, not previously approved, up to $10,000; and
- proposals for non-audit related services to be provided by the Company's auditors up to a value of C$100,000.

External Auditor Service Fees (by category)

The aggregate fees billed by the Company's external auditors in each of the last two fiscal years are as follows:

Financial Year Ending December 31,	Audit Fees	Audit Related Fees (1)	Tax Fees (2)	All Other Fees (3)
2010	C$1,675,500	C$134,500	C$87,400	nil
2009	C$1,658,000	C$224,800	C$188,000	nil

(1) The aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements which are not included under the heading "Audit Fees".

(2) The aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning.

(3) The aggregate fees billed for services other than as set out under Audit Fees, Audit Related Fees, or Tax Fees.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company cannot reasonably predict the likelihood or outcome of these actions. New Gold 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 therein, will have a material effect on the financial condition or future results of operations. Legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings or other regulatory actions are described below.

New Gold owns 100% of the Cerro San Pedro Mine through the Mexican Company, MSX. On November 18, 2009, PROFEPA, the Mexican environmental enforcement agency, issued an order that MSX was to suspend mining operations at the Cerro San Pedro Mine. PROFEPA's order followed a ruling by the Federal Court of Fiscal and Administrative Justice ("FCFAJ") in September 2009 that SEMARNAT, the Mexican government's environmental protection agency, nullify the Mine's Environmental Impact Statement ("EIS") which was issued in 2006. The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue during the appeals process.. MSX appealed the September 2009 ruling of the FCFAJ. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. MSX appealed the negative decision and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of MSX's position in its appeal against the September 2009 nullification of the EIS. That ruling effectively re-establishes the validity of the mine's 2006 EIS. MSX continues to work with all levels of government and other external stakeholders to maintain uninterrupted operation the Cerro San Pedro Mine.

On January 13, 2010, New Gold received a Statement of Claim filed by Barrick in the Ontario Superior Court of Justice, against New Gold, Goldcorp and affiliated subsidiaries. A Fresh Amended Statement of Claim was received in August 2010 which included Xstrata and its affiliated subsidiaries as defendants. The claim relates to Datawave's exercise of its right of first refusal with respect to the El Morro copper-gold project as described above under the heading "General Development of the Business – Post-Western Goldfields Business Combination". New Gold believes the claim is without merit and intends to defend this action using all available legal avenues. No amounts have been accrued for any potential loss under this claim.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described in this Annual Information Form, since January 1, 2008 no director, executive officer or 10% shareholder of the Company or any associate or affiliate of any such person or company, has or had any material interest, direct or indirect, in any transaction that has materially affected or will materially affect the Company or any of its subsidiaries.

TRANSFER AGENT AND REGISTRAR

The Company's transfer agent and registrar is Computershare Investor Services Inc. Transfers may be effected and registration facilities are maintained at each of the following offices: (i) 510 Burrard Street, Vancouver, British Columbia, V6C 2T5; and (ii) 100 University Avenue, Toronto, Ontario, M5J 2Y1.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the Company has not entered into any material contracts during the most recent completed financial year or prior thereto and which are still in force and effect and which may reasonably be regarded as presently material other than as set out below:

- Acquisition and Funding Agreement dated January 6, 2010 between New Gold Inc., Datawave Sciences Inc., Inversiones El Morro Limitada and Goldcorp Inc., described under the heading "General Development of the Business – Post-Western Goldfields Business Combination".

- Credit Agreement dated December 14, 2010 between Peak Gold Ltd., Metallica Resources Inc. and Western Goldfields Inc. (as Borrowers) and New Gold Inc. (as Guarantor) and Scotia Capital (as Joint Lead Arranger and Joint Book Runner) and The Bank of Nova Scotia (as Administrative Agent) and Commonwealth Bank of Australia (as Joint Lead Arranger, Joint Book Runner and Syndication Agent) and Unicredit Bank AG (as Documentation Agent) and The Bank of Nova Scotia, Commonwealth Bank of Australia, Unicredit Bank AG, Royal Bank of Canada and JPMorgan Chase Bank, N.A. (as Lenders) described under the heading "General Development of the Business - Credit Facility".

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INTERESTS OF EXPERTS

The following table sets out the individuals who were the qualified persons as defined by NI 43-101 in connection with the technical reports for the Company's mineral projects on a property material to the Company set out opposite their name(s):

Mineral Property	Qualified Person(s)
Mesquite Mine	Mr. Wayne W. Valliant, P. Geo., and Principal Geologist for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.) Mr. Holger Krutzelmann, P. Eng., formerly Principle Metallurgist for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.) Mr. Richard J. Lambert, P.E., and Principal Mining Consultant for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.)
Cerro San Pedro Mine	Mr. Holger Krutzelmann, P. Eng., formerly Principle Metallurgist for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.) Mr. Christopher Moreton, Ph.D. and P. Geo., and Senior Consulting Geologist for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.) Mr. Richard J. Lambert, P.E., and Principal Mining Consultant for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.)
Peak Gold Mines	Mr. Peter Lloyd, FAusIMM, BESc (Mining), and Mining Engineer for New Gold Inc. Mr. Rex Berthelsen, FAusIMM, CPGeo., and Principal Geologist for New Gold Inc. Mr. Eric Strom P. Eng., and Professional Engineer for New Gold Inc. Mr. Sean Pearce MAusIMM, and formerly Manager Mining for New Gold Inc.
New Afton Project	Mr. David Rennie, P. Eng., and Principal Geologist for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.) Mr. R. Dennis Bergen, P. Eng., and Associate Principal Mining Engineer for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.) Mr. Kevin C. Scott, P. Eng, and Principal Metallurgist for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.)
El Morro Project	Mr. Richard J. Lambert, P.E., and currently Principal Mining Consultant Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.) (formerly Principal Mining Engineer for Pincock, Allen & Holt Inc.). Barton G. Stone, P. Geo. and Chief Geologist for Pincock, Allen & Holt Inc.

The following table sets out the individuals who are the Qualified Persons as defined by Canadian National Instrument 43-101 in connection with New Gold's Mineral Reserve and Mineral Resource Statements as of December 31, 2010 and contained in this Annual Information Form.

Mineral Property	Qualified Person(s)
Mesquite Mine	
Reserves	Mr. Hubert Schimann, P.Eng. and Corporate Mining Engineer for New Gold Inc.
Resources	Mr. Rex Berthelsen, FAusIMM, CPGeo and Principal Geologist for New Gold Inc.
Cerro San Pedro Mine	
Reserves	Mr. Hubert Schimann, P.Eng. and Corporate Mining Engineer for New Gold Inc.
Resources	Mr. Rex Berthelsen, FAusIMM, CPGeo and Principal Geologist for New Gold Inc.
Peak Gold Mines	
Reserves	Mr. Sean Pearce, AusIMM formerly Manager Mining for Peak Gold Mines Pty. Ltd.
Resources	Mr. Manfred Wimberger, MAusIMM, and Geology Superintendent for Peak Gold Mines Pty. Ltd.
New Afton Project	
Reserves	Mr. Dennis Bergen, P.Eng. and Associate Principal Mining Engineer for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.)
Resources	Mr. David Rennie, P. Eng. and Principal Geologist for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.)
El Morro Project	
Reserves	Mr. Hubert Schimann, P.Eng. and Corporate Mining Engineer for New Gold Inc.
Resources	Mr. Rex Berthelsen, FAusIMM, CPGeo and Principal Geologist for New Gold Inc.

Mark Petersen, Vice President, Exploration, New Gold Inc., who is a Qualified Person as defined by Canadian National Instrument 43-101, has reviewed and approved the contents of this Annual Information Form.

Other than Mark Petersen, Peter Lloyd, Eric Strom, Sean Pearce, and Rex Berthelsen, who are or were employees of the Company, none of the held any securities of the Company or of any associate or affiliate of the Company when they prepared the reports referred to above or following the preparation of such reports.

None of Mark Petersen, Peter Lloyd, Eric Strom, Sean Pearce, Hubert Schimann, Manfred Wimberger or Rex Berthelsen held an interest in the Company's securities representing more than 1% of the Company's issued and outstanding common shares when they prepared the Technical Report in respect of the Peak Gold Mines or following the preparation of such report.

None of the Qualified Persons listed above received any direct or indirect interest in any securities of the Company or of any associate or affiliate of the Company in connection with the preparation of such reports

Other than Mark Petersen, Peter Lloyd, Eric Strom, Hubert Schimann, Manfred Wimberger and Rex Berthelsen, who are employees of the Company, none of the aforementioned firms or persons, nor any directors, officers or employees of such firms, are currently expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company.

The following are the technical reports prepared in accordance with NI 43-101 from which certain technical information relating to the Company's mineral projects on a property material to the Company contained in this Annual Information Form has been derived:

1. Mesquite Mine – "Technical Report on the Mesquite Mine, Brawley, California" dated February 26, 2010. The report was prepared by Richard J. Lambert, P.E., Wayne W. Valliant, P. Geo., of RPA and Holger Krutzelmann, P.Eng. formerly of RPA.
2. Cerro San Pedro Mine – "Technical Report on the Cerro San Pedro Mine, San Luis Potosí, Mexico" dated February 16, 2010 and amended March 22, 2010. The report was prepared by Richard J. Lambert, P.E., Christopher Moreton, Ph.D. and P.Geo., of RPA and Holger Krutzelmann, P.Eng. formerly of RPA.
3. Peak Gold Mines – Peak Gold Mines Pty Ltd "Technical Report on Peak Gold Mines, New South Wales, Australia," dated January 1, 2009, as amended and restated on June 12, 2009. The report was prepared by Peter Lloyd, FAusIMM, Rex Berthelsen, FAusIMM, CPGeo, and Eric Strom, P.Eng. who are employees of the Company.
4. New Afton Project – "Technical Report on the New Afton Project, British Columbia, Canada", dated December 31, 2009. The report was prepared by R. Dennis Bergen, P. Eng., David W. Rennie, P.Eng., and Kevin C. Scott, P.Eng. all of RPA.
5. El Morro Project – "Feasibility NI 43-101 Technical Report for the El Morro Copper-Gold Project, Region III, Chile," dated May 9, 2008, readdressed to New Gold on August 26, 2009. The report was prepared by Richard Lambert, P.E., and Barton Stone, P.G. of Pincock, Allen & Holt.

Each of these reports are available on SEDAR at www.sedar.com and a summary of the reports is contained in this Annual Information Form under "Description of the Business – Mineral Properties".

Deloitte & Touche LLP are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the management information circular of the Company filed for its most recent annual meeting of shareholders. Additional financial information is provided in the Company's audited consolidated financial statements and the MD&A for the financial year ended December 31, 2010.

SCHEDULE "A"

AUDIT COMMITTEE CHARTER



Audit Committee Charter ("Charter")

1. Purpose and Authority

The Audit Committee ("Committee") is a committee of the Board of Directors ("the Board"). Its primary function shall be to assist the Board in fulfilling its oversight responsibilities with respect to accounting and financial reporting processes, the financial integrity of the financial statements of New Gold Inc. (the "Company"), compliance with legal and regulatory requirements, the overall adequacy and maintenance of the systems of internal controls that management have established and the overall responsibility for the Company's external and internal audit processes including the external auditors qualifications, independence and performance.

The Committee shall have the authority and funding to retain independent legal, accounting and other consultants to advise the Committee. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to any advisers employed by the Committee and to the independent auditor employed by the Company for the purpose of rendering or issuing an audit report or performing other audit, review or attest services and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

The Committee shall be accountable to the Board. In the course of fulfilling its specific responsibilities hereunder, the Committee shall maintain an open communication between the Company's outside auditor and the Board.

The responsibilities of a member of the Committee shall be in addition to such member's duties as a member of the Board.

The Committee has the duty to determine whether the Company's financial disclosures are complete, accurate, are in accordance with generally accepted accounting principles and fairly present the financial position and risks of the organization. The Committee should, where it deems appropriate, resolve disagreements, if any, between management and the outside auditor, and review compliance with laws and regulations and the Company's own policies.

The Committee will provide the Board with such recommendations and reports with respect to the financial disclosures of the Company as it deems advisable.

2. Membership and Composition

The Committee shall consist of at least three independent Directors who shall serve on behalf of the Board. The members shall be appointed annually by the Board and shall meet the independence, financial literacy and experience requirements of the applicable exchanges, National Instrument 52-110, the U.S. Sarbanes-Oxley Act of 2002 and other regulatory agencies as required.

Financial literacy requires that all members of the Committee shall have the ability to read and understand a set of financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements. At least one member of the Committee shall be able to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles and at least one member of the Committee shall qualify and be designated as the Audit

Committee Financial Expert as determined in the judgment of the Board with reference to applicable law and stock exchange rules.

A majority of Members will constitute a quorum for a meeting of the Committee.

The Board will appoint one Member to act as the Chair of the Committee. In his absence, the Committee may appoint another person provided a quorum is present. The Chair will appoint a Secretary of the meeting, who need not be a member of the committee and who will maintain the minutes of the meeting.

3. Meetings

At the request of the external auditor, the Chair of the Board, the Chief Executive Officer or the Chief Financial Officer of the Company or any member of the Committee, the Chair will convene a meeting of the Committee. In advance of every meeting of the Committee, the Chair, with the assistance of the Chief Financial Officer, will ensure that the agenda and meeting materials are distributed in a timely manner.

The Committee shall meet regularly and at least on a quarterly basis.

The Committee shall hold an in camera sessions after each regularly scheduled meeting (or as otherwise may be required) without the presence of management at each meeting.

4. Duties and Responsibilities

The Committee shall take charge of all responsibilities imparted on an audit committee of the Company, as they may apply from time to time, under the *British Columbia Business Corporations Act, National Instrument 52-110*, the *U.S. Sarbanes Oxley Act* and stock exchange rules. The duties and responsibilities of the Committee include the following:

4.1 Financial Reporting and Disclosure

a. Review and discuss with management and the outside auditor at the completion of the annual examination:
   i. the Company's audited financial statements and related notes;
   ii. the outside auditor's audit of the financial statements and their report thereon;
   iii. any significant changes required in the outside auditor's audit plan;
   iv. any serious difficulties or disputes with management encountered during the course of the audit; and
   v. other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards.

b. Review and discuss with management and the outside auditor at the completion of any review engagement or other examination, the Company's quarterly financial statements.

c. Review, discuss with management the annual reports, the quarterly reports, the Management Discussion and Analysis ("MD&A"), Annual Information Form, 40-F, prospectus, financial press releases and other disclosures and, if thought advisable, recommend the acceptance of such documents to the Board for approval.

d. Review and discuss with management any guidance being provided to shareholders on the expected future results and financial performance of the Company and provide their recommendations on such documents to the Board.
e. Inquire of the auditors the quality and acceptability of the Company's accounting principles, including the clarity of financial disclosure and the degree of conservatism or aggressiveness of the accounting policies and estimates.
f. Review the Company's compliance with any policies and reports received from regulators. Discuss with management and the independent auditor the effect on the Company's financial statements of significant regulatory initiatives.
g. Meet with the outside auditor and management in separate executive sessions, as necessary or appropriate, to discuss any matters that the Committee or any of these groups believe should be discussed privately with the Audit Committee.
h. Ensure that management has the proper system and procedures are in place so that the Company's financial statements, financial reports and other financial information including all Company disclosure of financial information extracted or derived from the Company's financial statements, and that they satisfy all legal and regulatory requirements. The Audit Committee shall periodically assess the adequacy of such procedures.
i. Review with the Company's counsel, management and the independent auditors any legal or regulatory matter, including reports or correspondence, which could have a material impact on the Company's financial statements or compliance policies.
j. Based on discussions with the independent auditor concerning the audit, the financial statement review and such other matters as the Committee deems appropriate, recommend to the Board the filing of the audited annual and unaudited quarterly financial statements and MD&A on SEDAR and the inclusion of the audited financial statements in the Annual Report on Form 40-F.

4.2 External Auditor

a. Be responsible for the recommendation to Board and the shareholders for the appointment of the Company's independent auditor and for the compensation, retention and oversight of the work of the independent auditor employed by the Company. The independent auditor shall report directly to the Committee. The Audit Committee shall be responsible to resolve any disagreements between management and the auditors regarding financial reporting.
b. Consider, in consultation with the outside auditor, the audit scope and plan of the outside auditor.
c. Approve the outside auditor to be nominated, the cost of their services and review the performance of the auditor, including the lead partner of the external auditor.
d. Confirm with the outside auditor and receive written confirmation at least once per year as to the outside auditor's internal processes and quality control and disclosure of any investigations or government enquiries, reviews or investigations of the outside auditor.
e. Take reasonable steps to confirm at least annually the independence of the outside auditor, which shall include:

i. ensuring receipt from the outside auditor of a formal written statement delineating all relationships between the outside auditor and the Company, consistent with generally accepting auditing practices, and determine that they satisfy the requirements of all applicable securities legislation including the U.S. Securities and Exchange Commission Independence Standards Board Standard No. 1,
ii. considering and discussing with the outside auditor any disclosed relationships or services, including non audit services, that may impact the objectivity and independence of the outside auditor, and
iii. approve in advance any audit or permissible non-audit related services provided by the auditor to the Company with a view to ensuring independence of the auditor, and in accordance with any applicable regulatory requirements, including the requirements of all applicable securities regulations with respect to approval of non audit related serviced performed by the auditor.

f. Confirm that the lead audit partner for the Company's independent auditors has not performed audit services for the Company for more than five previous fiscal years, and otherwise ensure the rotation of the lead partner and other partners in accordance with all applicable securities laws.
g. Review and approve the Company's hiring policies regarding partners, employees and former employees of the present and former independent auditors of the Company.

4.3 Internal Controls and Audit

a. Review and assess the adequacy and effectiveness of the Corporation's systems of internal and management information systems through discussion with management and the external auditor to ensure that the Company maintains appropriate systems, is able to assess the pertinent risks of the Company and that the risk of a material misstatement in the financial disclosures can be detected.
b. Assess the requirement for the appointment of an internal auditor for the Company.
c. Inquire of management and the outside auditor about the systems of internal controls that management and the Board of Directors have established and the effectiveness of those systems. In addition, inquire of management and the outside auditor about significant financial risks or exposures and the steps management has taken to minimize such risks to the Company.
d. Review disclosures made to the Committee by the Company's CEO and CFO during their certification process required under applicable Canadian and United States security regulations. Review any significant deficiencies in the design and operation of disclosure controls and procedures and any fraud involving management or other employees who have a significant role in the Company's internal controls.

4.4 General

a. Conduct an ongoing review of any transaction now in effect, and review and approve in advance any proposed transaction, that could be within the scope of "related party transactions" as such term is defined in the applicable securities regulations, and establish appropriate procedures to receive material information about and prior notice of any such transaction.
b. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

c. The Committee shall have the power to conduct or authorize investigations into any matter within the scope of this Charter. It may request any officer or employee of the Company, its outside legal counsel or outside auditor to attend a meeting of the Committee or to meet with any member(s) of the Committee.
d. Review the qualifications of the accounting and financial personnel.
e. Perform any other activities consistent with this Charter, the Company's Articles and governing law, as the Committee or the Board deems necessary or appropriate.

4.5 Oversight Function

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate or are in accordance with the International Financial Reporting Standards (IFRS) and applicable rules and regulations. These are the responsibilities of management and the external auditors. The Committee, the Chair and any Members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Corporation, and are specifically not accountable or responsible for the day to day operation or performance of such activities. Although the designation of a Member as having accounting or related financial expertise for disclosure purposes is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Member who is identified as having accounting or related financial expertise, like the role of all Members, is to oversee the process, not to certify or guarantee the internal or external audit of the Corporation's financial information or public disclosure.

5. Chair of the Committee

The Chair of the Committee:

a. provides leadership to the Committee with respect to its functions as described in this Charter and as otherwise may be appropriate, including overseeing the logistics of the operations of the Committee;
b. chairs meetings of the Committee, unless not present, including in camera sessions, and reports to the Board of Directors following each meeting of the Committee on the findings, activities and any recommendations of the Committee;
c. ensures that the Committee meets on a regular basis and at least quarterly;
d. in consultation with the Chair of the Board and the Committee members, establishes a calendar for holding meetings of the Committee;
e. establishes the agenda for each meeting of the Committee, with input from other Committee members, the Chair of the Board, and any other parties as applicable;
f. acts as liaison and maintains communication with the Chair of the Board and the Board to optimize and co-ordinate input from Board members, and to optimize the effectiveness of the Committee. This includes reporting to the full Board on all proceedings and deliberations of the Committee at the first meeting of the Board after each Committee meeting and at such other times and in such manner as the Committee considers advisable;

g. reports annually to the Board on the role of the Committee and the effectiveness of the Committee role in contributing to the objectives and responsibilities of the Board as a whole;
h. ensures that the members of the Committee understand and discharge their duties and obligations;
i. fosters ethical and responsible decision making by the Committee and its individual members;
j. together with the Corporate Governance and Nominating Committee, oversees the structure, composition, membership and activities delegated to the Committee from time to time;
k. ensures that resources and expertise are available to the Committee so that it may conduct its work effectively and efficiently and pre-approves work to be done for the Committee by consultants;
l. facilitates effective communication between members of the Committee and management;
m. addresses all concerns communicated to him under the Company's Whistleblower Policy and Code of Ethics;
n. performs such other duties and responsibilities as may be delegated to the Chair by the Board of Directors from time to time.The Audit Committee will annually review and reassess the adequacy of this policy and submit any recommended changes to the Board for approval.

Last reviewed and approved by the Board on March 3, 2011.

SCHEDULE "B"

DEFINITIONS

CIM Standards Definitions

The term *"**Qualified Person**"* means an individual who is an engineer or geoscientist with at least five years' experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; has experience relevant to the subject matter of the mineral project and the technical report; and is a member or licensee in good standing of a professional association.

The term "***Mineral Resource***" is a concentration or occurrence of diamonds, natural, solid, inorganic or natural fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

The term "***Inferred Mineral Resource***" is that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

The term "***Indicated Mineral Resource***" is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parametres, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

The term "***Measured Mineral Resource***" is that part of a Mineral Resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parametres, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

The term "***Mineral Reserve***" is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.

The term "***Probable Mineral Reserve***" is the economically mineable part of an Indicated Mineral Resource and, in some circumstances, a Measured Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

The term "***Proven Mineral Reserve***" is the economically mineable part of a Measured Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

JORC Code Definitions

The term *"**Competent Person**"* means a person who is a Member or Fellow of the Australasian Institute of Mining and Metallurgy, or the Australian Institute of Geoscientists, or of a 'Recognised Overseas Professional Organisation' included in a list promulgated from time to time. A Competent Person must have a minimum of five years' experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which that person is undertaking. For example, if the Competent Person is preparing a report on exploration results, the relevant experience must be in exploration. If the Competent Person is estimating, or supervising the estimation of Mineral Resources, the relevant experience must be in the estimation, assessment and evaluation of Mineral Resources. If the Competent person is estimating, or supervising the estimation of ore reserves, the relevant experience must be in the estimation, assessment, evaluation and economic extraction of ore reserves.

The term "***Mineral Resource***" means a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

The term "***Inferred Mineral Resource***" means that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

The term "***Indicated Mineral Resource***" means that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

The term "***Measured Mineral Resource***" means that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

The term "***Ore Reserve***" means the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

The term "***Probable Ore Reserve***" means the economically mineable part of an Indicated, and in some circumstances Measured, Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

The term "***Proved Ore Reserve***" means the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

SCHEDULE "C"

ABBREVIATIONS AND MEASUREMENT CONVERSION

Unless otherwise defined, abbreviations used in this Annual Information Form have the following meanings:

m	micron
Ag	Silver
Au	Gold
°C	degree Celsius
°F	degree Fahrenheit
mg	microgram
cm	centimetre
cm^2	square centimetre
Cu	Copper
ft	foot
g	gram
G	giga (billion)
Gwh	gigawatt-hour
HQ	diamond drill core measuring 6.35 cm in diameter
hr *or* h	hour
ha	hectare
in	inch
J	joule
K	kilo (thousand)
kg	kilogram
km	kilometre
km^2	kilometres squared
L	litre
lb	pound
m	metre
m^2	metres squared
M	mega (million)
mm	millimetre
MW	megawatt
MWh	megawatt-hour
NQ	diamond drill core measuring 4.76 cm in diameter
opt, oz/st	ounce per short ton
oz	Troy ounce/ounce (31.1035g)
Pb	Lead
PQ	diamond drill core measuring 8.5 cm in diameter
RC	reverse circulation
RL	relative elevation
s	second
st	short ton (one short ton equals 0.907 metric tonnes)
stpa	short ton per year
stpd	short ton per day
t	metric tonne (one metric tonne equals 1.102 short tons)
tpa/tpy	metric tonne per year
tpd	metric tonne per day
V	volt
W	watt
yd	yard
Zn	Zinc

The following table lists Imperial measurements and their equivalent value under the Metric system:

Imperial	Converts to	Metric
1 in	=	2.54 cm
1 ft (12 in)	=	0.3048 m
1 yd (3ft)	=	0.9144 m
1 mile (1760 yd)	=	1.6093 km
1 square in (in2)	=	6.4516 cm^2
1 square ft (ft^2)	=	0.0929 m^2
1 square yd (yd^2)	=	0.8361 m^2
1 acre (4840 yd^2)	=	4046.9 m^2
1 square mile (640 acres)	=	2.59 km^2
short ton	=	0.907 metric tonnes

Exhibit 99.2

Consolidated financial statements of

New Gold Inc.

December 31, 2010

Management's Responsibility for Financial Statements

The consolidated financial statements, the notes thereto and other financial information contained in the Management Discussion and Analysis have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the management of New Gold Inc. The financial information presented elsewhere in the Management Discussion and Analysis is consistent with the data that is contained in the consolidated financial statements. The consolidated financial statements, where necessary, include amounts which are based on the best estimates and judgment of management.

In order to discharge management's responsibility for the integrity of the financial statements, the Company maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the Company's assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, proper records are maintained and relevant and reliable financial information is produced. These controls include maintaining quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and ensuring that there is proper accountability for performance within appropriate and well-defined areas of responsibility. The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules.

The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Audit Committee, which is composed of non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the Directors who approve the consolidated financial statements. The external auditors have full and unrestricted access to the Audit Committee to discuss the scope of their audits, the adequacy of the system of internal controls and review financial reporting issues.

The consolidated financial statements have been audited by Deloitte and Touche LLP, the independent registered chartered accountants, in accordance with Canadian generally accepted auditing standards and standards of the Public Company Accounting Oversight Board (United States).

(Signed) Robert Gallagher

Robert Gallagher
Chief Executive Officer

(Signed) Brian Penny

Brian Penny
Executive Vice-President and
Chief Financial Officer

Toronto, Ontario
March 3, 2011

Management's Report on Internal Control over Financial Reporting

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and Rule 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d—15(f) under the Exchange Act as of December 31, 2010. In making this assessment, it used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria. There are no material weaknesses that have been identified by management.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010 has been audited by Deloitte & Touche LLP, the Company's independent registered chartered accountants, as stated in their report immediately preceding the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009.

(Signed) Robert Gallagher

Robert Gallagher
Chief Executive Officer
Chief Financial Officer

(Signed) Brian Penny

Brian Penny
Executive Vice-President and

Toronto, Ontario
March 3, 2011

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of
New Gold Inc.

We have audited the accompanying consolidated financial statements of New Gold Inc **.** and subsidiaries (the “Company”), which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Gold Inc . and subsidiaries as at December 31, 2010 and December 31, 2009 and the results of their operations and cash flows for each of the years in the two-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2011 on internal control over financial reporting expressed an unqualified opinion on the Company's internal control over financial reporting.

"Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Licensed Public Accountants
March 3, 2011
Toronto, Canada

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of New Gold Inc.

We have audited the internal control over financial reporting of New Gold Inc. and subsidiaries (the “Company”) as of December 31, 2010, based on *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the Canadian generally accepted auditing standards and standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated March 3, 2011 expressed an unqualified opinion on those financial statements.

"Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Licensed Public Accountants
March 3, 2011
Toronto, Canada

New Gold Inc.

December 31, 2010

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New Gold Inc.

Consolidated statements of operations
Years ended December 31
(Expressed in thousands of U.S. dollars, except share and per share amounts)

	2010	2009
	$	$
Revenues	**530,450**	323,780
Operating expenses	**(250,338)**	(176,491)
Depreciation and depletion	**(77,016)**	(58,668)
Earnings from mine operations	**203,096**	88,621
Corporate administration	**(32,622)**	(24,689)
Business combination transaction costs	**-**	(6,583)
Exploration	**(12,834)**	(6,412)
Impairment charge of exploration assets (Note 9(b))	**(15,728)**	-
Goodwill impairment charge (Note 4)	**-**	(192,099)
Earnings (loss) from operations	**141,912**	(141,162)
Other income (expense)		
Realized and unrealized gain on gold contracts (Note 11)	**-**	8,161
Realized and unrealized gain on fuel contracts (Note 11)	**-**	797
Realized and unrealized gain on investments (Note 7)	**9,128**	351
Unrealized gain on prepayment option (Note 11)	**7,679**	-
Interest and other income	**3,258**	4,158
Gain on sale of investment (Note 7 (a))	**39,710**	-
Gain on redemption of long-term debt (Note 10 (a))	**-**	14,236
Interest and finance fees (Note 10 (f))	**(947)**	(1,435)
Other expense	**(2,883)**	(967)
Loss on foreign exchange	**(21,816)**	(52,667)
Earnings (loss) before taxes	**176,041**	(168,528)
Income and mining taxes (Note 13)	**(41,110)**	(14,906)
Net earnings (loss) from continuing operations	**134,931**	(183,434)
Earnings (loss) from discontinued operations (Note 8)	**42,023**	(10,882)
Net earnings (loss)	**176,954**	(194,316)
Earnings (loss) per share from continuing operations		
Basic	**0.35**	(0.60)
Diluted	**0.34**	(0.60)
Earnings (loss) per share from discontinued operations		
Basic	**0.11**	(0.04)
Diluted	**0.11**	(0.04)
Earnings (loss) per share		
Basic	**0.46**	(0.64)
Diluted	**0.45**	(0.64)
Weighted average number of shares outstanding (in thousands)		
Basic	**390,883**	306,288
Diluted	**395,233**	306,288
Stock option expense (a non-cash item included in corporate administration)	**8,151**	6,621

see accompanying notes to the consolidated financial statements.

New Gold Inc.

Consolidated statements of comprehensive income (loss)
Years ended December 31
(Expressed in thousands of U.S. dollars)

	2010	2009
	$	$
Net earnings (loss)	**176,954**	(194,316)
Other comprehensive income (loss)		
Unrealized losses on mark-to-market of gold contracts (Note 11)	**(85,849)**	(49,101)
Realized losses on mark-to-market of gold contracts (Note 11)	**20,035**	3,403
Unrealized (losses) gains on mark-to-market of fuel contracts (Note 11)	**(366)**	189
Future income tax	**27,572**	17,870
Total other comprehensive loss	**(38,608)**	(27,639)
Total comprehensive income (loss)	**138,346**	(221,955)

see accompanying notes to the consolidated financial statements.

New Gold Inc.

Consolidated balance sheets
as at December 31
(Expressed in thousands of U.S. dollars)

	2010	2009
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 2 (c))	**490,754**	262,325
Restricted cash (Note 5)	**-**	9,201
Accounts receivable	**11,929**	10,345
Inventories (Note 6)	**106,325**	86,299
Future income and mining taxes (Note 13)	**9,127**	8,848
Current portion of derivative assets (Note 11)	**-**	706
Prepaid expenses and other	**7,325**	6,933
Current assets of operations held for sale (Note 8)	**-**	10,298
Total current assets	**625,460**	394,955
Investments (Note 7 (b))	**7,533**	45,890
Mining interests (Note 9)	**2,073,695**	2,000,438
Future income tax asset (Note 13)	**931**	2,250
Reclamation deposits and other (Note 14)	**31,295**	17,646
Assets of operations held for sale (Note 8)	**-**	27,080
Total assets	**2,738,914**	2,488,259
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**66,654**	36,033
Current portion of long-term debt (Note 10)	**-**	12,088
Current portion of derivative liabilities (Note 11)	**40,072**	19,206
Income and mining taxes payable	**33,983**	15,677
Current liabilities of operations held for sale (Note 8)	**-**	10,414
Total current liabilities	**140,709**	93,418
Reclamation and closure cost obligations (Note 14)	**25,721**	19,889
Derivative liabilities (Note 11)	**113,303**	76,780
Future income and mining taxes (Note 13)	**280,026**	316,426
Long-term debt (Note 10)	**229,884**	225,456
Deferred benefit (Note 9 (a))	**46,276**	-
Employee benefits and other	**9,804**	5,355
Liabilities of operations held for sale (Note 8)	**-**	19,890
Total liabilities	**845,723**	757,214
Shareholders' equity		
Common shares (Note 12 (a))	**1,846,712**	1,810,865
Contributed surplus	**82,787**	82,984
Share purchase warrants (Note 12 (d))	**138,806**	150,656
Equity component of convertible debentures	**21,604**	21,604
Accumulated other comprehensive loss	**(67,813)**	(29,205)
Deficit	**(128,905)**	(305,859)
	(196,718)	(335,064)
Total shareholders' equity	**1,893,191**	1,731,045
Total liabilities and shareholders' equity	**2,738,914**	2,488,259

Commitments and contingencies (Note 21)

Approved by the Board

"Robert Gallagher"
Robert Gallagher, Director

"James Estey"
James Estey, Director

see accompanying notes to the consolidated financial statements.

New Gold Inc.

Consolidated statements of shareholders' equity
Years ended December 31
(Expressed in thousands of U.S. dollars, except share amounts)

	2010	2009
	$	$
Common shares		
Balance, beginning of year	**1,810,865**	1,321,110
Shares issued, net of share issue costs	**-**	103,122
Shares issued for mineral properties	**-**	63
Acquisition of Western Goldfields (Note 4)	**-**	375,367
Exercise of options (Note 12 (a))	**19,394**	11,203
Exercise of warrants (Note 12 (a))	**16,453**	-
Balance, end of year	**1,846,712**	1,810,865
Contributed surplus		
Balance, beginning of year	**82,984**	65,409
Exercise of options	**(8,348)**	(5,803)
Acquisition of Western Goldfields (Note 4)	**-**	9,949
Expiry of warrants	**-**	6,808
Stock-based compensation	**8,151**	6,621
Balance, end of year	**82,787**	82,984
Share purchase warrants		
Balance, beginning of year	**150,656**	145,614
Acquisition of Western Goldfields (Note 4)	**-**	11,850
Exercise of warrants	**(11,850)**	-
Expiry of warrants	**-**	(6,808)
Balance, end of year	**138,806**	150,656
Equity component of convertible debentures	**21,604**	21,604
Accumulated other comprehensive loss		
Balance, beginning of year	**(29,205)**	(406)
Net change in fair value of hedging instruments (Note 11)	**(38,608)**	(27,639)
Reclassification of gains on available-for-sale investments to earnings	**-**	(1,160)
Balance, end of year	**(67,813)**	(29,205)
Deficit		
Balance, beginning of year	**(305,859)**	(111,543)
Net earnings (loss)	**176,954**	(194,316)
Balance, end of year	**(128,905)**	(305,859)
Total shareholders' equity	**1,893,191**	1,731,045

see accompanying notes to the consolidated financial statements.

New Gold Inc.

Consolidated statements of cash flows
Years ended December 31
(Expressed in thousands of U.S. dollars)

	2010	2009
	$	$
Operating activities		
Net earnings (loss)	**176,954**	(194,316)
(Earnings) loss from discontinued operations	**(42,023)**	10,882
Items not involving cash		
Goodwill impairment charge	**-**	192,099
Unrealized gain on gold contracts	**(8,425)**	(12,389)
Unrealized (gain) loss on fuel contracts	**340**	(523)
Unrealized foreign exchange loss	**21,816**	46,057
Unrealized and realized (gain) loss on investments	**(9,128)**	351
Gain on sale of Beadell shares	**(39,710)**	-
Impairment charge of exploration asset	**15,728**	-
Loss on disposal of assets	**1,054**	-
Depreciation and depletion	**76,307**	59,473
Stock option expense	**8,151**	6,621
Unrealized gain on prepayment option	**(7,679)**	-
Future income and mining taxes	**(17,197)**	(1,441)
Gain on redemption of long-term debt	**-**	(14,236)
Change in non-cash working capital (Note 15)	**6,072**	(13,597)
Cash provided by continuing operations	**182,260**	78,981
Cash provided by (used in) discontinued operations (Note 8)	**(1,696)**	5,576
Investing activities		
Mining interests	**(149,165)**	(111,522)
Cash acquired in business combination and asset acquisition (Note 4)	**-**	20,735
Reclamation deposits	**(1,590)**	(1,547)
Receipt of accrued interest on investments	**-**	3,015
Reduction of restricted cash (Note 5)	**9,201**	-
Proceeds from disposal of assets	**439**	-
Cash received in El Morro transaction, net of transaction costs (Note 9 (a))	**46,276**	-
Investment in El Morro (Note 9 (a))	**(463,000)**	-
Proceeds from sale of Beadell shares	**58,364**	-
Proceeds from settlement of investments	**48,112**	36,636
Cash used in continuing operations	**(451,363)**	(52,683)
Cash provided by (used in) discontinued operations (Note 8)	**34,410**	(1,405)
Financing activities		
Common shares issued	**-**	107,015
Exercise of options and warrants to purchase common stock	**15,649**	-
El Morro loan (Note 9 (a))	**463,000**	-
Revolving credit facility initiation costs	**(4,225)**	-
Repayment of long-term debt (Note 10 (c))	**(27,235)**	(66,981)
Cash provided by continuing operations	**447,189**	40,034
Cash used in discontinued operations (Note 8)	**-**	(7,000)
Effect of exchange rate changes on cash and cash equivalents	**16,803**	13,980
Increase in cash and cash equivalents	**227,603**	77,483
Cash and cash equivalents, beginning of year	**263,151**	185,668
Cash and cash equivalents, end of year	**490,754**	263,151
Comprised of		
Cash and cash equivalents of continuing operations	**490,754**	262,325
Cash and cash equivalents of discontinued operations	**-**	826
	490,754	263,151
Cash and cash equivalents are comprised of		
Cash	**191,844**	84,961
Short-term money market instruments	**298,910**	178,190
	490,754	263,151

Supplemental cash flow information (Note 15)

see accompanying notes to the consolidated financial statements.

1. Description of business and nature of operations

New Gold Inc. (the "Company") and its wholly owned subsidiaries are gold producers engaged in gold mining and related activities including acquisition, exploration, extraction, processing and reclamation. The Company's assets are comprised of the Mesquite Mine in the United States ("U.S."), 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.

In the second quarter of 2009, the Company completed a business combination ("Business Combination" see Note 4) with Western Goldfields Inc. ("Western Goldfields"). The Business Combination was completed by way of plan of arrangement that was approved by the New Gold and Western Goldfields shareholders on May 13 and May 14, 2009, respectively and which received final court approval on May 27, 2009. May 27, 2009 was determined to be the date of acquisition and these consolidated financial statements include the results of Western Goldfields from May 27, 2009 onward.

In 2009, the Amapari Mine ("Amapari") was classified as a discontinued operation and therefore all financial results for this mine have been presented separately from continuing operations for current and comparative periods. On April 13, 2010, the Company sold its Brazilian subsidiary Mineracao Pedra Branca do Amapari Ltda., which held the Amapari Mine and other related assets, to Beadell Resources Limited ("Beadell").

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") using the significant accounting policies outlined below. Material differences between Canadian GAAP and generally accepted accounting principles in the United States ("U.S. GAAP") are described in Note 24.

(a) Basis of presentation and principles of consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. In the opinion of management, all adjustments (including normal recurring adjustments) necessary to present fairly the financial position as at December 31, 2010 and 2009 and results of operations and comprehensive income, shareholders' equity and cash flows for the years then ended, have been made.

The principal subsidiaries and investments of the Company as of December 31, 2010 are as follows:

Subsidiary	Basis of Presentation	Interest
Inversiones El Morro Limitada	Consolidation	100%
Metallica Resources Inc.	Consolidation	100%
Minera Metallica Resources Chile Limitada	Consolidation	100%
Minera San Xavier, S.A. de C.V.	Consolidation	100%
Peak Gold Mines Pty Ltd	Consolidation	100%
Sociedad Contractual Minera El Morro	Equity method	30%
Western Goldfields Inc.	Consolidation	100%
Western Goldfields (USA) Inc.	Consolidation	100%
Western Mesquite Mines, Inc.	Consolidation	100%

2. Summary of significant accounting policies (continued)

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

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.

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, the recoverability of accounts receivable and investments, measurement of revenue and accounts receivable, the quantities of material on leach pads and in circuit and the recoverable gold in this material used in determining the estimated net realizable value of inventories, 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 assumptions used in the accounting for stock-based compensation, valuation of warrants, valuation of embedded derivatives, valuation of derivative instruments, valuation of investments, 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, and the fair value of assets and liabilities acquired in business combinations.

(c) Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of generally three months or less at the date of acquisition to be cash equivalents. These highly liquid investments only comprise short-term Canadian and U.S. government treasury bills and other evidences of indebtedness and treasury bills of the Canadian provinces with a minimum credit rating of R-1 mid from the Dominion Bond Rating Service ("DBRS") or an equivalent rating from Standard & Poors and Moody's. In addition, the Company is permitted to invest in bankers' acceptances and other evidences of indebtedness of certain financial institutions, including Canadian banks.

(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 labour, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form.

2. Summary of significant accounting policies (continued)

(d) Inventories and stockpiled ore (continued)

The recovery of gold and silver from certain 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 for 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 and silver 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 recovery of gold and silver from the leach pad is not known until the leaching process has concluded.

In-process inventory represents materials that are currently in the process of being converted into finished goods. The average production cost of finished goods represents the average cost of in-process inventories incurred prior to the refining process, plus applicable refining costs and associated royalties.

Supplies are valued at the lower of average cost and net realizable value.

(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, if shorter than the mine life.

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.

2. Summary of significant accounting policies (continued)

(e) Mining interests (continued)

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 expensed. 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 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.

Interest expense allocable to the costs of developing mining properties and constructing new facilities is capitalized and included in the carrying amounts of related assets until mining properties reach commercial production and facilities are ready for their intended use.

(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) 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. Future tax assets and liabilities are measured using 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.

2. Summary of significant accounting policies (continued)

(h) 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 it is 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.

(i) Foreign currency translation

The Company's functional currency and that of its subsidiaries is the U.S. dollar and are translated into U.S. dollars using the temporal method. Transaction amounts denominated in foreign currencies (currencies other than U.S. dollars) are translated into U.S. dollars at exchange rates prevailing at the transaction dates. Carrying values of foreign currency monetary assets and liabilities are adjusted at each balance sheet date to reflect the U.S. exchange rate prevailing at that date. Non-monetary assets and liabilities are translated using historical exchange rates. Revenues and expenses are translated at the average exchange rate for the period. Foreign currency transaction gains and losses are included in the determination of net income or loss. In addition, unrealized gains and losses due to movement in exchange rates on cash balances held in foreign currencies are shown separately on the consolidated statements of cash flows.

(j) 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 and if converted method, as applicable, 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.

(k) 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 the 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.

(l) Long-term incentive plans

As part of its long-term incentive plans, the Company has established an employee stock option plan. 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.

2. Summary of significant accounting policies (continued)

(l) Long-term incentive plans (continued)

The Company has also established a share unit award plan that results in future cash payments to the holder of share unit awards as a long-term incentive plan. As the Company is required to settle this award in cash based on the market price of the Company's common shares, the Company records the obligation as a liability in Employee Benefits and Other based on the vesting of the awards. The liability is recorded at fair value and changes in the fair value of the award are included in compensation expense.

(m) Financial instruments - recognition and measurement

The Company classifies all financial instruments as held-to-maturity, available-for-sale, held for trading, loans and receivables, or other financial liabilities. 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.

The fair value of financial instruments traded in active markets (such as available-for-sale securities and held for trading) 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 equal to their fair values given that they are short term in nature.

The Company has designated its cash and cash equivalents as held-for-trading. The Company has designated its asset backed notes ("AB Notes") as held-for-trading. Accounts receivable are classified as loans and receivables.

Accounts payable and accrued liabilities, short-term borrowings and long-term debt are classified as other financial liabilities. The accrued liability related to the share unit award plan has been classified as a financial liability held for trading.

Transaction costs related to financial instruments classified as held for trading are recognized immediately into income. For financial instruments classified as other than as held for trading, transaction costs are added to the financial instrument in accordance with the provision of CICA Handbook Section 3855.

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.

(n) Comprehensive income (loss)

Comprehensive income (loss) is the change in shareholders' equity during a period from transactions and other events and circumstances. The Company reports a statement of comprehensive income (loss) and accumulated other comprehensive income (loss), in the shareholders' equity section of the consolidated balance sheet. The components of other comprehensive income (loss) may include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of the changes in fair value of cash flow hedging instruments.

2. Summary of significant accounting policies (continued)

(o) Accounts receivable

Accounts receivable are carried at the lower of amortized cost less impairment. Accounts receivable are written off as they are determined to be uncollectible. No accounts receivable were written off during the years ended December 31, 2010 and 2009.

(p) 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 values is recorded as goodwill. As of the date of acquisition, goodwill is allocated to reporting units by determining estimates of the fair value of each reporting unit and comparing this amount to the fair values of assets and liabilities in the reporting unit. Goodwill is not amortized.

The Company evaluates, on an annual basis or as circumstances warrant, 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 values of its reporting units that include goodwill and compares those fair values to the reporting unit's 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 of goodwill over the implied fair value is charged to earnings. Assumptions underlying fair value estimates are subject to significant risks and uncertainties.

(q) Reclamation deposits

The Company maintains cash deposits that are restricted to the funding of reclamation costs. Cash deposits are required under a reclamation insurance policy that the Company has purchased for the Mesquite Mine. For the New Afton Development, the Company has placed cash on deposit to fund future reclamation costs anticipated under a reclamation plan approved by the Province of British Columbia. Reclamation deposits are designated as held for trading, are recorded at fair value, and are classified as a non-current asset.

(r) Derivative instruments

The Company has entered arrangements for the purchase of fuel and the sale of gold. The Company has designated these relationships as cash flow hedges. As described in Note 10 (a), the Company has Senior Secured Notes outstanding that contains an embedded derivative.

Financial and derivative instruments, including embedded derivatives, are recorded at fair values on the Company's balance sheet, with gains and losses for the effective portion of the hedging instruments in each period included in other comprehensive income, and the gains and losses for the ineffective portion of the hedging instrument and the gains or losses on the embedded derivative included in net income.

Fair values are determined using valuation techniques. These techniques use assumptions based on market conditions existing at the balance sheet date.

3. Future changes in accounting policies

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date International Financial Reporting Standards ("IFRS") will replace current Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises. This will result in the Company reporting under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP. The transition to IFRS will require changes to some of the Company's accounting policies which will require changes to financial reporting processes and data systems will be required as a result of these policy differences.

4. Business Combination

On March 4, 2009, the Company announced that it had entered into a definitive agreement to acquire all of the outstanding common shares of Western Goldfields. Under the agreement, the Company exchanged one common share and nominal cash consideration for each common share of Western Goldfields. The Business Combination received final court approval on May 27, 2009.

142,796,000 common shares issued to Western Goldfields' shareholders were valued at a $2.63 per share. The value per share was determined using the May 27, 2009 closing share price of New Gold. Holders of options, warrants and other convertible instruments of Western Goldfields exchanged such equity instruments for similar securities of New Gold at an exchange rate of one to one.

The final allocation of the purchase price based on the consideration paid and on Western Goldfields net assets acquired is as follows:

	$
Issuance of New Gold shares (142,796,000 common shares)	375,554
Fair value of options issued	9,949
Fair value of warrants issued	11,850
Purchase consideration	397,353
Net assets acquired	
Net working capital (including cash of $20,735)	39,427
Plant and equipment	102,693
Mining interest	234,479
Reclamation deposits	8,978
Other assets	1,790
Fair value of gold contracts	(50,960)
Long-term debt	(56,984)
Reclamation and closure costs obligations	(5,221)
Future income taxes	(68,948)
Goodwill	192,099
	397,353

4. Business Combination and asset acquisition (continued)

For purposes of these consolidated financial statements the purchase consideration has been allocated to the fair value of assets acquired and liabilities assumed, including allocation of mining interest to depletable and non-depletable properties, based on management's best estimates and available information at the time of the Business Combination.

In preparing its 2009 consolidated financial statements, the Company elected to early adopt Section 1582. The acquisition date was determined to be May 27, 2009, the date the court approved the Business Combination under the Ontario Business Corporation Act ("OBCA"). On May 27, 2009, the share price was $2.63 (Cdn$2.92) which resulted in additional purchase consideration of $138.1 million that would not have been recorded under the Company's previous accounting policy. As a result, the Company recorded approximately $192.1 million in goodwill for the Business Combination with Western Goldfields.

The Company allocated its goodwill to the Mesquite Mine as it was the only reporting unit acquired pursuant to the Business Combination. The net asset value of the Mesquite Mine consists of plant and equipment and mining properties. Plant and equipment were valued using the discounted cash flow of proven and probable reserves, measured, indicated and inferred resources. In addition, the Company valued the exploration potential using prices paid for similar market transactions.

In 2009, goodwill was reviewed for impairment indicators and the Company determined that it could not support the carrying value of the goodwill recorded as part of the Business Combination. As a result, the Company recorded a goodwill impairment charge of $192.1 million for the year ended December 31, 2009.

5. Restricted cash

The Company had a term loan facility with a syndicate of banks (Note 10 (c)) related to the Mesquite Mine. On October 7, 2009, the terms of the loan facility were amended. Under the requirements of the amended terms of this facility, the Company had set aside $9.2 million in a debt service reserve account. The debt service reserve account was established to hold an amount equal to the debt service amounts (principal and interest) payable on the next repayment date as set out in the amended credit agreement, and thereafter any surplus funds were to be returned to the Company. Interest earned on the debt service reserve account was for the account of the Company.

Upon the acquisition of Western Goldfields, the Company acquired restricted cash related to the original term loan facility. This restricted cash was held in a cost overrun account until the completion of the Mesquite Mine development project which was deemed to have occurred under the terms of the amended credit agreement on October 7, 2009. The unused funds from this account were applied to the debt service reserve account in connection to the amended credit agreement.

On February 26, 2010, the Company repaid the Mesquite Mine term loan facility as described in Note 10(c). As a result of the repayment of the term loan, the restricted cash balance was released to the Company for its general use resulting in restricted cash of $nil at December 31, 2010 (December 31, 2009 - $9.2 million).

6. Inventories

	2010	2009
	$	$
Heap leach ore (a)	**61,391**	58,169
Work-in-process (b)	**22,206**	13,907
Finished goods	**5,506**	4,819
Stockpiled ore (c)	**79**	55
Supplies	**17,143**	9,349
	106,325	86,299

(a) Heap leach ore

The recovery of gold ore at the Cerro San Pedro and Mesquite Mines 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 in the ore.

(b) 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).

(c) Stockpiled ore

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

The amount of inventories recognized in operating expenses for the year ended December 31, 2010 is $238.0 million (2009 - $161.5 million). The amount of write-downs recognized in operating expenses for the year ended December 31, 2010 is $4.8 million (2009 - $nil).

7. Investments

(a) Available for Sale Securities

The Company acquired 115 million shares of Beadell Resources Limited (“Beadell”) as partial consideration for the sale of the Company’s interest in Amapari on April 13, 2010 (Note 8). Beadell is an Australian listed gold-focused company with exploration and development assets in Western Australia and Brazil. Beadell’s shares are publicly traded on the Australian Stock Exchange. The Company held approximately 18.5% of Beadell’s outstanding shares as a result of the Amapari disposition. As a condition of closing, the Company was restricted from trading the shares for a period of one year due to a voluntary escrow arrangement. The Company had designated its investment in Beadell as an available-for-sale financial asset with the changes in fair value being included in other comprehensive income.

The fair value of the Beadell shares received on the transaction date of April 13, 2010 was $18.6 million. The shares were valued using the Beadell ask price on April 13, 2010. On December 1, 2010, the Company sold the 115 million shares, with Beadell’s consent to release the shares from the escrow arrangement, for total net proceeds of $58.4 million resulting in a gain on sale of $39.7 million which has been recorded in current year earnings.

7. Investments (continued)

(b) Asset Backed Notes

The Company owns $21.0 million (Cdn$20.9 million) (December 31, 2009 – $99.4 million (Cdn$104.0 million)) of face value of long-term asset backed notes ("AB Notes"). These AB Notes were issued as replacement of asset backed commercial paper ("ABCP") formerly held by the Company. When the ABCP matured but was not redeemed in 2007, it became the subject of a restructuring process that replaced the ABCP with long-term asset backed securities. The restructuring was completed and the AB Notes were issued on January 21, 2009. The Company has designated the investments as held-for-trading financial instruments.

In January 2010, the Company disposed of its remaining MAV 2 A1 and A2 Notes which had a face value of $79.4 million (Cdn$83.1 million) for proceeds of $48.1 million (Cdn$49.9 million) and a gain of $2.5 million. The AB Notes are recorded at their estimated fair value with the resulting changes in fair value being included in net earnings as the AB Notes have been designated as held-for-trading. The difference between the historic fair value and the proceeds from the disposition has been included in the mark-to-market gain on investments.

The table below summarizes the Company's valuations at December 31, 2010 and December 31, 2009.

	December 31, 2010		December 31 2009		
Restructuring categories	**Face value**	**Fair value estimate**	Face value	Fair value estimate	Expected maturity date
	$ (millions)	**$ (millions)**	$ (millions)	$ (millions)	
MAV 2 Notes					
A1 (rated A)	**-**	**-**	66.7	39.3	
A2 (rated A)	**-**	**-**	12.7	5.9	
B	**5.8**	**2.4**	5.5	0.5	December 31, 2016
C	**4.3**	**0.4**	4.1	-	December 31, 2016
Traditional asset tracking notes					
MAV3 - Class 9	**0.1**	**0.1**	0.1	0.1	September 12, 2015
Ineligible asset tracking notes					
MAV2 - Class 3/13	**10.8**	**4.6**	10.3	0.1	December 20, 2012 to October 24, 2016
	21.0	**7.5**	99.4	45.9	

At December 31, 2010, the AB Notes have been valued based on bid prices for these assets received from dealers and brokers active in the AB Notes market. The Company receives the bid prices on a regular and recurring basis from a number of sources. The bid prices received for the MAV 2 B notes have ranged from 41.25% to 42.75% of face value. The Company believes that 41.5% is the best estimate of fair value for these notes. The bid prices received for the MAV 2 C notes have been approximately 10% of the face value which the Company has used to fair value these notes. The MAV 2 Class 3 and 13 tracking notes are valued using the same methodology and are valued at approximately 1% and 48% respectively. As described in Note 22, the Company sold its AB Notes on February 17, 2011 for $8.9 million.

8. Discontinued operations

On January 2, 2009, the Company placed Amapari on care and maintenance. Mining at Amapari was suspended and leaching of stacked material continued until April 2009 at which time leaching operations were suspended. On January 27, 2010, the Company announced the signing of an agreement to sell its Brazilian subsidiary Mineracao Pedra Branca do Amapari Ltda., which held Amapari and other related assets, to Beadell. Beadell is an Australian listed gold-focused company with exploration and development assets in Western Australia and Brazil. The transaction closed on April 13, 2010. Proceeds to the Company were $37.0 million in cash and 115 million Beadell shares valued at $18.6 million. As a condition of closing, the Company was restricted from trading the shares for a period of one year due to a voluntary escrow arrangement. On December 1, 2010, the Company sold the 115 million shares, with Beadell's consent, for proceeds of $58.4 million and recorded a gain on sale of $39.7 million (Note 7 (a)). The Company recorded an after tax gain of $41.7 million on disposition of its interest in Amapari, net of pre-tax transaction costs of $1.5 million.

Assets and liabilities pertaining to the Amapari Mine are as follows:

	2010	2009
	$	$
Current assets	**-**	10,298
Non-current assets	**-**	27,080
Current liabilities	**-**	(10,414)
Long-term liabilities	**-**	(19,890)
	-	7,074

Amapari was classified as an asset held for sale on the consolidated balance sheets.

The consolidated statements of operations have separately presented the net earnings (loss) from discontinued operations ended December 31, 2010 and 2009. Revenues, earnings before taxes and net earnings (loss) for the year are as follows:

	2010	2009
	$	$
Revenue	**2,746**	18,738
Earnings (loss) before taxes	**42,023**	(10,882)
Net earnings (loss)	**42,023**	(10,882)

8. Discontinued operations (continued)

The cash flows from discontinued operations ended December 31, 2010 and 2009 are as follows:

	2010	2009
	$	$
Operating activities	**(1,696)**	5,576
Investing activities	**34,410**	(1,405)
Financing activities	**-**	(7,000)
Increase (decrease) in cash and cash equivalents from discontinued operations	**32,714**	(2,829)

9. Mining interests

Mining interests consists of the following:

			December 31, 2010
	Cost	**Accumulated depreciation and depletion**	**Net book value**
	$	**$**	**$**
Mining properties	**1,837,970**	**100,364**	**1,737,606**
Plant and equipment	**403,065**	**66,976**	**336,089**
	2,241,035	**167,340**	**2,073,695**

			December 31, 2009
	Cost	Accumulated depreciation and depletion	Net book value
	$	$	$
Mining properties	1,744,236	43,464	1,700,772
Plant and equipment	348,078	48,412	299,666
	2,092,314	91,876	2,000,438

The Company capitalized $25.1 million of interest for the year ended December 31, 2010 (2009 - $22.8 million) related to the New Afton project.

9. Mining interests (continued)

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

	Mining properties				
	Depletable	**Non-depletable**	**Total**	**Plant and equipment**	**December 31 2010**
	$	**$**	**$**	**$**	**$**
Mesquite Mine	**165,263**	**45,637**	**210,900**	**95,888**	**306,788**
Cerro San Pedro Mine	**204,740**	**84,822**	**289,562**	**70,449**	**360,011**
Peak Mine	**71,238**	**46,671**	**117,909**	**71,448**	**189,357**
New Afton Project	**-**	**721,833**	**721,833**	**97,148**	**818,981**
El Morro Project (a)	**-**	**387,742**	**387,742**	**-**	**387,742**
Other projects (b)	**-**	**9,660**	**9,660**	**-**	**9,660**
Corporate	**-**	**-**	**-**	**1,156**	**1,156**
	441,241	**1,296,365**	**1,737,606**	**336,089**	**2,073,695**

	Mining properties				
	Depletable	Non-depletable	Total	Plant and equipment	2009
	$	$	$	$	$
Mesquite Mine	180,625	44,547	225,172	97,254	322,426
Cerro San Pedro Mine	232,830	84,822	317,652	66,208	383,860
Peak Mine	56,932	61,506	118,438	59,765	178,203
New Afton Project	-	630,890	630,890	75,417	706,307
El Morro Project (a)	-	383,347	383,347	-	383,347
Other projects (b)	-	25,273	25,273	-	25,273
Corporate	-	-	-	1,022	1,022
	470,387	1,230,385	1,700,772	299,666	2,000,438

(a) Chile - El Morro project ("El Morro")

The Company owns a 30% interest in the El Morro copper-gold project which is an advanced stage copper-gold project located in the Atacama region of north-central Chile.

On October 12, 2009, Barrick Gold Corporation ("Barrick") announced that it had entered into an agreement with Xstrata Copper Chile S.A. ("Xstrata"), a wholly owned subsidiary of Xstrata Plc, to acquire Xstrata's 70% interest in the El Morro Project. The Company, through its subsidiary Datawave Sciences Inc. ("Datawave"), held a right of first refusal over Xstrata's 70% interest which came into effect when the agreement with Barrick was announced.

On January 7, 2010, Datawave provided notice to Xstrata of the exercise of its right of first refusal to acquire Xstrata's 70% interest in the El Morro project for $463.0 million. The Company completed this transaction on February 16, 2010. Pursuant to the terms of an Acquisition and Funding Agreement ("Agreement"), Goldcorp Inc. ("Goldcorp") loaned $463.0 million to a Datawave subsidiary to fund the exercise of the right of first refusal. After acquisition of Xstrata's 70% interest by a Datawave subsidiary, Datawave sold that subsidiary to a subsidiary of Goldcorp.

9. Mining interests (continued)

(a) Chile - El Morro project ("El Morro")

Concurrent with the sale of the Datawave subsidiary to a subsidiary of Goldcorp, the parties amended the terms of the existing El Morro Shareholders Agreement ("Shareholders Agreement"). In accordance with the Agreement and the Shareholders Agreement:

- Datawave received a $50.0 million payment which was recorded, net of $3.7 million of transaction costs, as a deferred benefit which will be amortized into income over a period of time equal to the life of the Shareholders Agreement.
- Goldcorp (through its subsidiary) will fund 100% of Datawave's program funding share until commercial production is reached. The funding will be interest bearing at U.S. 7-year Treasury Rate plus 1.87% and is compounded monthly. As at December 31, 2010 the interest rate has been locked in at 4.58% based on the 7 year U.S. treasury bond yield plus 1.87%.
- Datawave will be entitled to a penalty payment of $1.5 million per month up to a maximum of $36.0 million if the construction on the El Morro Project does not commence within 60 days of receipt of required permits and approvals.

(b) 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. The Company has entered into an agreement with Antofagasta Minerals Plc ("AMSA") in which AMSA can acquire a 30% interest in this project by making the required option payments between the Company and Potrillos. AMSA can earn a further 20% interest by incurring $7.0 million in exploration expenditure by June 5, 2012. AMSA can earn a further 20% to bring its interest to 70% by completing a feasibility study by June 5, 2015 and paying the Company $5.0 million.

(2) Canada - Ajax

The Company owns a 100% interest in the Ajax-Python Claim Group located near the New Afton project.

(3) USA – Liberty Bell

During the year the Liberty Bell project was reviewed for impairment indicators and the Company determined that the carrying value of the project could no longer be supported. Drilling results in 2010 did not warrant further exploration at Liberty Bell. Drilling has been discontinued and therefore an impairment charge of $15.7 million was recorded against earnings to reduce the carrying value of the Liberty Bell project to $nil.

10. Long-term debt

Long-term debt consists of the following:

	2010	2009
	$	$
Senior secured notes (a)	**179,197**	169,044
Subordinated convertible debentures (b)	**42,635**	37,609
Term loan facility (c)	**-**	27,235
El Morro project funding loan (d)	**8,052**	3,656
Revolving credit facility (e)	**-**	-
	229,884	237,544
Less: Current portion of term loan facility	**-**	(12,088)
	229,884	225,456

(a) Senior secured notes

The face value of the senior secured notes ("Notes") at December 31, 2010 was $188.0 million (Cdn$187.0 million) (2009 - $178.7 (Cdn$187.0 million)). The Notes mature and become due and payable on June 28, 2017, and bear interest at the rate of 10% per annum. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year.

The Notes are secured by a charge on the assets comprising and relating to the Company's New Afton gold-copper project. The senior secured note agreement requires the Company to comply with certain reporting and other non-financial covenants.

During the first quarter of 2009, the Company acquired $47.8 million (Cdn$50 million) face value of its senior secured notes for consideration of $25.6 million (Cdn$30 million) from the noteholders. This results in a reduction of approximately Cdn$5.0 million per year in interest payments. The Company recorded a gain on redemption of $14.2 million related to this transaction.

The Company has the right to redeem the Notes in whole or in part at any 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. At December 31, 2010 the redemption price was 110% and is scheduled to decrease to 105% on June 28, 2011. The early redemption feature in the Notes qualifies as an embedded derivative that must be bifurcated for reporting purposes. At December 31, 2010, the fair value of the derivative asset was determined to be $7.7 million (2009 - $nil). The Company has recorded the fair value of the derivative asset in reclamation deposits and other. The change in the fair value has resulted in a gain of $7.7 million recorded in earnings for the year ended December 31, 2010.

(b) Subordinated convertible debentures

The face value of the subordinated convertible debentures ("Debentures") at December 31, 2010 was $55.3 million (Cdn$55.0 million) (2009 - $52.6 million (Cdn$55.0 million)).

10. Long-term debt (continued)

(b) Subordinated convertible debentures (continued)

In 2007, the Company issued 55,000 Debentures for an aggregate principal amount of Cdn$55.0 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 or Cdn$11.69 per share.

The Debentures are classified as compound financial instruments for accounting purposes because of the holder conversion option. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year. 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.

At the time of acquisition by the Company, the Company 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 similar debt instrument was assumed to have an interest rate of 8% at the time of acquisition. The equity component was valued using the Black-Scholes model with the following assumptions: no dividends paid, volatility of 60%, risk free interest rate of 3.45% and expected life of six years. 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 non-financial covenants. The debentures are unsecured and subordinate to the notes and any secured indebtedness incurred subsequent to the issue of the debentures. The Company has complied with all of its covenants for the years ending December 31, 2010 and December 31, 2009.

(c) Term loan facility

As part of the Business Combination (Note 4) in 2009, the Company obtained a term loan facility with a syndicate of banks under which the Company could borrow up to $105.0 million in connection with the development of the Mesquite Mine. The term of the facility was until December 31, 2014 and comprised a multiple-draw term loan of which $86.3 million was drawn for the development of the Mesquite Mine. The facility was secured by all of the assets of the Company's wholly-owned subsidiary, Western Mesquite Mines Inc. ("WMMI"), and a pledge of the shares of WMMI owned by the Company. In addition, until reaching a defined completion point, the facility was guaranteed by Western Goldfields.

On February 26, 2010 the Company retired the term loan facility by paying the total outstanding principal of $27.2 million. This repayment of the facility allows the Company the flexibility to monetize the remaining outstanding gold hedges at its discretion. The gold hedge extends to the end of 2014 and the related security and covenants have been released by the term loan facility syndicate of banks on December 14, 2010 when New Gold entered into a new revolving credit facility (Note 10 (e)). The gold hedge is now secured under the new revolving credit facility and shares in security, on a pari passu basis, with the syndicate of banks providing the revolving credit facility. The hedge will remain in place until the hedge is

10. Long-term debt (continued)

(c) Term loan facility (continued)

monetized or delivered over this period at 5,500 ounces per month at $801 per ounce. Total commitment at December 31, 2010 is 264,000 ounces.

(d) El Morro project funding loan

Prior to completion of the Agreement with Goldcorp on February 16, 2010, Xstrata had agreed to fund 70% of the Company's program funding commitments on El Morro (Note 9 (a)) until commencement of commercial production. These amounts, plus interest, would be repaid out
of 80% of the Company's distributions once El Morro was in production. Interest was based on the lower of the Xstrata cost of financing plus 100 basis points and the Chilean prescribed government rate and was compounded monthly. As of December 31, 2009, Xstrata had funded $3.7 million of the Company's funding commitments. Under the Agreement Goldcorp has agreed to fund 100% of the Company's program funding commitments on El Morro until commencement of commercial production. These amounts, plus interest, will be repaid out of 80% of the Company's distributions once El Morro is in production. As at December 31, 2010 the interest rate on the Company's share of the capital funded by Goldcorp has been locked in at 4.58% (and is compounded monthly), based on the 7 year U.S. treasury bond yield plus 1.87%, as per the Agreement. As at December 31, 2009, Xstrata had funded $3.7 million of the Company's funding requirements and Goldcorp assumed this loan at the new, lower interest rate from February 16, 2010. As at December 31, 2010, the outstanding loan balance was $8.1 million including accrued interest. The loan is secured against all rights and interests of the Company's El Morro subsidiaries, including a pledge of the El Morro shares.

(e) Revolving credit facility

On December 14, 2010, the Company entered into an agreement for a $150.0 million revolving credit facility ("Facility") with a syndicate of banks. The amount of the Facility will be reduced by $50.0 million if the Cerro San Pedro Mine is not operational for 45 consecutive days due to any injunction, order, judgment or other determination of an official body in Mexico as a result of any disputes now or hereafter before an official body in Mexico with jurisdiction to settle such a dispute. However, the full $50.0 million of credit will be reinstated if operations at the Cerro San Pedro Mine resume in accordance with the mine plan for 45 consecutive days and no similar disruption event occurs during this period. The purpose of the Facility is for general corporate purposes, including acquisitions. The Facility, which is secured on the Company's material assets (excluding the New Afton and El Morro project assets) and a pledge of certain subsidiary shares, has a term of three years with annual extensions permitted. The Facility contains various covenants customary for a loan facility of this nature, including limits on indebtedness, asset sales and liens. Significant financial covenants are as follows:

Minimum tangible net worth	$1.38 billion at September 30, 2010 + 25% of positive quarterly net income
Minimum interest coverage ratio (EBITDA to interest)	4.0:1.0
Maximum leverage ratio (debt to EBITDA)	3.0:1.0

The Company is in compliance with these covenants at December 31, 2010.

The interest margin on drawings under the Facility ranges from 2.00% to 4.25% over LIBOR, the Prime Rate or the Base Rate, based on the Company's debt to EBITDA ratio (the Debentures are not considered debt for covenant purposes) and the currency and type of

10. Long-term debt (continued)

(e) Revolving credit facility (continued)

credit selected by the Company. The standby fees on undrawn amounts under the Facility range between 0.75% and 1.06% depending on the Company's debt to EBITDA ratio.

To the date of these financial statements, the Company has not drawn any funds under the Facility, however the Facility has been used to issue letters of credit of A$10.2 million for Peak Mines' reclamation bond for the state of New South Wales, Cdn$9.5 million for New Afton's commitment to B.C. Hydro for power and transmission construction work (the B.C. Hydro letter of credit will be released over time as New Afton consumes and pays for power in the early period of operations) and Cdn$8.0 million for New Afton's reclamation requirements. In exchange for the letter of credit, the B.C. Ministry of Energy, Mines and Petroleum has released the Cdn$8.0 million New Afton reclamation deposit back to the Company in January, 2011.

(f) Interest and finance fees

Interest expense for the year ended December 31, 2010 and 2009 is composed of the following:

	2010	2009
	$	$
Interest	**21,773**	20,468
Non-cash interest charges	**4,234**	3,780
	26,007	24,248
Less: Interest capitalized to mining interests	**(25,060)**	(22,813)
	947	1,435

11. Derivative instruments

The following tables summarize derivative related liabilities and assets:

	Asset derivatives	
	2010	2009
	$	$
Derivatives classified as hedging instruments for accounting purposes		
Fuel contracts	**-**	706
	-	706
Less: Current portion	**-**	(706)
	-	-

11. Derivative instruments (continued)

	Liability derivatives	
	2010	2009
	$	$
Derivatives classified as hedging instruments for accounting purposes		
Gold hedging contracts	**153,375**	95,986
	153,375	95,986
Less: Current portion	**(40,072)**	(19,206)
	113,303	76,780

The following table summarizes realized derivative losses for years ended December 31, 2010 and 2009.

	2010	2009
	$	$
Derivatives classified as hedging instruments for accounting purposes		
Gold hedging contracts	**(20,035)**	(3,403)
Fuel contracts	**(5)**	(66)
	(20,040)	(3,469)

Prior to qualifying for hedge accounting on July 1, 2009, realized gains (losses) were classified in other income. After qualifying for hedge accounting, the Company classifies realized gains (losses) for gold hedging contracts in revenue and fuel contracts in operating expenses.

The following table summarizes unrealized derivative gains for the years ended December 31, 2010 and 2009 included in the statement of operations. Refer to Note 10 (a).

	2010	2009
	$	$
Derivatives not classified as hedging instruments for accounting purposes		
Prepayment option	**7,679**	-
Gold hedging contracts	**-**	8,161
Fuel contracts	**-**	797
	7,679	8,958

For the years ended December 31, 2010 and 2009 there were no unrealized derivative gains (losses) recorded in earnings for derivatives classified as hedging instruments for accounting purposes.

11. Derivative instruments (continued)

The following table summarizes derivative gains (losses) in other comprehensive income for the years ended December 31, 2010 and 2009.

	2010	2009
	$	$
Effective portion of change in fair value of hedging instruments		
Gold hedging contracts - unrealized	**(85,849)**	(49,101)
Gold hedging contracts - realized	**20,035**	3,403
Fuel contracts	**(366)**	189
Future income tax	**27,572**	17,870
	(38,608)	(27,639)

The net amount of existing losses arising from the unrealized fair value of the Company's gold hedging contracts and fuel contracts, which are derivatives that are designated as cash flow hedges and are reported in other comprehensive income, would be reclassified to net earnings as contracts are settled on a monthly basis. The amount of such reclassification would be dependent upon fair values and amounts of the contracts settled. At December 31, 2010, the Company's estimate of the net amount of existing derivative losses arising from the unrealized fair value of derivatives designated as cash flow hedges, which are reported in other comprehensive income and are expected to be reclassified to net earnings in the next twelve months, excluding tax effects, is $31.1 million for gold hedging contracts and $nil million for fuel contracts.

(a) Gold hedging contracts

Under the terms of the term loan facility (Note 10 (c)), Western Mesquite Mines Inc. was required, as a condition precedent to drawdown the loan, to enter into a gold hedging program acceptable to the banking syndicate. As such, the Company executed gold forward sales contracts for 429,000 ounces of gold at a price of $801 per ounce. The hedging contracts represent a commitment of 5,500 ounces per month for 78 months that commenced July 2008
with the last commitment deliverable in December 2014. The Company settles these contracts, at the Company's option, by physical delivery of gold or on a net financial settlement basis. At December 31, 2010, the Company had remaining gold forward sales contracts for 264,000 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 48 months.

On July 1, 2009, the Company's gold hedging contracts were designated as cash flow hedges. Prospective and retrospective hedge effectiveness is assessed on these hedges using a hypothetical derivative method. The hypothetical derivative assessment involves comparing the effect of theoretical shifts in forward gold prices on the fair value of both the actual hedging derivative and a hypothetical derivative. The retrospective assessment involves comparing the effect of historic changes in gold prices each period on the fair value of both the actual and hypothetical derivative. The effective portion of the gold contracts is recorded in other comprehensive income until the forecasted gold sale impacts earnings. Where applicable, the fair value of the derivative has been adjusted to account for the Company's credit risk.

(b) Fuel contracts

The Company assumed fuel hedge contracts that represented a total commitment of 3.0 million gallons of fuel per year at weighted average prices of $1.75 and $1.94 per gallon in 2009 and 2010 upon the completion of the Western Goldfields business combination The

11. Derivative instruments (continued)

(b) Fuel contracts (continued)

Company was financially settling 252,000 gallons of diesel per month. At December 31, 2010, the Company had no outstanding fuel hedges remaining.

On July 1, 2009, the Company's fuel contracts were designated as cash flow hedges against forecasted purchases of fuel for expected consumption at the Mesquite Mine. Prospective and retrospective hedge effectiveness is assessed using the hypothetical derivative method. The prospective test is based on regression analysis of the month-on-month change in fair value of both the actual derivative and a hypothetical derivative caused by actual historic changes in commodity prices over prior periods. The retrospective test involves comparing the effect of historic changes in commodity prices each period on the fair value of both the actual and hypothetical derivative. The effective portion of changes in fair value of the commodity contracts is recorded in other comprehensive income until the forecasted transaction impacts earnings. Where applicable, the fair value of the derivative has been adjusted to account for the Company's credit risk.

12. Share capital

At December 31, 2010, the Company had unlimited authorized common shares and 399,042,000 common shares outstanding.

(a) Common shares issued

	Number of shares (000's)	$
Balance, January 1, 2009	212,841	1,321,110
Shares issued for mineral properties ((i) and (iii))	25	63
Acquisition of Western Goldfields (ii)	142,796	375,367
Shares issued (iv)	30,705	103,122
Exercise of options (v)	2,448	11,203
Balance, December 31, 2009	388,815	1,810,865
Exercise of options (vi)	**4,171**	**19,394**
Exercise of warrants (vii)	**6,056**	**16,453**
Balance, end of year	**399,042**	**1,846,712**

(i) On February 27, 2009, the Company issued 20,000 common shares valued at $46,000 related to other exploration projects

(ii) On May 27, 2009, the Company issued 142,796,000 common shares to effect the acquisition of Western Goldfields, as described in Note 4. These shares were issued at the closing share price of the Company on May 27, 2009, the transaction completion date, of $2.63 per share for total consideration of $375.4 million.

(iii) On August 31, 2009, the Company issued 5,000 common shares valued at $17,000 related to other exploration projects.

12. Share capital (continued)

(a) Common shares issued (continued)

(iv) On September 11, 2009, the Company closed a bought deal public offering of 26,700,000 common shares and the underwriters' exercise in full of an over-allotment option to purchase an additional 4,005,000 common shares granted the Company in connection with such offering at a price of $3.49 per share (Cdn$3.75 per share) for total gross proceeds of $107.2 million (Cdn$115.0 million). The Company incurred related share issuance costs of $4.1 million.

(v) During the year ended December 31, 2009, 2,448,000 common shares were issued pursuant to the exercise of stock options. The Company received proceeds of $5.4 million from these exercises and transferred $5.8 million from contributed surplus.

(vi) During the year ended December 31, 2010, 4,171,000 common shares were issued pursuant to the exercise of stock options. The Company received proceeds of $11.0 million from these exercises and transferred $8.4 million from contributed surplus.

(vii) On December 22, 2010, 6,056,000 common shares were issued pursuant to the exercise of warrants. The Company received proceeds of $4.6 million from these exercises and transferred $11.9 million from share purchase warrants.

(b) Stock options

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the Toronto Stock 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 and have a maximum term of ten years from date of grant. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather, the Company accounts for actual forfeitures as they occur.

The following table presents the changes in the stock options.

	Number of options	Weighted average exercise price
	(000's)	Cdn$
Balance, January 1, 2009	8,990	6.94
Options assumed on acquisition of Western Goldfields	5,699	1.58
Granted	5,762	3.02
Exercised	(2,448)	2.29
Cancelled	(2,679)	6.27
Balance, December 31, 2009	15,324	4.34
Granted	**2,704**	**4.80**
Exercised	**(4,171)**	**2.74**
Cancelled	**(1,609)**	**8.00**
Balance, December 31, 2010	**12,248**	**4.50**

12. Share capital (continued)

(b) Stock Options (continued)

The following table summarizes information about the stock options outstanding at December 31, 2010

		Options outstanding		Options exercisable	
Exercise prices	Weighted average remaining contractual life (years)	Number of stock options outstanding	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
Cdn$		(000's)	Cdn$	(000's)	Cdn$
0.34 - 0.99	2.73	771	0.73	771	0.73
1.00 - 1.99	2.58	394	1.68	394	1.68
2.00 - 2.99	4.75	1,722	2.59	600	2.37
3.00 - 3.99	4.96	3,499	3.26	1,248	3.34
4.00 - 4.99	5.86	2,180	4.39	37	4.49
5.00 - 5.99	3.99	473	5.70	177	5.44
6.00 - 6.99	1.80	631	6.38	631	6.38
7.00 - 7.99	2.39	1,545	7.71	1,358	7.69
8.00 - 8.99	6.86	150	8.84	-	-
9.00 - 9.99	1.20	700	9.30	700	9.30
10.00 - 11.00	0.41	183	11.00	183	11.00
0.34 - 11.00	4.09	12,248	4.50	6,099	5.07

The Company granted 2,258,000 stock options on January 27, 2010, 196,000 on May 11, 2010, 100,000 on August 10, 2010 and 150,000 on November 9, 2010 to employees, officers and directors. These options have an exercise price of Cdn$4.39, Cdn$5.93, Cdn$5.70 and Cdn$8.84 respectively. These options vest over a three year period and have a contractual life of five to seven years from date of grant. The fair value was determined using the Black-Scholes pricing model. A weighted average grant-date fair value of Cdn$3.16 was calculated using the following weighted average assumptions: no dividends are to be paid; volatility of 70%, risk free interest rate of 2.79%, and expected life of 6.7 years.

The Company granted 2,306,000 stock options on February 17, 2009, 3,394,000 on June 2, 2009 and 62,000 on November 2, 2009 to employees, officers and directors. These options have an exercise price of Cdn$2.71, Cdn$3.21 and Cdn$3.92, respectively. The options vest over a three year period and have a contractual life of five to seven years from date of grant. The fair value was determined using the Black-Scholes pricing model. A weighted average grant-date fair value of Cdn$1.72 was calculated using the following weighted average assumptions: no dividends are to be paid; volatility of 56%, risk free interest rate of 2.42%, and expected life of 6.8 years.

5,699,000 stock options were assumed on June 2, 2009 upon the acquisition of Western Goldfields as described in Note 4. These stock options were valued at $9.9 million as part of the business combination valuation.

At December 31, 2010, the intrinsic value of the stock options outstanding was $63.7 million (December 31, 2009 - $13.4 million) and the intrinsic value of the stock options that were exercisable was $28.5 million (December 31, 2009 - $9.4 million). For the year ended December 31, 2010, the intrinsic value of the stock options exercised during the year was $17.2 million (2009 - $3.4 million).

12. Share capital (continued)

(b) Stock Options (continued)

For the year ended December 31, 2010, the Company recorded $8.2 million (2009 - $6.6 million) as stock-based compensation expense and recorded this amount in contributed surplus. At December 31, 2010, the total value of the non-vested stock options that remain to be expensed is $6.1 million (December 31, 2009 - $6.3 million). It is expected that this amount shall be included in the determination of net income over the next 1.6 years.

(c) Share award units

	Number of units
Balance, January 1, 2009	-
Units granted	560,000
Balance, December 31, 2009	560,000
Units granted	**723,500**
Units settled in cash	**(361,000)**
Units cancelled	**(165,000)**
Balance, December 31, 2010	**757,500**

In 2009, the Company established a share award unit program as part of its long-term incentive program. Each share award unit allows the recipient, subject to certain plan restrictions, to receive cash on the entitlement date equal to the Company's share price on that date. One-third of the share awards units vest annually on the anniversary of the grant date. As the Company is required to settle these awards in cash, it will record an accrued liability and record a corresponding compensation expense. The share award unit is a financial instrument that will be fair valued at each reporting date based on the five day weighted average price of the Company's common shares. The changes in fair value will be included in the compensation expense for that period.

In 2010, the Company issued 723,500 share award units (2009 - 560,000 share award units). In the fourth quarter 2010, all vested share award units were settled in cash. At December 31, 2010 there were 757,500 non-vested share award units outstanding. Including the mark-to-market adjustment for the share award units previously issued, the Company recorded $6.1 million as compensation expense for the year ended December 31, 2010 (2009 - $0.2 million). A portion of this expense has been capitalized for recipients working at the Company's development projects. The total value of the non-vested share award units that remains to be expensed is $3.8 million (December 31, 2009 - $1.9 million). It is expected that this amount will be included in the determination of net income over the next 1.9 years.

12. Share capital (continued)

(d) Share purchase warrants

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

	Number of warrants	Common Shares Issuable	Weighted average exercise price
	(000's)	(000's)	Cdn$
Balance, January 1, 2009 (i)	322,337	60,111	13.80
Issued (i)	25	25	15.00
Western Goldfields share purchase warrants exercisable into New Gold shares* (ii)	6,056	6,056	0.76
Expired (iii)	(3,150)	(3,150)	6.11
Balance, December 31, 2009	325,268	63,042	12.93
Exercised* (ii)	(6,056)	(6,056)	0.76
Balance, December 31, 2010	**319,212**	**56,986**	**14.22**

*The exercise price of these US$0.76 warrants have been converted to Canadian dollars for presentation purposes.

(i) The Company has 217,500,000 share purchase warrants (Series B) outstanding that entitle the holders of these warrants to purchase one common share for Cdn$15.00 per share for every 10 share purchase warrants held. These warrants expire on April 3, 2012.

On February 28, 2008, the Company issued 73,862,000 common share purchase warrants (Series C) upon the conversion of the Special Warrants previously issued. 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 $0.32 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. The holders of these warrants are entitled to purchase one common share for Cdn$9.00 per share for every 10 share purchase warrants held. These share purchase warrants expire November 28, 2012.

On June 30, 2008, the Company issued 17,758,000 shares purchase warrants to effect the acquisition of Metallica. These share purchase warrants were valued at $46.7 million as part of the business combination valuation. At January 1, 2009, 3,150,000 of these share purchase warrants were outstanding.

On June 30, 2008, the Company issued 27,850,000 share purchase warrants (Series A) to effect the acquisition of New Gold Inc. These share purchase warrants were valued at $57.4 million as part of the business combination valuation. The holders of these warrants are entitled to purchase one common share for Cdn$15.00 per share for every share purchase warrant held. These share purchase warrants expire on June 28, 2017.

(ii) On May 27, 2009, the Company issued 6,056,000 share purchase warrants to effect the acquisition of Western Goldfields, as described in Note 4. The warrants were valued at $11.9 million as part of the business combination valuation. The holders of these warrants were entitled to purchase one common share for US$0.76 per share for every share purchase warrant held. During the year ended December 31, 2010 these share purchase warrants were exercised resulting in the Company issuing 6,056,000 common shares.

12. Share capital (continued)

(d) Share purchase warrants (continued)

(iii) During the year ended December 31, 2009, the remaining 3,150,000 share purchase warrants relating to the June 30, 2008 acquisition of Metallica expired resulting in a transfer from share purchase warrants to contributed surplus of $6.8 million.

The following table summarizes information about outstanding share purchase warrants at December 31, 2010.

Series	Number of warrants	Common Shares Issuable	Exercise prices	Expiry date
	(000's)	(000's)	Cdn$	
Series B	217,500	21,750	15.00	April 3, 2012
Series C	73,862	7,386	9.00	November 28, 2012
Series A	27,850	27,850	15.00	June 28, 2017
	319,212	56,986		

12. Share capital (continued)

(e) Net earnings per share

The following table sets forth the computation of diluted earnings (loss) per share for the years ended December 31, 2010 and 2009:

	2010	2009
Earnings (loss) from continuing operations	**$134,931**	($183,434)
Earnings (loss) from discontinued operations, net of tax	**42,023**	(10,882)
Net earnings (loss)	**$176,954**	($194,316)
(in thousands)		
Basic weighted average number of shares outstanding	**390,883**	306,288
Effect of diluted securities		
Stock options	**4,350**	-
Warrants	**-**	-
Diluted weighted average number of shares outstanding	**395,233**	306,288
Earnings (loss) per share from continuing operations		
Basic	**$0.35**	($0.60)
Diluted	**$0.34**	($0.60)
Earnings (loss) per share from discontinued operations		
Basic	**$0.11**	($0.04)
Diluted	**$0.11**	($0.04)
Earnings (loss) per share		
Basic	**$0.46**	($0.64)
Diluted	**$0.45**	($0.64)

The following lists the equity securities excluded from the computation of diluted earnings per share. For the years ended December 31, 2010 and 2009, the equity securities were excluded as the exercise prices related to the particular security exceed the average market price of the common shares of the Company of Cdn$6.26 (2009 – Cdn$3.13) for the period.

	2010	2009
	(000's)	(000's)
Stock options	**2,881**	9,465
Share purchase warrants	**56,986**	56,986
Convertible debentures	**5,900**	5,900

13. Income and mining taxes

	2010	2009
	$	$
Current income and mining tax expense	**58,307**	16,347
Future income and mining tax recovery	**(17,197)**	(1,441)
	41,110	14,906

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before taxes. These differences result from the following items:

	2010	2009
	$	$
Earnings (loss) before taxes	**176,041**	(168,528)
Canadian federal and provincial income tax rates	**28.50%**	30.00%
Income tax expense based on above rates	**50,172**	(50,987)
Increase (decrease) due to		
Non-taxable income	**(12,851)**	(11,715)
Non-deductible expenditures	**3,623**	14,287
Different statutory tax rates on earnings of foreign subsidiaries	**9,993**	2,882
Impact of decrease in tax rates on future income taxes	**(702)**	9,832
Adjustment of prior year provision to statutory tax returns	**1,645**	(2,839)
Non-taxable gain	**(15,993)**	-
Goodwill write down	**-**	57,769
Benefit of losses not recognized in period	**595**	650
Change in valuation allowance and other	**4,628**	(4,973)
	41,110	14,906

13. Income and mining taxes (continued)

The components of future income taxes are as follows:

	2010	2009
	$	$
Future income and mining tax assets		
Tax loss carryforwards	**42,343**	19,708
Unrealized hedging losses	**45,440**	20,228
Investment tax credits	**11,256**	-
Deductible temporary differences	**27,937**	3,770
Deferred financing costs and other	**11,241**	14,616
Value of future income tax and mining assets	**138,217**	58,322
Valuation allowance	**(15,570)**	(18,202)
Future income and mining tax assets	**122,647**	40,120
Future income and mining tax liabilities		
Accumulated cost base differences on assets	**(392,615)**	(345,448)
Future income and mining tax liabilities, net	**(269,968)**	(305,328)
Presented on the consolidated balance sheets as		
Future income and mining tax assets	**9,127**	8,848
Future income and mining tax assets - non-current	**931**	2,250
Future income and mining tax liabilities	**(280,026)**	(316,426)
Future income and mining tax liabilities, net	**(269,968)**	(305,328)

Deductible temporary differences are comprised primarily of book to tax differences relating to the Company's reclamation liabilities. Taxable temporary differences are comprised primarily of book to tax differences relating to the value of the Company's mining interests acquired from corporate acquisitions.

Tax loss carryforwards

At December 31, 2010 the following tax loss carryforwards have been recognized in the table above and have been tax effected, the Company has:

(i) Canadian income tax losses of approximately $67.1 million that expire from 2014 through 2030;

(ii) Canadian capital loss carryforwards of approximately $89.9 million that may be available for tax purposes. These losses carryforward indefinitely.

(iii) U.S. loss carryforwards of approximately $22.0 million that expire from 2021 through 2028;

(iv) Mexican loss carryforwards of approximately $0.1 million that expire from 2011 through 2017;

(v) Chilean loss carryforwards of approximately $1.6 million that may be available for tax purposes. These losses carry forward indefinitely.

13. Income and mining taxes (continued)

The Company is subject to taxes in Canada, the United States, Mexico, Australia and various other jurisdictions. The tax years of the major tax jurisdictions which remain subject to examination at December 31, 2010 are as follows:

Canada	2006 to 2010
United States	2005 to 2010
Mexico	2005 to 2010
Australia	2005 to 2010

14. Reclamation and closure cost obligations

Reclamation and closure cost obligations are asset retirement obligations ("ARO") that arise from the acquisition, development, construction and normal operation of mining property, plant and equipment, due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The Company has future obligations to retire its mining assets including dismantling, remediation and ongoing treatment and monitoring of sites. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future are subject to change, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

The Company's asset retirement obligations consist of reclamation and closure costs for the Mesquite Mine, Cerro San Pedro Mine, Peak Mine and the New Afton development project. Significant reclamation and closure activities include land rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs.

Changes to the reclamation and closure cost balance are as follows:

	Mesquite Mine	Cerro San Pedro Mine	Peak Mine	New Afton Project	Total
	$	$	$	$	$
Balance, January 1, 2009	-	3,258	5,509	182	8,949
Acquisition (Note 4)	5,221	-	-	-	5,221
Reclamation expenditures	-	-	(32)	-	(32)
Accretion	203	316	521	75	1,115
Revisions to expected cash flows	163	843	880	1,556	3,442
Foreign exchange	-	201	1,574	33	1,808
Balance, December 31, 2009	5,587	4,618	8,452	1,846	20,503
Reclamation expenditures	**(23)**	**-**	**(19)**	**-**	**(42)**
Accretion	**391**	**411**	**747**	**134**	**1,683**
Revisions to expected cash flows	**(386)**	**1,855**	**1,881**	**81**	**3,431**
Foreign exchange	**-**	**242**	**1,117**	**102**	**1,461**
Balance, December 31, 2010	**5,569**	**7,126**	**12,178**	**2,163**	**27,036**
Less: current portion	**(8)**	**(490)**	**(817)**	**-**	**(1,315)**
	5,561	**6,636**	**11,361**	**2,163**	**25,721**

The current portion of the reclamation and closure cost obligations have been included in accounts payable and accrued liabilities.

14. Reclamation and closure cost obligations (continued)

Each period the Company reviews cost estimates and other assumptions used in the valuation of ARO's at each of its mining properties and development property to reflect events, changes in circumstances and new information available. Changes in these cost estimates and assumptions have a corresponding impact on the fair value of the ARO. The fair values of ARO's are measured by discounting the expected cash flows using a discount factor that reflects the credit-adjusted risk-free rate of interest. The Company prepares estimates of the timing and amount of expected cash flows when an ARO is incurred. Expected cash flows are updated to reflect changes in facts and circumstances. The principal factors that can cause expected cash flows to change are: the construction of new processing facilities; changes in the quantities of material in reserves and a corresponding change in the life-of-mine plan; changing ore characteristics that impact required environmental protection measures and related costs; changes in water quality that impact the extent of water treatment required; and changes in laws and regulations governing the protection of the environment. When expected cash flows increase, the revised cash flows are discounted using a current discount factor whereas when expected cash flows decrease the reduced cash flows are discounted using a historic discount factor, and then in both cases any change in the fair value of the ARO is recorded. The fair value of an ARO is recorded when it is incurred.

(a) Mesquite Mine

In December 2010, the Company updated the ARO related to the Mesquite Mine with assistance from an independent third-party engineering firm. The impact of the assessment was a decrease of $0.4 million relating to changes in timing of future reclamation activities. The undiscounted value of this liability is $11.8 million (2009 - $11.0 million). The liability has been estimated using an inflation rate of 3% and credit adjusted discount rates between 7% and 8%. The Company expects to incur ARO expenditures between 2011 and 2028.

The Mesquite Mine has a bonding and insurance program, primarily with American International Specialty Lines Insurance Company ("AIG Insurance"), in respect of the operations and closure liabilities of mine. At December 31, 2010, the Company had $9.0 million in a reimbursement account with AIG.

The insurance program covers closure and reclamation risk in excess of the amount on deposit in the reimbursement account with an aggregate limit of $17.5 million, and expires November 7, 2020. The program also covers pollution and remediation risk up to $10.0 million and includes coverage for pre-existing conditions and new conditions. The pre-existing conditions policy expires on November 7, 2013.

(b) Cerro San Pedro

In December 2010, the Company updated the ARO related to the Cerro San Pedro Mine that had previously been prepared with assistance from an independent third-party engineering firm. The impact of the assessment was an increase of $1.9 million relating to changes in timing of future reclamation activities. The undiscounted value of this liability is $13.7 million (2009 - $9.9 million). The liability has been estimated using inflation rates between 4.5% and 5% and credit adjusted discount rates between 7% and 10%. The Company expects to incur ARO expenditures between 2011 and 2024.

(c) Peak Mine

In December 2010, the Company updated the ARO related to the Peak Mine. The impact of the assessment was an increase of $1.9 million relating to changes in timing of future reclamation activities. The undiscounted value of this liability is $26.5 million (2009 - $17.1 million). The liability has been estimated using inflation rates of between 1.9% and 4% and, credit adjusted discount rates of between 6.5% and 10%. The Company expects to incur ARO expenditures between 2011 and 2021.

14. Reclamation and closure cost obligations (continued)

(c) Peak Mine (continued)

The Company is required to have a performance bond to satisfy asset retirement obligations for the Peak Mine. During 2010, the Company renegotiated the performance bond agreement to provide letters of credit to satisfy the performance bond requirement. The letters of credit are backed by the revolving credit facility (Note 10 (e)). The total amount of the letters of credit outstanding is $10.3 million (AUD$10.1 million). A fee is charged at a rate 2.35% per annum.

(d) New Afton

The Company is continuing to develop the New Afton Mine. During the year ended December 31, 2010, the Company updated the ARO related to the New Afton Mine with assistance from an independent third-party engineering firm. The impact of the assessment was an increase of $0.1 million relating to changes in timing of future reclamation activities. The undiscounted value of this liability is $6.4 million (2009 - $5.9 million). The liability has been estimated using an inflation rate of between 1.6% and 1.9% and a credit adjusted discount rate of between 7% and 10%. The Company expects to incur ARO expenditures between 2025 and 2028.

In connection with this plan, the British Columbia Ministry of Natural Resource Operations has required the Company to establish a reclamation deposit in the amount of $8.0 million (Cdn$8.0 million) as of December 31, 2010 (2009 - $6.2 million (Cdn$6.5 million)). The Company is required to increase the reclamation deposit by Cdn$1.5 million a year until the reclamation deposit totals Cdn$11.0 million. In January 2011, the Company replaced the reclamation deposit with a letter of credit and has received the restricted cash back. The letter of credit issued in 2011 is secured by the revolving credit facility (Note 10 (e)).

15. Supplemental cash flow information

	2010	**December 31,** 2009
	$	$
Change in non-cash working capital		
Accounts receivable	**(145)**	(233)
Inventories and stockpiled ore	**(13,517)**	(18,239)
Accounts payable and accrued liabilities	**23,493**	5,210
Prepaids and other	**(3,759)**	(335)
	6,072	(13,597)
Operating activities included the following payments:		
Interest paid	**20,895**	22,614
Income taxes paid	**41,855**	8,290

Non-cash investing activities includes $4.4 million for the year ended December 31, 2010 (2009 - $3.7 million), and represents the Company's share of contributions to the El Morro project funded by the joint venture partner (Note 10 (d)). The completion of the Agreement with Goldcorp after the Company had exercised its right of first refusal to acquire a 70% interest in the El Morro Project resulted in non-cash retirement of debt to Goldcorp of $463.0 million and the non-cash disposal of the 70% interest in the El Morro project of $463.0 million.

16. Segmented information

The Company manages its operations by geographical location. The results from operations for these reportable operating segments are summarized in the table below:

	Year ended December 31, 2010				
	USA	Mexico	Australia	Other [1]	Total
	$	$	$	$	$
Revenues	189,361	190,459	150,630	-	530,450
Operating expenses	(100,896)	(72,461)	(76,981)	-	(250,338)
Depreciation and depletion	(26,379)	(33,798)	(16,839)	-	(77,016)
Earnings from mine operations	62,086	84,200	56,810	-	203,096
Corporate administration	-	-	-	(32,622)	(32,622)
Exploration	(2,912)	(1,971)	(5,109)	(2,842)	(12,834)
Impairment charge of exploration asset	-	-	-	(15,728)	(15,728)
Earnings (loss) from operations	59,174	82,229	51,701	(51,192)	141,912
Other income (expense)					
Realized and unrealized loss on investments	-	-	-	9,128	9,128
Unrealized gain on prepayment option	-	-	-	7,679	7,679
Interest and other income	227	524	300	2,207	3,258
Gain on sale of investment	-	-	-	39,710	39,710
Interest and finance fees	(246)	(314)	(93)	(294)	(947)
Other expense	76	(1,819)	(1,146)	6	(2,883)
Gain (loss) on foreign exchange	72	(13,769)	(7,777)	(342)	(21,816)
Earnings before taxes	59,303	66,851	42,985	6,902	176,041
Income and mining taxes	(18,202)	(20,504)	(16,102)	13,698	(41,110)
Net earnings from continuing operations	41,101	46,347	26,883	20,600	134,931

(1) Other includes corporate balances and exploration properties. Results of operations for the Canadian and Chilean development properties have been included in Other as these properties are still in the development phase with no revenues or operating costs.

16. Segmented information (continued)

	Year ended December 31, 2009				
	USA (1)	Mexico	Australia	Other (2)	Total
	$	$	$	$	$
Revenues	94,506	112,642	116,632	-	323,780
Operating expenses	(59,245)	(59,448)	(57,798)	-	(176,491)
Depreciation and depletion	(16,513)	(25,070)	(17,023)	(62)	(58,668)
Earnings from mine operations	18,748	28,124	41,811	(62)	88,621
Corporate administration	-	-	-	(24,689)	(24,689)
Business combination transaction costs	-	-	-	(6,583)	(6,583)
Exploration	-	(3,011)	(1,270)	(2,131)	(6,412)
Impairment charge of exploration asset	-	-	-	-	-
Goodwill impairment charge	(192,099)	-	-	-	(192,099)
(Loss) earnings from operations	(173,351)	25,113	40,541	(33,465)	(141,162)
Other income (expense)					
Realized and unrealized gain on gold contracts	8,161	-	-	-	8,161
Realized and unrealized gain on fuel contracts	797	-	-	-	797
Realized and unrealized gain on investments	-	-	-	351	351
Interest and other income	78	619	(207)	3,668	4,158
Gain on redemption of long-term debt	-	-	-	14,236	14,236
Interest and finance fees	(1,108)	-	(151)	(176)	(1,435)
Other expense	(715)	-	-	(252)	(967)
Gain (loss) on foreign exchange	112	(20,674)	(8,284)	(23,821)	(52,667)
(Loss) earnings before taxes	(166,026)	5,058	31,899	(39,459)	(168,528)
Income and mining taxes	7,548	(15,697)	(5,239)	(1,518)	(14,906)
Net (loss) earnings from continuing operations	(158,478)	(10,639)	26,660	(40,977)	(183,434)

(1) Segment acquired on May 27, 2009 (Note 4) - results from operations for period of ownership.

(2) Other includes corporate balances and exploration properties. Results of operations for the Canadian and Chilean development properties have been included in Other as these properties are still in the development phase with no revenues or operating costs.

	Total Assets(3)		Expenditures for mining interest	
	2010	2009	**2010**	2009
	$	$	**$**	$
USA (1)	**421,089**	414,893	**9,081**	1,527
Mexico	**454,785**	442,300	**10,993**	3,460
Australia	**257,620**	228,420	**32,481**	28,581
Canada	**860,174**	739,251	**132,355**	81,471
Chile	**397,402**	392,976	**4,394**	5,186
Other (2)	**347,844**	233,041	**406**	696
	2,738,914	2,450,881	**189,710**	120,921

(1) Segment acquired on May 27, 2009 (Note 4).
(2) Other includes corporate balances and exploration properties.
(3) Includes assets from continuing operations only.

17. 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 investments.

Capital, as defined above, at December 31, 2010 and December 31, 2009 is summarized in the following table.

	2010	2009
	$	$
Shareholders' equity	**1,893,191**	1,731,045
Long-term debt	**229,884**	237,544
	2,123,075	1,968,589
Cash and cash equivalents	**(490,754)**	(262,325)
Investments	**(7,533)**	(45,890)
	1,624,788	1,660,374

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 budget and quarterly updated forecasts are approved by the Board of Directors. The Company's investment policy is to invest its surplus funds in permitted investments consisting of treasury bills, bonds, notes and other evidences of indebtedness of Canada, the U.S. or any of the Canadian Provinces with a minimum credit rating of R-1 mid from the Dominion Bond Rating Service ("DBRS") or an equivalent rating from Standard & Poors and Moody's and with maturities of 90 days or less at the original date of acquisition. In addition, the Company is permitted to invest in bankers' acceptances and other evidences of indebtedness of certain financial institutions. At all times, more than 25% of the aggregate amount of permitted investments must be invested in treasury bills, bonds, notes and other indebtedness of Canada or Provinces with a minimum credit rating of R-1 mid from DBRS. 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 policy, the Company is not permitted to make new investments in ABCP or auction rate securities.

The Company has a long-term note indenture (Note 10) that contains 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 the New Afton project.

18. Financial risk management

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) 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 credit 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 to primarily five customers.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold and copper concentrate trade receivables at December 31, 2010 is not considered to be high.

The Company's maximum exposure to credit risk is as follows:

	2010	2009
	$	$
Cash and cash equivalents	**490,754**	262,325
Restricted cash	**-**	9,201
Accounts receivable	**11,929**	10,345
Mark-to-market gain on fuel contracts	**-**	706
Investments	**7,533**	45,890
Reclamation deposits and other assets	**31,295**	17,646
	541,511	346,113

The aging of accounts receivable was as follows:

	0-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	**2010 Total**	2009 Total
	$	$	$	$	$	**$**	$
Mesquite Mine	193	-	249	-	-	**442**	273
Cerro San Pedro Mine	3,501	74	42	18	163	**3,798**	5,348
Peak Mine	3,159	-	1	-	16	**3,176**	3,922
New Afton	3,581	-	-	-	-	**3,581**	632
Corporate	932	-	-	-	-	**932**	170
	11,366	74	292	18	179	**11,929**	10,345

18. Financial risk management (continued)

(a) Credit risk (continued)

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 with high investment-grade ratings and the governments of Canada and the U.S.

The Company employs a restrictive investment policy as detailed in the capital risk management section (Note 17).

The Company has a bonding and insurance program, primarily with Chartis, formerly American International Specialty Lines Insurance Company ("AIG Insurance"), in respect of the operations and closure liabilities of the Mesquite Mine. At December 31, 2010, the Company had $9.0 million in the account. In September 2008, AIG Insurance's parent company, American International Group, Inc. ("AIG"), suffered a liquidity crisis following the downgrade of its credit rating. The United States Federal Reserve loaned money to AIG in order for the company to meet its obligations to post additional collateral to trading partners. As a result of Federal and State laws governing the operation of AIG Insurance and segregation of funds, it is not believed that the Company's funds are at risk. During 2009, AIG worked through its restructuring under the supervision of the Federal Reserve Bank of New York and the U.S. Department of the Treasury. The U.S. Department of the Treasury has a majority stake in the equity of AIG, which owns Chartis. Chartis is advancing towards the goal of becoming an independent property-casualty and general insurance company and in December 2010 announced that they had signed a definitive recapitalization agreement with the government in the U.S.
The Company sells all of its copper concentrate production to a customer under an off-take contract. The loss of this customer or unexpected termination of the off-take contract could have a material adverse effect on the Company's results of operations, financial condition and cash flows, however there are alternative customers in the market.

The Company is not economically dependent on a limited number of customers for the sale of its gold because gold can be sold through numerous commodity market traders worldwide.

The Company has five customers that account for over 95% (2009, 90%) of the concentrate and doré sales revenue.

Metal sales

Customer	2010	2009
	$	$
1	**186,450**	**112,733**
2	**142,029**	**59,516**
3	**87,758**	**48,011**
4	**62,735**	**47,677**
5	**22,986**	**24,728**
Total	**501,958**	**292,665**
% of total metal sales	**95%**	**90%**

18. Financial risk management (continued)

(b) 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 17.

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.

	Less than 1 year	1-3 years	4-5 years	After 5 years	**2010 Total**	December 31 2009 Total
	$	$	$	$	**$**	$
Accounts payable and accrued liabilities	66,654	-	-	-	**66,654**	36,033
Long-term debt	-	-	55,297	188,010	**243,307**	258,467
Interest payable on long-term debt	21,566	43,132	38,958	28,201	**131,857**	147,352
Gold contracts	40,072	76,620	36,683	-	**153,375**	95,986
	128,292	119,752	130,938	216,211	**595,193**	537,838

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 continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations. A period of continuous low gold and copper prices may necessitate the deferral of capital expenditures which may impact production from mining operations. These statements are based on the current financial position of the Company and are subject to change if any acquisitions or external growth opportunities are realized.

(c) Currency risk

The Company operates in Canada, Australia, Mexico, Chile and the United States. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars. The three main types of foreign exchange risk of the Company can be categorized as follows:

(i) Transaction exposure

The Company's operations sell commodities and incur costs in different currencies. This creates 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.

18. Financial risk management (continued)

(c) Currency risk (continued)

(ii) 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, investments, accounts receivable, reclamation deposits, accounts payable and accruals, reclamation and closure cost obligations and long-term debt. The currencies of the Company's financial instruments and other foreign currency denominated liabilities, based on notional amounts, were as follows:

				December 31,2010
	Canadian dollar	**Australian dollar**	**Mexican peso**	**Chilean peso**
Cash and cash equivalents	**331,948**	**41,254**	**5,224**	**11**
Investments	**7,533**	**-**	**-**	**-**
Accounts receivable	**4,556**	**3,176**	**3,063**	**39**
Reclamation deposit	**8,043**	**-**	**-**	**-**
Prepayment option	**7,679**	**-**	**-**	**-**
Accounts payable and accruals	**(24,458)**	**(24,415)**	**(34,003)**	**-**
Reclamation and closure cost obligations	**(2,163)**	**(11,361)**	**(5,739)**	**-**
Share award units	**(3,294)**	**-**	**-**	**-**
Long-term debt	**(221,832)**	**-**	**-**	**-**
Gross balance sheet exposure	**108,012**	**8,654**	**(31,455)**	**50**

				December 31, 2009
	Canadian dollar	Australian dollar	Mexican peso	Chilean peso
Cash and cash equivalents	165,147	32,008	2,670	18
Investments	45,890	-	-	-
Accounts receivable	549	3,922	5,674	-
Reclamation deposit	6,211	-	-	-
Accounts payable and accruals	(6,529)	(11,566)	(8,806)	(94)
Reclamation and closure cost obligations	(1,846)	(8,330)	(4,314)	-
Long-term debt	(206,653)	-	-	-
Gross balance sheet exposure	2,769	16,034	(4,776)	(76)

(iii) Translation exposure

The Company's functional and reporting currency is U.S. dollars. The Company's operations translate their operating results from the host currency to U.S. dollars. Therefore, exchange rate movements in the Canadian dollar, Australian dollar, Mexican peso and Chilean peso can have a significant impact on the Company's consolidated operating results. As described in Note 18 (c) (ii), some of the Company's earnings translation exposure to financial instruments 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 earnings (loss) before taxes from continuing operations from the financial instruments presented in Note 18 (c) (ii) by the amounts shown below.

18. Financial risk management (continued)

(c) Currency risk (continued)

	2010	2009
	$	$
Canadian dollar	**10,801**	277
Australian dollar	**865**	1,603
Mexican peso	**(3,146)**	(478)
Chilean peso	**5**	(8)
	8,525	1,394

(d) Interest rate risk

Interest rate risk is the risk that the fair value or 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 short-term investments. All of the Company's outstanding debt obligations are fixed therefore there is no exposure to changes in market interest rates. The revolving credit facility interest is variable, however the facility is undrawn at December 31, 2010. In particular, the Company is exposed to interest rate changes on short term investments which are included in cash and cash equivalents. The short term investment interest earned is based on prevailing one to 90 days money market interest rates which may fluctuate. A 1.0% change in the interest rate would result in an annual difference of approximately $3.0 million in interest earned by the Company. The Company has not entered into any derivative contracts to manage this risk. Where possible and depending on market conditions, the Company follows the policy of issuing fixed interest rate debt to avoid future fluctuations in its debt service costs.

(e) Price risk

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 and are affected by numerous factors beyond the Company's 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.

As part of the Western Goldfields acquisition described in Note 4, the Company acquired gold contracts which mitigate the effects of price changes. The Company designated these contracts as an accounting cash flow hedge effective July 1, 2009 as described in Note 11 (a). At December 31, 2010 the Company had remaining gold forward sales contracts for 264,000 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 48 months.

18. Financial risk management (continued)

(e) Price risk (continued)

In the year ended 2010, the Company's revenues and cash flows were impacted by the variation in copper prices in the range of $2.76 and $4.42 per pound. There is a time lag between the time of shipment for copper and final pricing and changes in copper pricing can significantly impact the Company's revenue and working capital position. As of December 31, 2010, working capital includes copper concentrate receivables totaling 0.3 million pounds. A $0.10 change in copper price would have an impact of $0.1 million on the Company's working capital position.

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. As described in Note 11 (b), the Company had entered into fuel contracts to mitigate these price risks. At December 31, 2010, the Company has no remaining commitment to purchase diesel.

The Company is also subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, a share award unit plan that the Company is required to satisfy in cash upon vesting. The amount of cash the Company will be required to expend is dependent upon the price per common share at the time of vesting. The Company considers this plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in compensation expense each period.

An increase in Gold, Copper and Silver prices would increase the Company's net earnings whereas an increase in Fuel or Share Award Unit prices would decrease the Company's net earnings. A 10% increase in prices would impact the Company's net earnings (loss) before taxes from continuing operations and other comprehensive income before taxes as follows:

				December 31,
	2010 Net Earnings	**2010 Other Comprehensive Income**	2009 Net Earnings	2009 Other Comprehensive Income
	$	**$**	$	$
Gold price	**44,076**	**33,201**	27,303	31,793
Copper price	**4,889**	**-**	3,531	-
Silver price	**4,588**	**-**	2,136	-
Fuel price	**3,624**	**-**	2,700	695
Share award unit	**329**	**-**	-	-

19. Fair value measurement

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

At December 31, 2010 and December 31, 2009, the Company's financial assets and liabilities are categorized as follows:

				December 31, 2010
	Loans and Receivables	**Held at Fair value**	**Financial Liabilities at Amortized Cost**	**Total**
	$	**$**	**$**	**$**
Financial Assets				
Cash and cash equivalents	**-**	**490,754**	**-**	**490,754**
Accounts receivable	**11,929**	**-**	**-**	**11,929**
Prepayment option	**-**	**7,679**	**-**	**7,679**
Investments	**-**	**7,533**	**-**	**7,533**
Reclamation deposits	**-**	**17,955**	**-**	**17,955**
Financial Liabilities				
Accounts payable and accrued liabilities	**-**	**-**	**66,654**	**66,654**
Long-term debt	**-**	**-**	**229,884**	**229,884**
Gold contracts	**-**	**153,375**	**-**	**153,375**
Share award units	**-**	**3,294**	-	**3,294**

				December 31, 2009
	Loans and Receivables	Held at Fair value	Financial Liabilities at Amortized Cost	Total
	$	$	$	$
Financial Assets				
Cash and cash equivalents	-	262,325	-	262,325
Restricted cash	-	9,201	-	9,201
Accounts receivable	10,345	-	-	10,345
Fuel contract	-	706	-	706
Prepayment option	-	-	-	-
Investments	-	45,890	-	45,890
Reclamation deposits	-	17,646	-	17,646
Financial Liabilities				
Accounts payable and accrued liabilities	-	-	36,033	36,033
Long-term debt	-	-	237,544	237,544
Gold contracts	-	95,986	-	95,986
Share award units	**-**	217	-	217

19. Fair value measurement (continued)

At December 31, 2010 and December 31, 2009, the carrying values and the fair values of the Company's financial instruments are shown in the following table.

	December 31, 2010		December 31, 2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	$	**$**	$	$
Financial Assets				
Cash and cash equivalents	**490,754**	**490,754**	262,325	262,325
Restricted cash	**-**	**-**	9,201	9,201
Accounts receivable	**11,929**	**11,929**	10,345	10,345
Fuel contract	**-**	**-**	706	706
Prepayment option	**7,679**	**7,679**	-	-
Investments	**7,533**	**7,533**	45,890	45,890
Reclamation deposits	**17,955**	**17,955**	17,646	17,646
Financial Liabilities				
Accounts payable and accrued liabilities	**66,654**	**66,654**	35,816	35,816
Long-term debt	**229,884**	**276,887**	237,544	265,696
Gold contracts	**153,375**	**153,375**	95,986	95,986
Share award units	**3,294**	**3,294**	217	217

The Company has certain financial assets and liabilities that are held at fair value. Cash and cash equivalents, restricted cash and reclamation deposits fair values approximate their historic value due to the short term nature of these items. The fuel contract, investments and the gold contracts are presented at fair value at each reporting date using appropriate valuation methodology. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The senior secured notes and the subordinated convertible debentures are traded on a public exchange. The fair value estimates for these notes have been estimated using the December 31, 2010 and December 31, 2009 closing prices. The El Morro project funding is a fixed rate facility whose carrying value approximates fair value.

19. Fair value measurement (continued)

The following table summarizes information relating to the fair value determination of the Company's financial instruments which are fair valued on a recurring basis.

			2010
	Level 1	Level 2	Level 3
	$	$	$
Cash and cash equivalents	490,754	-	-
Reclamation deposits	17,955	-	-
Prepayment option	-	7,679	-
Gold contracts	-	(153,375)	-
Investments	-	7,533	-
Share award units	-	3,294	-

20. Related parties

Certain directors and officers of the Company are also directors of a company to which the Company pays royalties in the normal course of business. Royalty payments were $7.1million for the year ended December 31, 2010 (2009 - $4.2 million). At December 31, 2010, the Company had $2.1 million included as accrued liabilities related to this company (December 31, 2009 - $1.3 million). These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.

A director of New Gold Inc. is also a director of the company that purchased from New Gold Inc. an interest in the El Morro project as described in Note 9. That company is now the 70% owner manager of the El Morro project.

21. Commitments and contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. If the assessment of a contingency suggests that a loss is probable, and the amount can be reliably estimated, then a loss is recorded. When a contingent loss is not probable but is reasonably possible, or is probable but the amount of loss cannot be reliably estimated then details of the contingent loss are disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. Legal fees incurred in connection with pending legal proceedings are expensed as incurred.

(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 and operating leases for its operations. At December 31, 2010, these commitments totaled $156.9 million, of which $86.2 million are expected to fall due over the next 12 months.

21. Commitments and contingencies (continued)

(b) The Company had previously recognized a contingent liability for certain claims against the Amapari Mine, of which claims were assumed by Beadell upon closing of the Amapari Mine sale on April 13, 2010. As part of the agreement selling the Amapari Mine, the Company provided general indemnity for one year in connection with the representations and obligations of the Company under the sale agreement. The indemnity is limited to claims in excess of an amount equal to $5.0 million and in no event shall the aggregate amount of all claims exceed $10 million.

(c) El Morro Transaction

On January 13, 2010, New Gold Inc. received a Statement of Claim filed by Barrick in the Ontario Superior Court of Justice, against New Gold Inc., Goldcorp and affiliated subsidiaries. A Fresh Amended Statement of Claim was received in August 2010 which included Xstrata and its affiliated subsidiaries as defendants. The claim relates to New Gold Inc.'s exercise of its right of first refusal with respect to the El Morro copper gold project. New Gold Inc. believes the claim is without merit and intends to defend this action using all available legal avenues. No amounts have been accrued for any potential loss under this claim.

(d) Cerro San Pedro Mine

New Gold owns 100% of the Cerro San Pedro Mine through the Mexican Company, Minera San Xavier S.A. de C.V. ("MSX")

The Cerro San Pedro Mine is in full operation and legal challenges relate primarily to a land use dispute; New Gold is in compliance with all environmental permits at Cerro San Pedro Mine.

On November 18, 2009 PROFEPA, the Mexican environmental enforcement agency, issued an order that MSX was to suspend mining operations at the Cerro San Pedro Mine. PROFEPA's order followed a ruling by the Federal Court of Fiscal and Administrative Justice ("FCFAJ") in September 2009 that SEMARNAT, the Mexican government's environmental protection agency, nullify the Mine's Environmental Impact Statement ("EIS") which was issued in 2006. The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue during the appeals process. The latest injunction was received on October 4, 2010.

MSX appealed the September 2009 ruling of the FCFAJ. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. MSX appealed the negative decision and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of MSX's position in its appeal against the September 2009 nullification of the EIS. That ruling effectively reestablishes the validity of the mine's 2006 EIS.

MSX continues to work with all levels of government and other external stakeholders to maintain uninterrupted operation the Cerro San Pedro Mine.

22. Subsequent events

(a) Sale of investments

In February 2011, the Company disposed of $20.9 million face value AB Notes, which had a fair value of $7.5 million at December 31, 2010, for proceeds of $8.9 million.

(b) Reclamation deposit

In January 2011 the Company used the Revolving Credit Facility to issue an $8.0 million letter of credit related to the New Afton reclamation deposit to the British Columbia government in Canada. As a result of issuing the letter of credit, the British Columbia government has released to the Company, in February 2011, the $8.0 million cash on deposit with a major Canadian bank.

23. Comparative presentation

Certain prior year information has been reclassified to conform to current year presentation.

24. Differences between generally accepted accounting principles in Canada and the United States

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

The adjustments to the statement of operations are presented below:

			2010
	Canadian GAAP As reported	Adjustments	U.S. GAAP
	$		$
Revenues	530,450	-	530,450
Operating expenses	(250,338)	-	(250,338)
Depreciation and depletion	(77,016)	-	(77,016)
Earnings from mine operations	203,096	-	203,096
Corporate administration (note a)	(32,622)	(6,050)	(38,672)
Exploration	(12,834)	-	(12,834)
Impairment charges of exploration assets	(15,728)		(15,728)
Loss from operations	141,912	(6,050)	135,862
Other income (expense)			
Realized and unrealized gain on investments	9,128		9,128
Unrealized loss on equity-linked instruments (notes (a) and (d))	-	(92,551)	(92,551)
Unrealized gain on prepayment option (note f)	7,679	(7,679)	-
Interest and other income	3,258	-	3,258
Gain on sale of investment	39,710	-	39,710
Interest and finance fees	(947)	-	(947)
Other expense	(2,883)	-	(2,883)
Loss on foreign exchange (notes (a), (d) and (g))	(21,816)	(8,388)	(30,204)
Earnings before taxes	176,041	(114,668)	61,373
Income and mining taxes (note d)	(41,110)	11,887	(29,223)
Net earnings from continuing operations	134,931	(102,781)	32,150
Earnings from discontinued operations, net of taxes	42,023	-	42,023
Net earnings	176,954	(102,781)	74,173
Earnings per share from continuing operations			
Basic	0.35	-	0.08
Diluted	0.34	-	0.08
Earnings per share from discontinued operations			
Basic	0.11	-	0.11
Diluted	0.11		0.11
Earnings per share			
Basic	0.46		0.19
Diluted	0.45	-	0.19
Weighted average number of shares outstanding (in thousands)			
Basic	390,883	-	390,883
Diluted	395,233	-	395,233
(i) Stock option expense (a non-cash item included in corporate administration) (note a)	8,151	6,050	14,201

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

	2009		
	Canadian GAAP As reported	Adjustments	U.S. GAAP
	$		$
Revenues (note b)	323,780	(825)	322,955
Operating expenses (note b)	(176,491)	358	(176,133)
Depreciation and depletion (note b)	(58,668)	61	(58,607)
Earnings from mine operations	88,621	(406)	88,215
Corporate administration (note a)	(24,689)	4,929	(19,760)
Business combination transaction costs	(6,583)	-	(6,583)
Exploration	(6,412)	-	(6,412)
Goodwill impairment charge	(192,099)	-	(192,099)
Loss from operations	(141,162)	4,523	(136,639)
Other income (expense)			
Realized and unrealized gain on gold contracts	8,161	-	8,161
Realized and unrealized gain on fuel contracts	797	-	797
Realized and unrealized gain on investments	351	-	351
Unrealized loss on equity-linked instruments (notes (a) and (d))	-	(10,643)	(10,643)
Interest and other income	4,158	-	4,158
Gain on redemption of long-term debt	14,236	-	14,236
Interest and finance fees	(1,435)	-	(1,435)
Other expense	(967)		(967)
Loss on foreign exchange (notes (a), (d) and (h))	(52,667)	(8,896)	(61,563)
Loss before taxes	(168,528)	(15,016)	(183,544)
Income and mining taxes (notes (b) and (h))	(14,906)	4,750	(10,156)
Net loss from continuing operations	(183,434)	(10,266)	(193,700)
Loss from discontinued operations, net of taxes	(10,882)	-	(10,882)
Net loss	(194,316)	(10,266)	(204,582)
Loss per share from continuing operations			
Basic and diluted	(0.60)	-	(0.63)
Loss per share from discontinued operations, net of taxes			
Basic and diluted	(0.04)	-	(0.04)
Loss per share			
Basic and diluted	(0.64)	-	(0.67)
Weighted average number of shares outstanding (in thousands)			
Basic	306,288	-	306,288
Diluted	306,288	-	306,288
(i) Stock option expense (a non-cash item included in corporate administration) (note a)	6,621	(4,929)	1,692

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

The adjustments to the statements of comprehensive loss are presented below:

			2010
	Canadian GAAP As reported	**Adjustments**	**U.S. GAAP**
	$		**$**
Net earnings	**176,954**	**(102,781)**	**74,173**
Other comprehensive income (loss)			
Unrealized losses on mark-to-market of gold contracts	**(85,849)**	**-**	**(85,849)**
Realized losses on mark-to-market of gold contracts	**20,035**	**-**	**20,035**
Unrealized losses on mark-to-market of fuel contracts	**(366)**	**-**	**(366)**
Future income tax	**27,572**	**-**	**27,572**
Total other comprehensive loss	**(38,608)**	**-**	**(38,608)**
Total comprehensive income	**138,346**	**(102,781)**	**35,565**

			2009
	Canadian GAAP As reported	Adjustments	U.S. GAAP
	$		$
Net loss	(194,316)	(10,266)	(204,582)
Other comprehensive income (loss)			
Unrealized losses on mark-to-market of gold contracts	(49,101)	-	(49,101)
Realized losses on mark-to-market of gold contracts	3,403	-	3,403
Unrealized gains on mark-to-market of fuel contracts	189	-	189
Future income tax	17,870	-	17,870
Total other comprehensive loss	(27,639)	-	(27,639)
Total comprehensive loss	(221,955)	(10,266)	(232,221)

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

The adjustments to the components of the balance sheet would be as follows:

			2010
	Canadian GAAP As reported	Adjustments	U.S. GAAP
	$		$
Assets			
Current assets			
Cash and cash equivalents	**490,754**	**-**	**490,754**
Accounts receivable	**11,929**	**-**	**11,929**
Inventories	**106,325**	**-**	**106,325**
Future income and mining taxes	**9,127**	**-**	**9,127**
Prepaid expenses and other	**7,325**	**-**	**7,325**
Total current assets	**625,460**	**-**	**625,460**
Investments	**7,533**	**-**	**7,533**
Mining interests (note g)	**2,073,695**	**(6,647)**	**2,067,048**
Future income tax asset	**931**	**-**	**931**
Reclamation deposits and other (note f)	**31,295**	**(7,679)**	**23,616**
Total assets	**2,738,914**	**(14,326)**	**2,724,588**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**66,654**	**-**	**66,654**
Current portion of derivative liabilities	**40,072**	**-**	**40,072**
Income and mining taxes payable	**33,983**	**-**	**33,983**
Total current liabilities	**140,709**	**-**	**140,709**
Reclamation and closure cost obligations	**25,721**	**-**	**25,721**
Mark-to-market loss on gold contracts	**113,303**	**-**	**113,303**
Mark-to-market loss on equity-linked instruments (notes (a) and (d))	**-**	**134,942**	**134,942**
Future income and mining taxes (note d)	**280,026**	**26**	**280,052**
Long-term debt (note g)	**229,884**	**15,527**	**245,411**
Deferred benefit	**46,276**	**-**	**46,276**
Employee benefits and other	**9,804**	**-**	**9,804**
Total liabilities	**845,723**	**150,495**	**996,218**
Shareholders' equity			
Common shares (note a)	**1,846,712**	**(2,256)**	**1,844,456**
Contributed surplus / paid in capital (note a)	**82,787**	**(815)**	**81,972**
Share purchase warrants (note d)	**138,806**	**(138,806)**	**-**
Equity component of convertible debentures (note g)	**21,604**	**(21,604)**	**-**
Accumulated other comprehensive loss	**(67,813)**	**-**	**(67,813)**
Deficit	**(128,905)**	**(1,340)**	**(130,245)**
	(196,718)	**(1,340)**	**(198,058)**
Total shareholders' equity	**1,893,191**	**(164,821)**	**1,728,370**
Total liabilities and shareholders' equity	**2,738,914**	**(14,326)**	**2,724,588**

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

			2009
	Canadian GAAP As reported	Adjustments	U.S. GAAP
	$		$
Assets			
Current assets			
Cash and cash equivalents	262,325	-	262,325
Restricted cash	9,201	-	9,201
Accounts receivable	10,345	-	10,345
Inventories (note b)	86,299	(185)	86,114
Future income and mining taxes	8,848	-	8,848
Current portion of mark-to-market gain on fuel contracts	706	-	706
Prepaid expenses and other	6,933	-	6,933
Current assets of operations held for sale	10,298	-	10,298
Total current assets	394,955	(185)	394,770
Investments	45,890	-	45,890
Mining interests (notes (b), (g) and (h))	2,000,438	(3,909)	1,996,529
Future income tax asset	2,250	-	2,250
Reclamation deposits and other	17,646	-	17,646
Assets of operations held for sale	27,080	-	27,080
Total assets	2,488,259	(4,094)	2,484,165
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	36,033	-	36,033
Current portion of long-term debt	12,088	-	12,088
Current portion of mark-to-market loss on gold contracts	19,206	-	19,206
Income and mining taxes payable	15,677	-	15,677
Current liabilities of operations held for sale	10,414	-	10,414
Total current liabilities	93,418	-	93,418
Reclamation and closure cost obligations	19,889	-	19,889
Mark-to-market loss on gold contracts	76,780	-	76,780
Mark-to-market loss on equity-linked instruments (notes (a) and (d))	-	33,375	33,375
Future income and mining taxes (notes (b) and (h))	316,426	11,791	328,217
Long-term debt (notes (g) and (h))	225,456	17,400	242,856
Employee benefits and other	5,355	-	5,355
Liabilities of operations held for sale	19,890	-	19,890
Total liabilities	757,214	62,566	819,780
Shareholders' equity			
Common shares (note a)	1,810,865	(560)	1,810,305
Contributed surplus / paid in capital (note a)	82,984	(5,887)	77,097
Share purchase warrants (note d)	150,656	(138,806)	11,850
Equity component of convertible debentures (notes (g) and (h)	21,604	(21,604)	-
Accumulated other comprehensive loss	(29,205)	-	(29,205)
Deficit	(305,859)	100,197	(205,662)
	(335,064)	100,197	(234,867)
Total shareholders' equity	1,731,045	(66,660)	1,664,385
Total liabilities and shareholders' equity	2,488,259	(4,094)	2,484,165

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

The adjustments to the consolidated statement of cash flows are as follows:

			2010
	Canadian GAAP As reported	**Adjustments**	**U.S. GAAP**
	$		**$**
Operating activities from continuing operations	**182,260**	**-**	**182,260**
Operating activities from discontinued operations	**(1,696)**	**-**	**(1,696)**
Investing activities from continuing operations	**(451,363)**	**-**	**(451,363)**
Investing activities from discontinued operations	**34,410**	**-**	**34,410**
Financing activities from continuing operations	**447,189**	**-**	**447,189**
Financing activities from discontinued operations	**-**	**-**	**-**
Effect of exchange rates on cash and cash equivalents	**16,803**	**-**	**16,803**
Increase in cash and cash equivalents	**227,603**	**-**	**227,603**
Comprised of			
Cash and cash equivalents of continuing operations	**490,754**	**-**	**490,754**

			2009
	Canadian GAAP As reported	Adjustments	U.S. GAAP
	$		$
Operating activities from continuing operations	78,981	(282)	78,699
Operating activities from discontinued operations	5,576	-	5,576
Investing activities from continuing operations	(52,683)	282	(52,401)
Investing activities from discontinued operations	(1,405)	-	(1,405)
Financing activities from continuing operations	40,034	-	40,034
Financing activities from discontinued operations	(7,000)	-	(7,000)
Effect of exchange rates on cash and cash equivalents	13,980	-	13,980
Increase in cash and cash equivalents	77,483	-	77,483
Comprised of			
Cash and cash equivalents of continuing operations	262,325	-	262,325
Cash and cash equivalents of discontinued operations	826	-	826
	263,151	-	263,151

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

(a) Stock based compensation

On December 1, 2005, the Company adopted Accounting Standards Codification (“ASC”) 718 Compensation – Stock Compensation (formerly Statement of Financial Accounting Standard ("SFAS") 123(R), Share Based Payment), for all employee stock-based awards granted, modified or settled after the effective date using the fair value measurement method. ASC 718 has provisions that are different than CICA Handbook Section 3870 which create U.S. GAAP differences. Under Canadian GAAP, the Company recognizes the effect of forfeitures as they occur. Under ASC 718, forfeitures are required to be estimated. The Company has determined the amount of stock options forfeited is not material, therefore there is no difference on accounting for stock-based compensation under Canadian and U.S. GAAP.

Under U.S. GAAP, a stock option award may be indexed to a factor in addition to the entity's share price. If that additional factor is not a market, performance or service condition, the award shall be classified as a liability, and the additional factor shall be reflected in estimating the fair value of the award. Stock option awards granted to an employee with a fixed exercise price and exercisable in the Company's functional currency, a foreign operation's functional currency or in the currency in which the employee is paid are not considered to contain a market, performance or service condition and are therefore treated as equity instruments. Stock option awards that do not satisfy these criteria are considered to be dual indexed to a factor that is not a market, performance or service condition, and are therefore recorded as liabilities and marked-to-market at the end of each reporting period. Under Canadian GAAP, all stock option awards are treated as equity instruments. The liability as at December 31, 2010 relating to stock options issued to employees of the foreign operations totaled $9.0 million (2009 - $3.5 million). Stock based compensation in 2010 was increased by $6.1 million (2009 - $4.9 million reduction). Contributed surplus was reduced by $0.8 million (2009 - $5.9 million) related to the cumulative reversal of stock option expense recognized on options issued to foreign operations under Canadian GAAP in 2010. The impact of the exercise of stock options in 2010 was $2.3 million (2009 - $0.6 million) on common shares at December 31, 2010. The stock option liability has been fair valued using observable data related to historic volatility, dividends, interest rates and life. As the fair value is based on observable data, this liability would a Level 2 in the fair value hierarchy.

(b) Commercial production

Under Canadian GAAP, the Company uses specific criteria to assess the point at which an operation commences commercial production. Under U.S. GAAP, the Company determines commencement of production whereby the production phase of a mine is determined to have begun when saleable minerals are extracted (produced) from an ore body, regardless of the level of production. However, commercial production does not commence with the removal of de minimus saleable mineral material that occurs in conjunction with the removal of overburden or waste material for the purpose of obtaining access to on ore body. For the year ended December 31, 2009, there was a Canadian to U.S. GAAP difference with respect to the determination of production for the Chesney project at the Peak Mine. For the year ended December 31, 2010, there was no Canadian to U.S. GAAP difference with respect to the determination of commercial production.

(c) Accounting for uncertainty in income taxes

While tax accounting rules are essentially the same under both U.S. GAAP and Canadian GAAP, tax account differences can arise from differing treatment of various assets and liabilities. On December 1, 2006, the Company adopted the provisions of ASC 740 Income

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

(c) Accounting for uncertainty in income taxes (continued)

Taxes (formerly FASB Interpretation, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 ("FIN 48")) for U.S. GAAP purposes. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

ASC 740 requires that the Company recognize in its consolidated financial statements, only those tax positions that are "more-likely-than-not" of being sustained as of the adoption date, based on the technical merits of the position. As a result of the implementation of ASC 740, the Company performed a comprehensive review of its material tax positions in accordance with recognition and measurement standards established by ASC 740. Based on this review, the provisions of ASC 740 had no effect on the Company's financial position, cash flows or results of operations at either December 31, 2010 or December 31, 2009.
A reconciliation of the beginning and ending amount of the unrecognized tax benefits is as follows:

	2010	2009
	$	$
Balance at January 1	**4,191**	2,701
Additions for tax positions taken during prior years	**1,160**	1,490
Balance at December 31	**5,351**	4,191

At December 31, 2010, the Company had $2.7 million (2009 - $2.2 million) of unrecognized tax benefits. If recognized, this amount would be recorded as a benefit to income taxes on the consolidated statement of operations and, therefore, would impact the reported effective tax rate.

The Company's policy is to recognize interest and penalties related to uncertain tax benefits in income tax expense. During the year ended December 31, 2010, the Company recognized $0.5 million of interest and penalties (2009 - $0.9 million). Under Canadian and U.S. GAAP, the Company has accrued $2.3 million (2009 - $2.0 million) for interest and penalties.

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

(c) Accounting for uncertainty in income taxes (continued)

The following table presents the deferred income tax assets and liabilities by country.

	2010	2009
	$	$
Australia		
Deferred tax assets	**-**	-
Deferred tax liabilities	**(33,477)**	(25,712)
	(33,477)	(25,712)
Canada		
Deferred tax assets	**12,767**	9,661
Deferred tax liabilities	**(79,847)**	(99,156)
	(67,080)	(89,495)
Chile		
Deferred tax assets	**8,730**	-
Deferred tax liabilities	**-**	-
	8,730	-
Mexico		
Deferred tax assets	**-**	-
Deferred tax liabilities	**(156,195)**	(163,668)
	(156,195)	(163,668)
United States		
Deferred tax assets	**63,487**	30,459
Deferred tax liabilities	**(85,459)**	(68,703)
	(21,972)	(38,244)
	(269,994)	(317,119)

As at December 31, 2010, the Company had gross deferred income tax assets of $138.2 million (2009 – $58.3 million) which it recognized a valuation allowance of $15.6 million (2009 - $18.2 million) against these assets as it is not “more-likely-than-not” that it can be recognized. During the year ended December 31, 2010, the valuation allowance decreased by $2.6 million (2009 – increase of $5.6 million), primarily due to the recognition of capital losses. The Company does not expect any significant changes around the assumptions regarding the valuation allowance. The determination of whether a valuation allowance is required will be based on the weight of available evidence, both positive and negative, available to the Company.

(d) Share purchase warrants

U.S. GAAP does not allow equity-linked financial instruments not considered linked to the Company’s own stock to be included in the determination of shareholders equity. The Company has share purchase warrants that have an exercise price denominated in Canadian dollars, which is different than the Company’s functional currency.

These warrants are equity-linked financial instruments that are not considered linked to the Company’s own stock due to the difference in the exercise currency and the Company’s functional currency. U.S. GAAP requires these warrants to be recorded as a financial liability,

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

(d) Share purchase warrants (continued)

with the resulting fair value changes being included in the determination of net earnings (loss). The Company's share purchase warrants are traded on a public exchange and have been valued using the quoted market prices which is Level 1 in the fair value hierarchy. The fair value of the share purchase warrants at December 31, 2010 was $125.9 million (2009 - $29.8 million) in which the Company recognized a $96.1 million (2009 - $13.4 million) mark-to-market loss. At December 31, 2010 there was an income tax recovery and related deferred income tax asset of $11.9 million (2009 – an income tax expense of $4.6 million and deferred tax liability of $11.9 million).

(e) Pro forma financial information (unaudited)

The following unaudited pro forma information for the year ended December 31, 2009 reflects the acquisition of Western Goldfields as if it had been completed as of January 1, 2009. This unaudited pro forma amount does not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the date indicated or that may be obtained in the future.

	2009 $
Revenues	364,453
Income (loss) from continuing operations	(223,663)
Net income (loss)	(234,545)
Basic and diluted earnings per share	
Income (loss) from continuing operations	(0.61)
Net income (loss)	(0.64)
Weighted average number of shares outstanding	
Basic	365,786
Diluted	365,786

(f) Embedded derivative on prepayment option

Under ASC 815-15, Derivative and Hedging, U.S GAAP does not require the bifurcation of embedded derivatives, if the embedded derivative is clearly and closely related to the host contract. Under Canadian GAAP, the Company's senior secured notes ("Notes") have a prepayment option that is considered an embedded derivative and is bifurcated in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, resulting in a fair value of $7.7 million (2009 - $nil) recorded in reclamation deposits and other as of December 31, 2010. Under U.S. GAAP the prepayment option is considered clearly and closely related to the host contract and is not bifurcated resulting in a difference between Canadian and U.S. GAAP. The impact of this difference in 2010 is a decrease in the unrealized gain on prepayment option of $7.7 million (2009 - $nil) and a decrease in reclamation deposits and other of $7.7 million (2009 - $nil).

(g) Convertible debentures

In June 2008, the Company acquired convertible debentures in the aggregate principal amount of Cdn$55.0 million. Under Canadian GAAP, the convertible debentures were

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

(g) Convertible debentures (continued)

bifurcated into a principal and an option component in accordance with CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation ("Section 3861"). The principal component was recorded as debt with a portion, representing the estimated fair value of the conversion option feature at the date of issue, being allocated to equity. In addition, under Canadian GAAP a non-cash interest expense representing the effective yield of the debt component is recorded with a corresponding credit to the convertible debenture liability balance to accrete the balance to the principal due on maturity. The interest is capitalized to mining interests in accordance with the Company's accounting policy.

Under US GAAP, the convertible debt is classified as a liability with no amounts recorded within equity, in accordance with ASC 470-20, Debt with Conversion and Other Options. The impact of this difference between Canadian and U.S GAAP is a carryforward decrease to the equity component of convertible debentures of $21.6 million (2009- $21.6 million), a cumulative increase of $15.5 million (2009 – an increase of $17.4 million) to the liability portion of convertible debentures, a cumulative decrease of $6.7 million (2009 - $3.7 million) to mining interest, and a loss on foreign exchange of $1.1 million (2009 – a gain of $0.5 million) at December 31, 2010.

(h) Accounting adjustments

The Company identified errors in the U.S. GAAP accounting for its subordinated convertible debentures and in the deferred income tax liability related to the share purchase warrants. Under U.S. GAAP, the convertible debt is classified as a liability with no amounts recorded within equity (Note 24 (g)). Under U.S. GAAP, share purchase warrants exercisable in currencies other than the Company's functional currency are recorded as a liability and require recognition of a deferred tax liability (Note 24 (d)).

As a result, the Company corrected the following amounts pertaining to the prior period under U.S. GAAP: reversal of the bifurcation of the convertible debentures by $21.6 million; reversal of related accretion to the convertible debentures of $3.7 million. In addition the Company adjusted the net deferred income tax liability by $11.9 million related to the share purchase warrants. The decrease to the prior period retained earnings was $11.4 million.

After considering both quantitative and qualitative information applicable to the adjustment, the Company believes that the adjustment is not material to its previously issued historical consolidated financial statements. As a result, the Company has corrected the December 31, 2009 reconciliation from Canadian GAAP to U.S. GAAP contained in Note 24 to these financial statements.

(i) Recently adopted accounting standards

(i) Variable Interest Entities

In June 2009, , the FASB issued an amendment to its guidance on Variable Interest Entities ("VIE") which will be effective for fiscal year 2010. The new guidance makes significant changes to the model for determining who should consolidate a VIE by specifically eliminating the quantitative approach to determining the primary beneficiary and requiring a qualitative approach based on the power to direct activities. This analysis identifies a primary beneficiary of a VIE as the entity that has both of the following characteristics:

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

(i) Recently adopted accounting standards (continued)

(i) Variable Interest Entities (continued)

- power to direct the activities of a VIE that most significantly impact the entity's economic performance; and,
- an obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE.

The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

(ii) Subsequent Events

In February 2010, FASB issued Accounting Standards Update ("ASU") 2010-09 Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements. ASU 2010-09 removes the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of GAAP. The amendment is effective for annual periods ending after June 15, 2010. The implementation of this standard did not have a material effect on the Company's consolidated financial statements.

(iii) Fair Value Measurement and Disclosure

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements, which is included in the ASC Topic 820 (Fair Value Measurements and Disclosures). ASU 2010-06 requires new disclosures on the amount and reason for transfers in and out of Level 1 and 2 fair value measurements. ASU 2010-06 also requires disclosures of activities, including purchases; sales, issuances, and a settlement within Level 3 fair value measurements and clarifies existing disclosure requirements on levels of disaggregation and disclosures about inputs and valuation techniques. ASU 2010-06 is effective for reporting periods beginning after December 15, 2009 except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The implementation of this standard did not have a material effect on the Company's consolidated financial statements.

(iv) Foreign Currency Issues

In May 2010, the ASC updated ASU 2010-19, Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The update codifies an announcement made by the SEC Observer at the March 2010 meeting of the FASB's Emerging Issues Task Force ("EITF"). The announcement clarified the accounting required when there are differences between amounts recorded for financial reporting purposes versus the underlying U.S. dollar denominated values upon transition to highly inflationary accounting. The update was effective as of March 18, 2010. The updated guidance did not have an impact on the Company's consolidated financial statements.

24. Differences between generally accepted accounting principles in Canada and the United States (continued)

(j) Significant future accounting developments

In April 2010, the FASB issued ASU 2010-13, related to stock compensation to provide an update to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB Accounting Standards Codification Topic 718, Compensation—Stock Compensation, provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. This standard is effective for years beginning after December 15, 2010, and for subsequent interim and annual reporting periods thereafter. The Company is assessing the impact of this amendment on its consolidated financial statements.

Exhibit 99.3



Management's Discussion and Analysis

For the year ended
December 31, 2010

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The following Management's Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of the consolidated financial condition and results of operations of New Gold Inc. ("New Gold" or the "Company") and its subsidiaries and including its predecessor entities. This MD&A should be read in conjunction with New Gold's audited consolidated financial statements for the years ended December 31, 2010 and 2009, 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 and tabular amounts are in thousands, unless otherwise noted. This Management's Discussion and Analysis has been prepared as of March 3, 2011. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

FOURTH QUARTER AND FULL YEAR 2010 FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Fourth quarter gold production increased by 11% to 124,445 ounces from 111,672 ounces in the same period in 2009, representing the Company's highest ever quarterly production.
- Fourth quarter gold sales of 116,964 ounces, up 10% from 106,475 ounces in the same period in 2009.
- Cash flow from operations increased by 63% to $88.0 million from $54.4 million in the same period in 2009.
- Fourth quarter total cash cost(1) per ounce sold, net of by-product sales, decreased by $118 per ounce to $354 per ounce from $472 per ounce in the same period in 2009, representing the lowest cost quarter in the Company's history.
- Net earnings from continuing operations during the fourth quarter of $72.9 million or $0.19 per basic share compared to a loss of $2.3 million or $(0.01) per basic share in the same period in 2009.
- Quarterly Earnings from mine operations of $83.9 million, up from $39.7 million in the same period in 2009.
- In the quarter, New Gold disposed of its shares in Beadell Resources Limited ("Beadell") for net proceeds of $58.4 million and recorded a related gain on sale of investments of $39.7 million.
- On December 16, 2010, New Gold entered into an agreement with a syndicate of banks to establish a $150.0 million undrawn revolving credit facility ("Facility") further enhancing the Company's financial flexibility.
- In the fourth quarter, underground development at New Afton advanced a total of 1,394 metres compared to an advance of 1,066 metres in the third quarter of 2010. New Afton 2010 underground development of 3,873 metres beat target by 11%.

- § Cerro San Pedro remains fully operational achieving record quarterly performance, producing 38,874 ounces of gold at a total cash cost(1) of $138 per ounce, net of by-product sales.

- § Cash and cash equivalents totaled $490.8 million at December 31, 2010, up 81% from $271.5 million (including restricted cash) at December 31, 2009.

BACKGROUND

New Gold Inc. is an intermediate gold producer with a portfolio of global assets in the United States, Mexico, Australia, Canada and Chile. The Company's operating assets consist of the Mesquite gold mine ("Mesquite Mine") in the United States, the Cerro San Pedro gold-silver mine ("Cerro San Pedro Mine") in Mexico, and the Peak gold-copper mines ("Peak Mines") in Australia. Significant development projects include the New Afton copper-gold project ("New Afton") in Canada and a 30% interest in the El Morro copper-gold project ("El Morro") in Chile. New Gold has an objective of continuing to grow, both organically and through acquisitions, to become the leading intermediate gold producer. New Gold plans on achieving this vision through:

- § Delivering on operational targets (safety, cost, production, environmental and social responsibility);

- § Maintaining a strong financial position;

- § Internal growth through project development and the continuous improvement of existing operations; and

- § External growth through additional value enhancing merger and acquisition opportunities.

New Gold is working towards maximizing shareholder value through diversified production, maintaining a reduced risk profile and enhancing growth potential.

CORPORATE RESPONSIBILITY

The Company's commitment to disciplined growth is entrenched in the concept of growing responsibly. This underlies management's belief that economic achievement, environmental performance and social contributions are indivisible components in the success of the Company. The Company has a Health, Safety, Environment and Sustainability Policy in place outlining this commitment.

The Company actively engages in meaningful dialogue with local community residents and organizations to identify economic, training, social and development priorities and contributes to the development of the communities surrounding its operations.

New Gold's corporate responsibility objectives are to prevent pollution, minimize the impact the operations may cause to the environment and practice the progressive rehabilitation of areas impacted by its activities. The Company has a history of operating in a socially responsible and sustainable manner, and of meeting international standards in the three countries where it currently operates mines. The Company is a member of the Canadian Business for Social Responsibility and is a partner of the United Nations Global Compact.

CORPORATE DEVELOPMENTS

A. EL MORRO TRANSACTION

On October 12, 2009, Barrick Gold Corporation (“Barrick”) announced that it had entered into an agreement with Xstrata Copper Chile S.A. (“Xstrata”), a wholly owned subsidiary of Xstrata Plc, to acquire Xstrata’s 70% interest in the El Morro copper-gold project in Chile. New Gold, through its subsidiary Datawave, held a right of first refusal over Xstrata’s 70% interest which came into effect when the agreement with Barrick was announced.

On January 7, 2010, Datawave provided notice to Xstrata, of the exercise of its right of first refusal to acquire Xstrata’s 70% interest in the El Morro project for $463.0 million. The Company completed this transaction on February 16, 2010. Goldcorp Inc. (“Goldcorp”) loaned $463.0 million to a Datawave subsidiary to fund the exercise of the right of first refusal. After acquisition of Xstrata’s 70% interest by a Datawave subsidiary, Datawave sold that subsidiary to a subsidiary of Goldcorp.

Concurrent with the sale of the Datawave subsidiary to a subsidiary of Goldcorp, Datawave received a $50.0 million payment and the parties amended the terms of the existing El Morro Shareholders Agreement ("the Agreement").

Under the revised Shareholders Agreement, Goldcorp has agreed to fund 100% of Datawave’s share of the development and construction capital for the project, which was estimated in the El Morro feasibility study at approximately $2.5 billion. Under the former Xstrata carried funding arrangements, the Company would have been required to fund approximately $225.0 million or 9% of the project capital before completion of the project, however under the new funding arrangement, New Gold will not need to fund any of the project capital before completion of development and construction.

As a result of these transactions, New Gold will continue its participation as a 30% partner in the El Morro project under the amended Agreement.

On January 13, 2010, New Gold received a Statement of Claim filed by Barrick in the Ontario Superior Court of Justice, against New Gold, Goldcorp and affiliated subsidiaries. A Fresh Amended Statement of Claim was received in August 2010 which included Xstrata and its affiliated subsidiaries as defendants. The claim relates to New Gold’s exercise of its right of first refusal with respect to the El Morro copper-gold project. New Gold believes the claim is without merit and intends to defend this action using all available legal avenues.

B. AMAPARI MINE SALE AGREEMENT

On January 27, 2010, the Company announced the signing of an agreement to sell its Brazilian subsidiary Mineracao Pedra Branca do Amapari Ltda. ("MPBA"), which holds the Amapari Mine and other related assets, to Beadell. The transaction closed on April 13, 2010 and New Gold received gross proceeds of $37.0 million in cash and 115 million Beadell shares valued on the closing date of the transaction at $18.6 million. On December 1, 2010, New Gold announced the sale of its 115 million Beadell shares, with Beadell’s consent to release the shares from a 12 month escrow, at A$0.53 per share for total net proceeds for $58.4 million. Total proceeds inclusive the sale of Beadell shares was $95.4 million.

C. REVOLVING CREDIT FACILITY

On December 16, 2010, New Gold entered into an agreement with a syndicate of banks to establish a $150.0 million revolving credit facility further enhancing the Company's financial flexibility. The Facility has an initial term of three years, with annual extensions permitted, and provides New Gold with additional liquidity supplementing the Company's already strong cash position.

D. UPDATE ON CERRO SAN PEDRO MINE RECENT COURT DECISION

New Gold owns 100% of the Cerro San Pedro Mine through the Mexican Company, Minera San Xavier S.A. de C.V. ("MSX").

The Cerro San Pedro Mine is in full operation and legal challenges relate primarily to a land use dispute; New Gold is in compliance with all environmental permits at Cerro San Pedro Mine.

On November 18, 2009 PROFEPA, the Mexican environmental enforcement agency, issued an order that MSX was to suspend mining operations at the Cerro San Pedro Mine. PROFEPA's order followed a ruling by the Federal Court of Fiscal and Administrative Justice ("FCFAJ") in September 2009 that SEMARNAT, the Mexican government's environmental protection agency, nullify the Mine's Environmental Impact Statement ("EIS") which was issued in 2006. The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue during the appeals process. The latest injunction was received on October 4, 2010.

MSX appealed the September 2009 ruling of the FCFAJ. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. MSX appealed the negative decision and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of MSX's position in its appeal against the September 2009 nullification of the EIS. That ruling effectively reestablishes the validity of the mine's 2006 EIS.

MSX continues to work with all levels of government and other external stakeholders to maintain uninterrupted operation at the Cerro San Pedro Mine.

RESERVES AND RESOURCES UPDATE

At December 31, 2010, New Gold's attributable proven and probable gold reserves increased to 8.4 million ounces from 8.2 million ounces. The 8.4 million ounces represents a 0.8 million ounce increase when adjusting for the approximately 0.6 million ounces mined during 2010. Total measured and indicated gold resources, inclusive of reserves, were 12.9 million ounces. Highlights of the reserve and resource update include:

- § Mesquite Mine replaced 2010 ounces mined and added 0.8 million ounces in measured and indicated resources;
- § El Morro gold and copper reserves increased 22% and 8% to 2.5 million ounces and 1.8 billion pounds, respectively;

§ Cerro San Pedro Mine inferred manto sulphide resource increased by 30%; and

§ Peak Mines measured and indicated resources increased by 15% to 1.0 million ounces.

For details of the Company's reserves and resources and related key assumptions and parameters, please refer to the news release New Gold Announces Highest Gold Production and Lowest Cash Cost in its History and Provides 2011 Guidance, filed under www.sedar.com and dated February 2, 2011. Mark Petersen, Vice President, Exploration of New Gold, who is a Qualified Person under NI 43-101, has supervised the preparation of the technical information disclosed above.

ECONOMIC TRENDS

The past year has seen a high level of volatility in commodity prices, which was primarily driven by general economic uncertainties. Many economists are forecasting continued uncertainty, however there seem to be signs of recovery in some Western economies such as the U.S. and Germany and emerging markets appear set to support the solid global growth estimates of some economists.

In the fourth quarter of 2010, gold has surpassed its 2009 highs of just over $1,200 per ounce and continues to sell at a high levels averaging $1,367 per ounce. However, in early 2011 gold has retreated slightly from its 2010 closing price of $1,406 per ounce, primarily due to some market commentators' views that a more stable and coordinated growth profile is emerging in many global regions and significant government support may no longer be integral to growth prospects. Conflicting views on these issues continue to generate uncertainty over the strength and timing of economic recovery and have the potential to increase volatility and be supportive of gold and other precious metal prices.

The price of gold is the largest single factor affecting New Gold's profitability and operating cash flows. As such, the current and future financial performance of the Company will be closely correlated to the prevailing price of gold. However, copper will become more important as New Afton achieves commercial production in 2012 based on current development plans. During the fourth quarter of 2010, New Gold had an average realized gold price[(2)] of $1,316 per ounce (including monthly deliveries of 5,500 ounces of gold hedged at the Mesquite Mine at $801 per ounce) which was 4% below an average market gold price of $1,367 per ounce. For the full year 2010, New Gold had an average realized gold price[(2)] of $1,194 per ounce (including monthly deliveries of 5,500 ounces of gold hedged at the Mesquite Mine at $801 per ounce) which was 3% below an average market gold price of $1,225 per ounce.

SELECTED ANNUAL FINANCIAL INFORMATION

(U.S. dollars in thousands, except ounces, per ounce and per pound amounts)

	Three months ended December 31,		Year ended December 31,		
	2010	2009	2010	2009	2008
Operating Data [1]					
Tonnes of ore mined (000's)	6,413	7,429	22,857	21,943	6,958
Tonnes of waste mined (000's)	13,295	8,800	52,570	38,409	16,623
Ratio of waste to ore	2.07	1.18	2.30	1.75	2.39
Gold (ounces):					
Produced	124,445	111,672	382,911	301,773	233,103
Sold	116,964	106,475	369,077	292,407	237,590
Silver (ounces):					
Produced	700,988	312,848	2,188,235	1,496,958	572,575
Sold	696,161	298,107	2,143,721	1,475,317	595,211
Copper (000's of pounds):					
Produced	4,236	3,905	15,340	15,613	8,249
Sold	4,709	4,831	14,050	13,901	7,754
Realized prices [2]:					
Gold ($/ounce)	1,316	1,074	1,194	987	863
Silver ($/ounce)	26.98	17.36	21.40	14.48	12.73
Copper ($/lb)	3.89	2.94	3.48	2.54	1.25
Total cash cost per gold ounce sold [3]	354	472	428	465	566
Financial Data					
Revenues	189,355	131,765	530,450	323,780	143,083
Earnings from mine operations	83,890	39,682	203,096	88,621	21,402
Net earnings (loss) from continuing operations	72,879	(2,295)	134,931	(183,434)	70,884
Earnings (loss) per share – basic:					
From continuing operations	0.19	(0.01)	0.35	(0.60)	0.48
From discontinued operations	-	(0.01)	0.11	(0.04)	(1.17)
Total	0.19	(0.02)	0.45	(0.64)	(0.69)
Operating cash flows from continuing operations	88,008	54,356	182,260	78,981	23,073

(1) The 2008 and 2009 tables include results for the Amapari Mine which is presented as a discontinued operation for financial reporting purposes. The company acquired Mesquite Mine on May 27th, 2009. The 2009 table presented is for comparative purposes only.
(2) Realized price is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 2 at the end of this MD&A.
(3) Total cash cost is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 1 at the end of this MD&A. The calculation of total cash cost per ounce of gold sold for the Peak Mines is net of by-product copper sales revenue. The calculation of total cash cost per ounce of gold for the Cerro San Pedro Mine is net of by-product silver sales revenue.

OVERVIEW OF 2010 FOURTH QUARTER FINANCIAL RESULTS

In the fourth quarter of 2010, net earnings from continuing operations was $72.9 million, which increased from a net loss of $2.3 million in the prior year period. The increase in net earnings from operations is attributed to higher realized commodity prices, increased production and related sales, lower cash cost per ounce and a lower loss on foreign exchange relative to 2009. The Company also recorded a gain on sale of investments related to shares held in Beadell of $39.7 million. Additionally, the Company had realized and unrealized gain on investments related to Asset Backed Notes of $2.1 million in the fourth quarter of 2010 relative to a loss of $14.6 million in the fourth quarter of 2009. Offsetting these relative benefits are an unrealized loss on revaluing the prepayment option related to the senior secured notes of $3.9 million for

which there is no prior period comparative, a higher tax expense, and the write-down of the Liberty Bell property which resulted in an impairment charge of $15.7 million.

The Company sold 116,964 ounces of gold during the fourth quarter of 2010, compared to 106,475 ounces in the same prior year period. In addition to increased ounces sold, the increase in average realized price[(2)] of gold has increased from $1,074 to $1,316 per ounce which contributed to a 44% increase in revenues to $189.4 million. Coupled with the revenue increase, the reduction in cash cost[(1)] per ounce of gold sold to $354 per ounce from $472 in the same prior year period caused earnings from mine operations to increase from $39.7 million in the fourth quarter of 2009 to $83.9 million in the fourth quarter of 2010.

Cash flow from continuing operations for the fourth quarter of 2010 was $88.0 million compared to $54.4 million for the same period in 2009. The significant increase in quarterly cash flow is a direct result of the Company's strong operating performance during the quarter, improvements to working capital, primarily inventory, and higher realized commodity prices.

OVERVIEW OF 2010 FINANCIAL RESULTS

In 2010, net earnings from continuing operations was $134.9 million compared to a net loss from continuing operations of $183.4 million in the prior year. Adjusted for the goodwill impairment, the prior period net earnings from continuing operations was $8.7 million. The increase in net earnings from operations is attributed to higher realized commodity prices, increased production and related sales, an unrealized gain on the mark to market value of the prepayment option on the senior secured notes of $7.7 million for which there is no prior period comparative, realized and unrealized gain on investments related to the mark to market of Asset Backed Notes of $9.1 million relative to $0.4 million in the prior period, and a considerably smaller exchange rate loss relative to the prior year period. The Company also recorded a gain on sale of investments related to shares held in Beadell of $39.7 million. Offsetting these relative benefits are $12.4 million of realized and unrealized gains related to derivative instruments recognized in 2009 (of which $3.4 million was recorded in revenue) compared to a loss of $20.0 million for 2010 which was recorded in revenue. The 2009 benefit relates to pre-hedge accounting gains on gold and fuel hedges. Additionally, a gain on redemption of long term debt of $14.2 million was realized in 2009 compared to $nil for the current year and the write-down of the Liberty Bell property resulted in an impairment charge of $15.7 million.

The Company sold 369,077 ounces of gold during 2010, compared to 292,407 ounces in the same prior year period. In addition to increased ounces sold, the increase in average realized price[(2)] of gold from $987 to $1,194 per ounce contributed to a 64% increase in revenues to $530.5 million. Corporate administration costs were higher at $32.6 million, compared to $24.7 million in 2009, as a result of a negative foreign exchange impact (as majority of general and administrative costs are denominated in Canadian dollars), higher stock compensation expense, additional legal fees incurred and an increased corporate salary base as 2009 only included seven months of corporate overhead from Western Goldfields Inc. post-acquisition.

OPERATIONS REVIEW

(tabular data in thousands of U.S. dollars unless otherwise stated)

A. MESQUITE MINE, CALIFORNIA, USA

The Company's Mesquite Mine is located in Imperial County, California, approximately 70 kilometres northwest of Yuma, Arizona and 230 kilometres east of San Diego, California. The Mesquite Mining District lies beneath alluvial pediment deposits at the base of the Chocolate Mountains. The mine was operated between 1985 – 2001 by Goldfields Mining Corporation, subsequently Santa Fe Minerals Corporation, and finally Newmont Mining Corporation with Western Goldfields Inc. acquiring the mine in 2003. New Gold acquired the Mesquite Mine as part of the acquisition of Western Goldfields Inc. on May 27, 2009. The mine resumed production in 2008. In its history, the Mesquite Mine has been subject to significant exploration with over 6,000 reverse circulation drill holes having been completed during its life. Recent exploration has been focused on the areas surrounding the three existing pits: Rainbow, Big Chief and Vista.

The Mesquite operations are included in New Gold's operating results for the full year of 2010. Prior year end information, presented below, is for comparative purposes only as New Gold acquired the Mesquite operations on May 27, 2009.

	Three Months Ended December 31,		Year Ended December 31,	
	2010	**2009**	**2010**	**2009**
Operating Data				
Tonnes of ore mined (000's)	3,301	4,409	11,327	13,084
Tonnes of waste removed (000's)	8,052	5,701	35,990	40,857
Ratio of waste to ore	2.44	1.29	3.18	3.12
Tonnes of ore to leach pad (000's)	3,301	4,409	11,327	13,084
Average gold grade (grams/tonne)	0.94	0.63	0.62	0.51
Gold (ounces):				
Produced [1]	55,990	61,245	169,023	150,002
Sold	50,393	55,861	169,571	143,509
Realized prices: [2]				
Gold ($/ ounce) [3]	1,234	1,041	1,117	955
Total cash cost per gold ounce sold [4]	544	551	596	596
Financial Data				
Revenues	62,208	58,158	189,361	136,004
Earnings from mine operations	27,122	18,332	62,086	29,948

(1) Tonnes of ore processed each quarter does 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.
(2) Realized price is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 2 at the end of this MD&A.
(3) Includes realized gains and losses from gold hedge settlements.
(4) Total cash cost is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 1 at the end of this MD&A.

FOURTH QUARTER OF 2010 COMPARED TO FOURTH QUARTER OF 2009

Gold production for the quarter ended December 31, 2010 was 55,990 ounces compared to 61,245 ounces produced in the same period in 2009. Despite higher total tonnes mined period over period, gold production was lower in the fourth quarter of 2010 compared to fourth quarter of 2009 due to a less favourable strip ratio. Period over period, the average head grade increased to 0.94 g/t from 0.63 g/t.

Revenue for the quarter ended December 31, 2010 was $62.2 million compared to $58.2 million in the same period last year. The change was due largely to an increase in gold prices partially offset by a decrease in ounces sold. Gold ounces sold were 50,393 ounces in 2010 compared to 55,861 ounces in 2009, a decrease of 10% due to lower production. The average realized gold price(2) during the fourth quarter of 2010 was $1,234 per ounce, including hedged gold ounce settlements at $801 per ounce, compared to $1,041 per ounce in the same prior year period. This is lower than the average London Metals Exchange PM gold fix price of $1,367 per ounce as a result of the impact of the hedged ounces.

Total cash cost(1) per ounce of gold sold for the quarter ended December 31, 2010 was $544 per ounce compared to $551 per ounce in the same prior year period. The total cash cost(1) decrease is primarily attributable to the use of a mining contractor and certain non-recurring maintenance costs during the fourth quarter of 2009 which did not reoccur during the fourth quarter of 2010. The decreases in cost were partially offset by higher diesel consumption and price during the fourth quarter when compared to the same period in 2009.

Mesquite generated $27.1 million in earnings from mine operations in the fourth quarter of 2010 compared to $18.3 million in the same period of the prior year due to lower operating cost per ounce sold and higher average realized gold price(2) per ounce sold.

Cash flow relating to capital expenditures totaled $0.3 million and $0.3 million for the three month periods ended December 31, 2010 and 2009, respectively.

YEAR ENDED 2010 COMPARED TO YEAR ENDED 2009

Gold production for the year ended December 31, 2010 was 169,023 ounces compared to 150,002 ounces produced in 2009. The increase in 2010 gold production is primarily attributable to increases in gold grade and leach pad recoveries reaching their steady state when compared to 2009 and was partially offset by lower tonnes placed on the leach pad during the year.

Revenue for the year ended December 31, 2010 was $189.4 million compared to $136.0 million in the same period last year due to a significant increase in ounces sold to 169,571 ounces in 2010 from 143,509 ounces in 2009, an increase of 18%. The average realized gold price(2) during 2010 of $1,117 per ounce, including hedged gold ounce settlements at $801 per ounce, was lower than the average London Metals Exchange PM gold fix price of $1,225 per ounce. In 2009, the Mesquite Mine recognized an average realized gold price (2) of $955 per ounce of gold sold.

Total cash cost(1) per ounce of gold sold for the year ended December 31, 2010 was consistent with 2009 at $596 per ounce. The total cash cost (1) benefitted during the year from lower mine fleet maintenance costs.

In addition, one-time 2009 costs related to the use of a mining contractor were not incurred in 2010. These cost benefits were offset by higher diesel consumption and price during 2010 when compared to 2009.

As a result of the increased production and higher realized gold prices, Mesquite generated $62.1 million in earnings from mine operations in 2010 compared to $29.9 million in the same period of the prior year.

Cash flow relating to capital expenditures totaled $3.1 million and $1.3 million respectively for the year ended December 31, 2010 and 2009 and constituted capital expenditures related to running of the mine.

B. CERRO SAN PEDRO MINE, MEXICO

The Cerro San Pedro Mine is located in the state of San Luis Potosí in central Mexico, approximately 20 kilometres east of the city of San Luis Potosí. The project property consists of 36 mining and exploration concessions (this number reflects previously held larger number of concessions which have been consolidated for administrative purposes) totaling 78 square kilometres in the historic Cerro San Pedro mining district. The current focus of exploration is on the southern half of a two-plus kilometre San Pedro trend of gold-silver-zinc-lead mineralization that extends south from beneath the current open pit mine operation.

The Cerro San Pedro Mine achieved ISO 14001 certification of its environmental management system and has a record of compliance with Mexican and international environmental standards. Despite MSX's enviable record with Mexican and international environmental standards, there has been a history of legal challenges to the Cerro San Pedro Mine. Current legal challenges relate primarily to a land use dispute.

On November 18, 2009 PROFEPA, the Mexican environmental enforcement agency, issued an order that MSX was to suspend mining operations at the Cerro San Pedro Mine. PROFEPA's order followed a ruling by the Federal Court of Fiscal and Administrative Justice ("FCFAJ") in September 2009 that SEMARNAT, the Mexican government's environmental protection agency, nullify the Mine's Environmental Impact Statement ("EIS") which was issued in 2006. The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue during the appeals process. The latest injunction was received on October 4, 2010.

MSX appealed the September 2009 ruling of the FCFAJ. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. MSX appealed the negative decision and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of MSX's position in its appeal against the September 2009 nullification of the EIS. That ruling effectively reestablishes the validity of the mine's 2006 EIS.

MSX continues to work with all levels of government and other external stakeholders to maintain uninterrupted operation the Cerro San Pedro Mine.

	Three Months Ended December 31,		Year Ended December 31,	
	2010	2009	2010	2009
Operating Data				
Tonnes of ore mined (000's)	2,952	2,818	10,790	11,899
Tonnes of waste mined (000's)	5,243	3,099	16,580	16,768
Ratio of waste to ore	1.78	1.10	1.54	1.41
Tonnes of ore processed (000's)	2,952	2,818	10,790	11,899
Average gold grade (grams/tonne)	0.58	0.44	0.62	0.45
Average silver grade (grams/tonne)	30.66	28.10	37.84	30.68
Gold (ounces):				
Produced[(1)]	38,874	25,781	118,708	95,502
Sold	38,666	24,455	114,713	93,312
Silver (ounces):				
Produced[(1)]	700,988	312,848	2,188,235	1,496,958
Sold	696,161	298,107	2,143,721	1,475,317
Realized prices[(3)]:				
Gold ($/ounce)	1,373	1,079	1,262	978
Silver ($/ounce)	26.91	17.36	21.40	14.48
Total cash cost per gold ounce sold [(2)(4)]	138	436	230	407
Financial Data				
Revenues	71,831	31,563	190,459	112,642
Earnings from mine operations	36,515	10,117	84,200	28,124

(1) 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 and silver.

(2) The calculation of total cash cost per ounce of gold is net of by-product silver revenue. If the silver revenues were treated as a co-product, average total cash cost at Cerro San Pedro Mine for the three months ended December 31, 2010, would be $460 per ounce of gold (2009 - $541) and $9.01 per ounce of silver (2009 - $8.71). For the year ended December 31, 2010 the average total cash cost at Cerro San Pedro Mine would be $478 per ounce of gold (2009 - $515) and $8.08 per ounce of silver (2009 - $7.63).

(3) Realized price is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 2 at the end of this MD&A.

(4) Total cash cost is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 1 at the end of this MD&A.

FOURTH QUARTER OF 2010 COMPARED TO FOURTH QUARTER OF 2009

Gold production for the fourth quarter of 2010 increased by 51% to 38,874 ounces, compared to 25,781 ounces produced in the same prior year period. The increased gold production was a result of mining of higher grade ore per the mine plan sequencing and leach pad recoveries returning to more steady-state levels during the fourth quarter of 2010. Silver production increased to 700,988 ounces compared to 312,848 ounces in the same prior year period. The increased production resulted from favourable ore grades quarter on quarter and improved silver recoveries from the leach pad.

Revenue for the fourth quarter of 2010 was $71.8 million, which was a 128% or $40.3 million increase over the same prior year period. The main driver for this was an increase in gold sales of 14,211 ounces and an increase in the average realized price. The average realized gold price per ounce during the fourth quarter 2010 and 2009 was $1,373 and $1,079 respectively, which corresponds well to the average London Metals Exchange PM gold fix price of $1,367 and $1,102 per ounce, respectively. The average realized silver price per ounce during the fourth quarter 2010 and 2009 was $26.91 and $17.36 respectively, which also

correlates to the average London Metals Exchange silver fix price of $26.43 and $17.58 per ounce, respectively.

Total cash cost[1] per ounce of gold sold in the fourth quarter of 2010 was $138 per ounce compared to $436 per ounce in the same prior year period, representing a decrease of 68%. The decrease in total cash cost[1] is a result of higher by-product revenues resulting from higher silver volumes and higher realized silver price during the fourth quarter of 2010 when compared to the same prior year period. These benefits were partially offset by higher total tonnes moved, higher diesel prices and the appreciation of the Mexican Peso during the fourth quarter of 2010 when compared to the same period in 2009.

The increased gold sales, coupled with a significant reduction in total cash cost [1] per ounce of gold sold, net of by-product sales, resulted in Cerro San Pedro generating $36.5 million in earnings from mine operations in the fourth quarter of 2010 compared to $10.1 million in the same period of the prior year.

Cash flow relating to capital expenditures totaled $1.2 million and $1.5 million for the three month period ended December 31, 2010 and 2009, respectively. Capital expenditures in 2010 were primarily associated with a leach pad expansion.

YEAR ENDED 2010 COMPARED TO YEAR ENDED 2009

Gold production for the year ended December 31, 2010 was 118,708 ounces compared to 95,502 ounces produced in the same period in 2009. The increased gold sales and production in 2010 were attributable to the mining of higher average grade ore and improved leach pad recoveries and were partially offset by the mining of fewer ore tonnes as a result of the delayed receipt of the explosives permit in the first quarter of 2010.

Revenue for the year ended December 31, 2010 was $190.5 million compared to $112.6 million in the same prior year period. The average realized gold price[2] during 2010 of $1,262 per ounce compares favourably to the average London Metals Exchange PM gold fix price of $1,225 per ounce. In 2009, the Cerro San Pedro Mine recognized an average realized gold price[2] of $978 per ounce of gold sold relative to the London Metals Exchange PM gold fix price of $1,100 per ounce . The average realized silver price per ounce during 2010 and 2009 was $21.40 and $14.48 respectively, which also correlates to the average London Metals Exchange silver fix price of $20.16 and $14.65 per ounce, respectively.

Total cash cost[1] per ounce of gold sold for the year ended December 31, 2010 was $230 per ounce compared to $407 per ounce in the same prior year period. The decrease in cash cost[1] was driven primarily by higher by-product revenues resulting from higher silver volumes and higher realized silver price during the 2010. This benefit was partially offset by the appreciation of the Mexican Peso and higher diesel prices during 2010 when compared to the same period in 2009.

As a result of the lower costs and higher realized gold prices, Cerro San Pedro generated $84.2 million in earnings from mine operations in 2010 compared to $28.1 million in the same period of the prior year.

Cash flow relating to capital expenditures totaled $8.9 million and $3.2 million respectively for the year ended December 31, 2010 and 2009. Capital expenditures in 2010 were primarily associated with a leach pad expansion.

IMPACT OF FOREIGN EXCHANGE ON OPERATIONS

The Cerro San Pedro Mine was impacted by changes in the value of the Mexican peso against the U.S. dollar in the fourth quarter of 2010 relative to the fourth quarter of 2009. The value of the Mexican peso increased from an average of 13.07 to the U.S. dollar in the fourth quarter of 2009 to 12.40 to the U.S. dollar in the fourth quarter of 2010. This had a negative impact of approximately $32 per ounce of gold sold.

The value of the Mexican peso increased from an average of 13.51 to the U.S. dollar in 2009 compared to 12.65 to the U.S. dollar in 2010. This had a negative impact of approximately $40 per ounce of gold sold.

C. PEAK MINES, NEW SOUTH WALES, AUSTRALIA

The Company's 100% owned Peak Mines gold-copper mining operation is located in the Cobar Mineral Field near Cobar, New South Wales, Australia. Peak Mines consists of mining and exploration licenses totaling 845 square kilometres of prospective ground covering the mining operation and mineralized extensions.

	Three Months Ended December 31,		Year Ended December 31,	
	2010	**2009**	**2010**	**2009**
Operating Data				
Tonnes of ore processed (000's)	200	202	775	794
Average gold grade (grams/tonne)	5.18	4.24	4.23	4.05
Average copper grade (%)	1.11	0.99	1.01	1.00
Gold (ounces):				
Produced	29,581	24,646	95,180	93,247
Sold	27,905	26,159	84,793	87,812
Copper (thousands of pounds):				
Produced	4,236	3,905	15,340	15,613
Sold	4,709	4,831	14,050	13,901
Realized prices (1):				
Gold ($/ ounce)	1,385	1,139	1,257	994
Copper ($/ pound)	3.89	2.94	3.48	2.54
Total cash cost per gold ounce sold (2)	312	339	361	334
Financial Data				
Revenues	55,316	42,044	150,630	116,631
Earnings from mine operations	20,253	10,816	56,810	41,811

(1) Realized price is a non-GAAP financial performance measure with no standard meaning under U.S. GAAP. See Endnote 2 at the end of this MD&A.
(2) Total cash cost is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 1 at the end of this MD&A. The calculation of total cash cost per ounce of gold is net of by-product copper revenue. If the copper revenue was treated as a co-product, average total cash cost at Peak Mines for the three month period ended December 31, 2010 would be $601 per ounce of gold and $1.95 per pound of copper, as compared to $540 per ounce of gold and $1.65 per pound of copper for the period ended December 31, 2009. For the year ended December 31, 2010 the average cash cost at Peak Mines would be $593 per ounce of gold (2009 - $482) and $1.88 per pound of copper (2009 - $1.41).

FOURTH QUARTER OF 2010 COMPARED TO FOURTH QUARTER OF 2009

Peak Mines produced 29,581 ounces of gold and 4.2 million pounds of copper during the fourth quarter of 2010 compared to 24,646 ounces of gold and 3.9 million pounds of copper in the same prior year period. Gold production increased due to the mine sequencing leading to higher head grades. Mill throughput was 199,580 tonnes in the fourth quarter 2010 compared to 201,795 tonnes in 2009. Mill feed grade was 22% higher in gold grade and 12% higher in copper grade. During the fourth quarter of 2010, higher gold grades were produced from the Perseverance and New Occidental ore bodies.

Revenue for the fourth quarter of 2010 was 32% higher than in the same quarter 2009 mainly due to higher realized gold prices [(2)] of $1,385 per ounce compared to $1,139 per ounce and the higher realized copper prices of $3.89 per pound compared to $2.94 per pound in the same prior year period. This compares to the average London Metals Exchange PM gold fix price of $1,367 and $1,102 per ounce for the fourth quarter of 2010 and 2009, respectively. The average London Metals Exchange copper fix price was $3.92 for the fourth quarter of 2010 and $3.02 for the fourth quarter of 2009. Year-end copper concentrate stocks, containing 11,933 ounces of gold and 3.5 million pounds of copper, are relatively high compared to the prior year.

Total cash cost[(1)] per ounce of gold sold, net of by-product sales, for the fourth quarter was $312 compared to $339 in the fourth quarter of 2009. Total cash cost[(1)] decreased as higher by-product revenues from increased copper prices were only partially offset by the appreciation of the Australian dollar and lower copper sales volumes in the fourth quarter of 2010 when compared to the same period of 2009.

The higher average realized price, offset by increased total cash cost [(1)] per ounce of gold sold, net of by-product sales and reduced sales volume resulted in Peak Mines generating $20.3 million in earnings from operations during the fourth quarter of 2010 compared to $10.8 million in the same period of the prior year.

Capital expenditures totaled $11.7 million and $9.4 million for the three month period ended December 31, 2010 and 2009, respectively. Significant capital expenditure during the fourth quarter of 2010 included building of conventional copper flotation cells, Perseverance Zone D fresh air vent project and routine underground development.

YEAR ENDED 2010 COMPARED TO YEAR ENDED 2009

Peak Mines produced 95,180 ounces of gold and 15.3 million pounds of copper during 2010 compared to 93,247 ounces of gold and 15.6 million pounds of copper for the same prior year period. These variances are largely due to the decreased processed ore with a scheduled mill shutdown in March 2010, offset by production from the higher ore grade Chesney ore body that commenced in the first six months of 2009. Mill throughput for 2010 was 2%lower than same period in 2009. Mill feed grade was 4% higher in gold grade and 1% higher in copper grade.

Revenue for 2010 was higher than in 2009 mainly due to higher realized gold prices(2) of $1,257 per ounce compared to $994 per ounce and the higher realized copper prices of $3.48 per pound compared to $2.54 per pound in the same prior year period. This compares to the average London Metals Exchange PM gold fix

price of $1,225 and $973 per ounce for 2010 and 2009, respectively. The average London Metals Exchange copper fix price was $3.42 for 2010 and $2.35 for 2009.

Total cash cost[(1)] per ounce of gold sold, net of by-product sales, for 2010 was $361 compared to $334 in the same period of 2009. The increase in total cash cost[(1)] was mainly attributable to the appreciation of the Australian dollar. These cost increases were partially offset by higher by-product revenues from both higher copper sales volume and price.

The higher average realized price, offset by increased total cash cost [(1)] per ounce of gold sold, net of by-product sales and reduced gold sales volum resulted in Peak Mines generating $56.8 million in earnings from operations during 2010 compared to $41.8 million in the same period of the prior year.

Capital expenditures totaled $29.7 million and $28.6 million for the year ended December 31, 2010 and 2009, respectively. Capital expenditures in 2010 were primarily associated with a new truck, building of conventional copper flotation cells, Perseverance Zone D fresh air vent project and routine underground development.

IMPACT OF FOREIGN EXCHANGE ON OPERATIONS

Peak Mines' operations continue to be impacted by fluctuations in the valuation of the Australian dollar against the U.S. dollar. The value of Australian dollar in the fourth quarter of 2010 averaged 1.01 compared to 1.10 in the fourth quarter of 2009 resulting in a negative impact on cash costs[(1)] of approximately $80 per gold ounce sold.

The value of Australian dollar in 2010 averaged 1.09 compared to 1.28 in 2009 resulting in a negative impact on cash costs [(1)] of approximately $146 per gold ounce sold.

PROJECT DEVELOPMENT REVIEW

A. MESQUITE MINE, CALIFORNIA, USA

During the fourth quarter of 2010, the Company concluded its investigation of the economic viability of the sulphide mineral resource at the Mesquite gold mine. A program involving approximately 12,000 metres of exploration drilling to confirm continuity of mineralization within the sulphide mineral resource was completed. The results of the drilling program indicate that the potential to expand the sulphide resource is insufficient to warrant further exploration. Metallurgical testing of the sulphide mineralization is scheduled to continue during 2011 to provide further confirmation of estimated gold recoveries for the sulphide resource. As a result of drilling in 2010, an additional 1.1 million ounces of oxide mineral resource was added to Mesquite's resource base.

B. CERRO SAN PEDRO MINE, SAN LUIS POTOSÍ, MEXICO

During the fourth quarter of 2010, the Cerro San Pedro Sulphide exploration project progressed with the completion of an 8,980 metre core drilling to explore a zone of high grade manto-style sulphide mineralization as it extends from an area of historic underground mining south of the current open pit.

Drilling during the fourth quarter has confirmed the continuation of high grade manto zone south and west of the currently defined resource. Highlights from the fourth quarter drilling program include hole 43C located approximately 100 metres southwest of the currently defined manto resource. Hole 43C intercepted two separate zones of manto mineralization including a 4.5 metre interval averaging 14.2 g/t gold, 376 g/t silver, 10.5% zinc and 5.5% lead followed by an 8.0 metre interval averaging 2.33 g/t gold, 218.5 g/t silver, 3.5% zinc and 3.5% lead. Additionally, the deep penetrating Titan geophysical survey completed during the third quarter has provided further evidence that the San Pedro manto system remains open for another several hundred metres south of the latter drill intercept. Exploration of the San Pedro sulphide manto will continue during 2011.

C. PEAK MINES, NEW SOUTH WALES, AUSTRALIA

During the fourth quarter of 2010, the Company's ongoing mineral resource development program at Peak Mines' operations resulted in the completion of 11,111 metres of exploration and delineation diamond drilling to replace mine depletion. This total includes 9,948 metres of underground drilling to delineate and explore for additional reserves in the Perseverance deposit, 68 metres of underground drilling to delineate reserves in the New Cobar deposit, and 1,094 metres of surface drilling to explore the Fortitude prospect south of the Company's Perseverance mine. The Company's regional exploration initiative at Peak Mines likewise continues with geophysical surveys and geochemical sampling of targets identified within the Cobar mineral field. The Company has many surface and underground targets and the mine geology and exploration goal is to replace reserves consumed by mining activities in 2011, and generate additional resources in the areas surrounding the mine.

D. NEW AFTON PROJECT, BRITISH COLUMBIA, CANADA

The Company's New Afton copper-gold development project is located in Kamloops, British Columbia, Canada. The New Afton project's property package consists of the nine square kilometre Afton mining lease which centers on the New Afton copper-gold mine currently under development as well as 126 square kilometres of exploration licenses covering multiple mineral prospects within the historic Iron Mask mining district.

Project spending for the fourth quarter of 2010 was $47.9 million including capitalized interest of $5.3 million compared to $23.6 million including capitalized interest of $4.5 million for the fourth quarter of 2009. Project spending in 2010 was $107.0 million, including $20.8 million of interest, compared to $76.2 million, including $19.1 million of interest, for 2009.

Underground development advanced a total of 3,873 metres during 2010 compared to an advance of 1,708 metres during 2009. In the quarter, underground development advanced a total of 1,394 metres compared to an advance of 1,066 metres during the third quarter of 2010. Shotcrete support work during the period included the spraying of 3,054 cubic metres in the development headings compared to 2,198 cubic metres in the third quarter.

Excavation and ground support of the Conveyor Transfer Chamber (CTC 2), the second large bulk mining excavation at New Afton was completed during the fourth quarter. Conveyor Transfer Chambers CTC3, CTC4 and the Development Crusher excavation and ground support started during the fourth quarter. Mining of Conveyor Leg 4 continued to be driven from the top and bottom during the quarter with 47 metres remaining to break through. Excavation continues on the extraction and undercut drifts in the ore-body at the mining level horizon. The first ore has been stockpiled on surface approximate to the mill for future concentration. Raise boring started on VR5, the fourth main ventilation raise from the surface. Difficult ground conditions were encountered and the raise will be relocated to a geologically more favorable location.

Construction activities continued on the surface in the fourth quarter with the completion of installation of buried services (utilities), installation of support pilings around the concentrator and ore stockpile areas and the erection of the process and fresh water tanks. The permanent natural gas supply was commissioned and implemented for the heating of the Concentrator. The construction of the Reclaim Chamber and related civil work made satisfactory progress during the quarter. Work in the Concentrator originally scheduled for 2011 was commenced in the fourth quarter as an overall schedule mitigation measure. The work was confined to temporary sub-slab fill removal and replacement, pouring of concrete slabs, footings, sumps and the installing and energizing of high-bay lighting.

Underground construction centered on CTC 1 structural aspects and service piping installation and conveyor table anchor bolt remediation in Leg 1. The construction contractor performed additional work for the installation of permanent ventilation doors and related ventilation equipment. In addition, the contractor was also tasked with the excavation of an ALIMAK raise to assist the raise bore contractor with the freeing of its drill stem.

Electrical activities included reticulation of temporary underground development power, communications, controls, design and BC Hydro permitting for the 138 kV power supply. These activities included construction of the Main Substation ‘switchhouse’ and revised routing of the 13.8 kV power to the lower reaches of the mine. Additional work was also undertaken to supply power for the temporary contractors’ facilities and work areas around the site.

Mechanical crews focused on several mobile equipment reliability issues, notably shotcrete sprayer availability following return of the rebuilt 706 unit that had been damaged in the second quarter, problems with reliability and supply of scoop transmissions, continued problems with haul truck axles, and ongoing parts availability issues with suppliers.

Surface projects in the fourth quarter included preparation, clean-up and reorganization of materials storage areas, site preparation and construction of a new warehouse building, clearing of stored materials from inside the concentrator building in advance of planned fill material and slab sub-base preparation, continued mine dry facility expansion, site road improvements, maintenance and crane, excavator, loader and skid-steer work in support of construction and maintenance activities.

E. EL MORRO PROJECT, ATACAMA REGION, CHILE

The Company's 30% owned El Morro copper-gold project is located in the Atacama Region, Chile, approximately 80 kilometres east of the city of Vallenar. El Morro was acquired by the Company as part of the business combination with Metallica Resources Inc. on September 30, 2008. The project is a development stage asset initially managed under a shareholder agreement with Xstrata, the previous project operator and owner of a 70% interest.

On October 12, 2009, Barrick announced that it had entered into an agreement with Xstrata to acquire Xstrata's 70% interest in the El Morro project. Datawave held a right of first refusal over Xstrata's 70% interest which came into effect when the agreement with Barrick was announced. On January 7, 2010, Datawave provided notice to Xstrata of the exercise of its right of first refusal to acquire Xstrata's 70% interest in the El Morro project for $463.0 million. The Company completed this transaction on February 16, 2010. Goldcorp loaned the $463.0 million to a Datawave subsidiary to fund the exercise of the right of first refusal. After acquisition of Xstrata's 70% interest by a Datawave subsidiary, Datawave sold that subsidiary to a subsidiary of Goldcorp. Concurrent with the sale of the Datawave subsidiary to a subsidiary of Goldcorp, Datawave received a $50.0 million payment and the parties amended the terms of the existing El Morro Shareholders' Agreement ("the Agreement"). As a result of these transactions, New Gold will continue its participation as a 30% partner in the El Morro project under the amended Agreement.

Goldcorp has agreed to fund 100% of the Datawave's share of the development and construction capital for the project, which was estimated in the El Morro feasibility study at approximately $2.5 billion. Under the former Xstrata carried funding arrangements, the Company would have been required to fund approximately $225.0 million or 9% of the project capital before completion of the project, however under the new funding arrangement, New Gold will not need to fund any of the project capital before completion of development and construction. Additionally, New Gold agreed on a reduced interest rate of the U.S. 7-year treasury rate plus 1.87% which is now locked in at 4.58%. At December 31, 2010, the outstanding loan balance was $8.1 million including accrued interest ($3.7 million – 2009).

On January 13, 2010, New Gold received a Statement of Claim filed by Barrick in the Ontario Superior Court of Justice, against New Gold, Goldcorp, and affiliated subsidiaries. A Fresh Amended Statement of Claim was received in August 2010 which included Xstrata and its affiliated subsidiaries as defendants. The claim relates to New Gold's exercise of its right of first refusal with respect to the El Morro copper-gold project. New Gold believes that the claim is without merit and intends to defend this action using all available legal avenues.

During the fourth quarter of 2010, the El Morro project activities included the continued management of the Environmental Impact Statement application review process, which commenced in November 2008, and detailed engineering and design work for the access road and related project infrastructure. New Gold's 70% joint venture partner on the El Morro Project, Goldcorp Inc., continues to work through the permit review process for the project with a target to begin construction in the first half of 2011.

The scientific and technical information in the above sections has been prepared under the supervision of Mark Petersen, a Qualified Person under National Instrument 43-101 and an employee of the Company.

REVIEW OF FINANCIAL RESULTS

FOURTH QUARTER 2010 COMPARED TO FOURTH QUARTER 2009

Revenues increased by 44% or $57.6 million to $189.4 million when comparing the fourth quarter of 2010 to 2009. The increase was attributed to an increase in average realized prices[(2)] for gold, silver and copper to $1,316 per ounce, $26.98 per ounce, and $3.89 per pound in the fourth quarter of 2010, respectively; compared to $1,074 per ounce, $17.36 per ounce and $2.94 per pound in the fourth quarter of 2009, respectively. Additionally, sales of gold ounces increased to 116,964 ounces compared to 106,475 ounces in the same prior year period and sales of silver ounces increased to 696,161 from 298,107 in the same prior year period.

Operating expenses increased from $67.4 million in 2009 to $80.8 million in the fourth quarter of 2010. The increase is attributed to an increase in mining rate and related production levels, an adverse impact of foreign exchange as the U.S. dollar has weakened to the Australian dollar and Mexican peso and higher consumable prices.

Depreciation and depletion was $24.7 million for the fourth quarter of 2010 compared to $24.7 million for the fourth quarter of 2009 reflecting an increase in production and related depreciation expense on a unit of production basis, particularly at Cerro San Pedro.

For the three months ended December 31, 2010, New Gold had earnings from mine operations of $83.9 million compared with $39.7 million in the same prior year period.

Corporate administration costs were $8.9 million in the fourth quarter of 2010 compared to $9.4 million incurred in the same prior year period. Stock-based compensation costs included within corporate administration were $1.8 million and $1.8 million in fourth quarters of 2010 and 2009, respectively.

Exploration expense is $3.4 for the fourth quarter of 2010 relative to $1.3 in the same prior year period. The increase is primarily related to $1.4 million of exploration expense related to the Mesquite Sulphide project.

On July 1, 2009, the Company met the criteria for hedge accounting under the Canadian Institute of Chartered Accountants' Handbook section 3865 – Hedges in accounting for its gold hedge and fuel contracts. Application of the accounting standards allows the Company to record realized gains and losses on gold hedge settlements within revenue. For settlements on the fuel hedges, the realized gains and losses are classified within operating expenses. Changes resulting from the mark-to-market of the gold hedge and fuel contracts are now recognized within Other Comprehensive Income. On December 16, 2010, a portion of the gold hedge was moved from one counterparty to another where the underlying terms of the agreement were not materially changed. This resulted in a de-designation and subsequent immediate re-designation of the hedge position. On re-designation, the Company continued to meet the criteria for hedge accounting under the Canadian Institute of Chartered Accountants' Handbook section 3865 – Hedges in accounting for its gold hedge and fuel contracts.

For the three month period ended December 31, 2010, the Company's Mesquite Mine realized losses of $7.4 million within revenues for settlement of three months of gold hedge contracts totaling 16,500 ounces. As a

result of the increase in the spot price of gold from $1,307 per ounce to $1,406 per ounce between September 30, 2010 and December 31, 2010, the Mesquite Mine recognized $22.2 million of pre-tax unrealized losses in the mark-to-market of remaining contracts within Other Comprehensive Income.

During the fourth quarter of 2010, the Company recognized a $15.7 million loss related to the write-down of its Liberty Bell exploration property for which there is no prior period comparative. Drilling results in 2010 did not warrant further exploration at Liberty Bell.

During the fourth quarter of 2010, the Company had realized and unrealized gains on investments related to the mark to market of remaining Asset Backed Notes of $2.1 million as the credit quality of these notes continues to improve. This compares to a loss of $14.6 million for the same prior year period.

The Company has a prepay option on the senior secured notes which was fair valued at $7.7 million at December 31, 2010 generating an unrealized loss of $3.9 million for the quarter. As the Company's creditworthiness improves, there is a deemed benefit to exercising the prepay option on the senior secured notes and refinancing at lower rates. This is an accounting transaction and has no cash impact. The earnings impact in the prior year period is $nil.

The Company recorded a gain on sale of investments related to shares held in Beadell of $39.7 million for which there is not prior year comparative.

The Company recognized a foreign exchange loss of $9.6 million in the fourth quarter of 2010 compared to a loss of $11.2 million in the same prior year period. During the fourth quarter of 2010, the U.S. dollar weakened against the foreign currencies that the Company operates in. The Canadian and Australian dollars strengthened 3% and 5% respectively against the U.S. dollar since September 30, 2010. The foreign exchange loss arose due to the revaluation of monetary assets and liabilities and future income tax liabilities recorded on the business combination between New Gold, Metallica, and Peak Gold. The sum of the monetary items represents a net liability position which increased on a U.S. dollar basis as a result of the relative strength of the Canadian and Australian dollars.

Income and mining tax expense in the fourth quarter of 2010 was $11.2 million compared to $4.5 million in the same prior year period, reflecting an effective tax rate of 13% for the fourth quarter of 2010. The fourth quarter tax expense was low due to the gain on sale of the Beadell shares being sheltered.
For the three months ended December 31, 2010, New Gold had net earnings from continuing operations of $72.9 million, or $0.19 per basic share. This compares with a net loss from continuing operations of $2.3 million, or a loss of $0.01 per basic share in the same prior year period. In the fourth quarter of 2010, net earnings, including earnings from discontinued operations, was $72.9 million, or $0.19 per basic share. This compares with a net loss of $7.7 million, or $0.02 per basic share in 2009.

YEAR ENDED DECEMBER 31, 2010 COMPARED TO YEAR ENDED DECEMBER 31, 2009

Revenues increased by 64% or by $206.7 million to $530.5 when compared to $323.8 million in the same prior year period. The increase is attributed to an increase in average realized prices[(2)] for gold, silver and copper to $1,194 per ounce, $21.40 per ounce, and $3.48 per pound in the fourth quarter of 2010, respectively; compared to $987 per ounce, $14.48 per ounce and $2.54 per pound in the fourth quarter of 2009, respectively. Additionally, 2010 includes the full year of gold sales for the Mesquite Mine compared to seven post- acquisition months for 2009. The Mesquite Mine sold 169,571 ounces of gold in in 2010

compared to 95,056 ounces in the same prior year period representing the seven-month period of ownership.

Operating expenses increased from $176.5 million in 2009 to $250.3 million during 2010. The addition of the Mesquite Mine to the Company's operating mines for a full twelve month period relative to seven post- acquisition months in 2009 contributed an incremental $42.0 million to operating expenses. Increased production, higher consumable costs and adverse foreign exchange movements further impacted operating cost year on year.

Depreciation and depletion for the year ended December 31, 2010 was $77.0 million compared to $58.7 million for the same prior year period. This was primarily attributed to the addition of the Mesquite Mine to the Company's operating mine portfolio on May 27, 2009. For 2010, the Mesquite Mine incurred incremental depreciation and depletion expense of $9.9 million. Further increase results from an increase in production and related depreciation expense on a unit of production basis.

For the year ended December 31, 2010, New Gold had earnings from mine operations of $203.1 million compared with $88.6 million in the same prior year period.

Corporate administration costs of $32.6 million in 2010 were 32% higher than $24.7 million incurred in the same prior year period. Corporate administration was higher in 2010 primarily due to a negative foreign exchange impact, additional legal costs, increase stock based compensation and an increased corporate salary base following the business combination with Western Goldfields Inc. Nearly all corporate costs are incurred in Canadian dollars, which has appreciated 11% to the U.S. dollar relative to 2009. This generates a negative foreign exchange impact of approximately $2.9 million. Stock-based compensation costs included within corporate administration were $8.2 million and $6.6 million in 2010 and 2009, respectively.

Exploration costs of $12.8 million in 2010 were higher than $6.4 million for the same prior year period. The increase was driven by the Peak Mines where exploration activity has increased significantly relative to 2009 which is primarily planning and evaluation. Additionally, the Mesquite mine had increased expenditure primarily related to the Mesquite Sulphide project generating $2.9 million of exploration expense in 2010.

On July 1, 2009, the Company met the criteria for hedge accounting under the Canadian Institute of Chartered Accountants' Handbook section 3865 – Hedges in accounting for its gold hedge and fuel contracts. Application of the accounting standards allows the Company to record realized gains and losses on gold hedge settlements within revenue. For settlements on the fuel hedges, the realized gains and losses are classified within operating expenses. Changes resulting from the mark-to-market of the gold hedge and fuel contracts are now recognized within Other Comprehensive Income. On December 16, 2010, a portion of the gold hedge was moved from one counterparty to another where the underlying terms of the agreement were not materially changed. This resulted in a de-designation and subsequent immediate re-designation of the hedge position. On re-designation, the Company continued to meet the criteria for hedge accounting

under the Canadian Institute of Chartered Accountants' Handbook section 3865 – Hedges in accounting for its gold hedge and fuel contracts.

For the year ended December 31, 2010, the Company's Mesquite Mine realized losses of $20.0 million within revenues for settlement of twelve months of gold hedge contracts totaling 66,000 ounces. As a result of the increase in the spot price of gold from $1,088 per ounce to $1,406 per ounce between December 31, 2009 and December 31, 2010, the Mesquite Mine recognized $65.8 million of pre-tax unrealized losses in the mark-to-market of remaining contracts within Other Comprehensive Income.

Following the acquisition of Mesquite Mine and prior to the Company meeting the criteria for hedge accounting, a gain of $9.0 million was recorded in 2009 for realized and unrealized gain on fuel and hedge contracts. The 2010 period has no comparative as realized losses of $20.0 million on hedge settlement are recorded in revenue and unrealized mark to market gains or losses are recorded in Other Comprehensive Income.

During 2010, the Company recognized a $15.7 million loss related to the write-down of its Liberty Bell exploration property for which there is no prior period comparative. Drilling results in 2010 did not warrant further exploration at Liberty Bell.

During 2010, the Company had realized and unrealized gains on investments related to the mark to market of remaining Asset Backed Notes of $9.1 million. This compares to a gain of $0.4 million for the same prior year period. Additionally, a gain on redemption of long term debt of $14.2 million was realized in 2009 compared to $nil for the same period in the current year.

The Company has a prepay option on the senior secured notes which was fair valued at $7.7 million at December 31, 2010 generating an unrealized gain equal to that value in 2010. As the Company's creditworthiness improves, there is a deemed benefit to exercising the prepay option on the senior secured notes and refinancing at lower rates. This is an accounting transaction and has no cash impact. The earnings impact in the prior year period is $nil.

The Company recognized a foreign exchange loss of $21.8 million in 2010 compared to a loss of $52.7 million in the same prior year period. The foreign exchange losses arise due to the revaluation of monetary assets and liabilities and future income tax liabilities recorded on the business combination between New Gold, Metallica, and Peak Gold. The sum of the monetary items represents a net liability position which decreased on a U.S. dollar basis as a result of the relative strength of the Canadian and Australian dollars. The prior year period loss of $52.7 million arose as the U.S. dollar significantly weakened to all foreign currencies that New Gold operates in during 2009. The loss for the year ended December 31, 2010 is lower than the prior comparative since the Company now holds a significant portion of its cash in Canadian dollars which offsets the Canadian dollar denominated debt.

Income and mining tax expense in 2010 was $41.1 million compared to a $14.9 million in the same prior year period, reflecting an effective tax rate of 23% for 2010.

For the year ended December 31, 2010, New Gold had net earnings from continuing operations of $134.9 million, or $0.35 per basic share. This compares with a net loss from continuing operations of $183.4 million, or $(0.60) per basic share in the same prior year period. In 2010, net earnings, including earnings from discontinued operations, was $177.0 million, or $0.46 per basic share. This compares with a net loss of $194.3 million, or $(0.64) per basic share in 2009.

QUARTERLY INFORMATION

(tabular data in thousands of U.S. dollars, except per share amounts)

	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Gold sales (ounces)	116,964	89,692	82,401	80,020	106,475	77,645	52,890	55,397
Revenues	189,355	127,116	112,359	101,620	131,765	88,491	59,199	44,325
Net earnings (loss) from continuing operations	72,879	27,446	17,418	17,188	(2,295)	6,096	(199,304)	12,069
Earnings (loss) per share from continuing operations								
Basic	0.19	0.07	0.04	0.04	(0.01)	0.02	(0.77)	0.06
Diluted	0.18	0.07	0.04	0.04	(0.01)	0.02	(0.77)	0.06
Net earnings (loss)	72,879	27,446	59,136	17,493	(7,650)	4,101	(202,846)	12,079
Earnings (loss) per share								
Basic	0.19	0.07	0.15	0.04	(0.02)	0.01	(0.79)	0.06
Diluted	0.18	0.07	0.15	0.04	(0.02)	0.01	(0.79)	0.06

BALANCE SHEET REVIEW

A. ASSETS

At December 31, 2010, New Gold held cash and cash equivalents of $490.8 million. This compared to $271.5 million held at December 31, 2009 including restricted cash. As at December 31, 2010, $330.6 million of the cash is held in Canadian dollars. Of the Company's holdings, $143.5 million is held in Canadian federal and provincial treasury bills and $191.8 million in cash. The remainder is held in the following liquid forms: banker's acceptances, term deposits, and guaranteed investment certificates.

B. ASSET BACKED NOTES

At December 31, 2010, the Company owned long-term Asset Backed Notes ("AB Notes") with a face value of $21.0 million (Cdn$20.9 million). These AB Notes were issued in replacement of asset backed commercial paper ("ABCP") formerly held by the Company. When the ABCP matured but was not redeemed in 2007, it became the subject of a restructuring process that replaced the ABCP with long-term asset backed securities. The restructuring was completed and the AB Notes were issued on January 21, 2009.

The Company has estimated the fair value of the remaining AB Notes at December 31, 2010 based on market bid prices. As a result of this analysis, the Company has estimated the fair market value of its AB Notes investment to be $7.5 million as at December 31, 2010.

Subsequent to the year-end, all AB Notes were disposed of for proceeds of $8.9 million (C$8.8 million).

C. INVESTMENT IN BEADELL SHARES

At September 30, 2010 the Company owned 115 million shares in Beadell that were acquired as partial consideration in the Amapari transaction. On the closing date of the transaction, April 13, 2010, the shares were valued at $18.6 million (Aud$20.1 million). The Company designated its investment in Beadell as an available for sale financial asset with changes in fair value being included in Other Comprehensive Income. On December 1, 2010, the Company sold the 115 million shares, with Beadell's consent to release the shares from a 12 month escrow, at A$0.53 per share for total net proceeds of A$60.3 million or $58.4 million.

D. FUEL CONTRACTS

New Gold's wholly-owned subsidiary, Western Mesquite Mines Inc. ("WMMI"), entered into fuel hedge contracts with financial institutions in December 2008 and January 2009. As at December 31, 2010 all of the hedging contracts had been settled. The hedging contracts represented a total commitment of 2.9 million and 3.0 million gallons of diesel per year at a weighted average price of $1.75 and $1.94 per gallon in 2009 and 2010. New Gold assumed the liability upon acquisition of Western Goldfields on May 27, 2009. The Company financially settled 252,000 gallons of diesel per month related to these contracts until December 31, 2010.

The Company's fuel hedge contracts did not initially meet the criterion in Section 3865 - Hedges, and therefore were not designated as cash flow hedges. Accordingly, period-end mark to market adjustments related to these contracts were immediately reflected on the statement of operations of the Company as unrealized gains or losses on fuel hedging contracts and the cumulative effect was reflected as an asset or liability on the balance sheet.

On July 1, 2009, the Company's fuel contracts met the requirements under Section 3865 - Hedges and were therefore designated as cash flow hedges against forecasted purchases of fuel for expected consumption at the Mesquite Mine. Prospective and retrospective hedge effectiveness is assessed using the hypothetical derivative method. The prospective test is based on regression analysis of the month-on-month change in fair value of both the actual derivative and a hypothetical derivative caused by actual historic changes in commodity prices over prior periods. The retrospective test involves comparing the effect of historic changes in fuel prices each period on the fair value of both the actual and hypothetical derivative using a hypothetical derivative method. The effective portion of changes in fair value of the commodity contracts is recorded in Other Comprehensive Income until the forecasted transaction impacts earnings. Where applicable, the fair value of the derivative has been evaluated to account for the Company's credit risk.

The cumulative fuel hedge asset as at December 31, 2010 was nil. The Company has not entered into any new fuel hedging contracts for 2011, but will continue to monitor fuel prices.

E. GOLD HEDGE CONTRACTS

Under the terms of the term loan facility entered into by WMMI, as a condition precedent to drawdown of the loan, WMMI entered into a gold hedging program required by the banking syndicate. As such, at the time of the agreement, the Company had executed gold forward sales contracts for 429,000 ounces of gold at a

price of $801 per ounce. New Gold assumed the liability upon acquisition of Western Goldfields Inc. on May 27, 2009. As at December 31, 2010, the remaining gold contracts represent a commitment of 5,500 ounces per month for 48 months with the last commitment deliverable in December 2014 for a total of 264,000 ounces.

The Company's gold hedge contracts did not initially meet the criterion in Section 3865 - Hedges, and therefore were not designated as cash flow hedges. Accordingly, the period-end mark to market adjustments related to these contracts were immediately reflected on the statement of operations of the Company as unrealized gains or losses on gold forward sales contracts and the cumulative effect was reflected as an asset or liability on the balance sheet.

On July 1, 2009, the Company's gold hedging contracts met the requirements for cash flow hedges under Section 3865 - Hedges. Prospective hedge effectiveness is assessed on these hedges using the hypothetical derivative method. The hypothetical derivative assessment involves comparing the effect of theoretical shifts in forward gold prices on the fair value of both the actual hedging derivative and a hypothetical derivative. The retrospective assessment involves comparing the effect of historic changes in gold prices each period on the fair value of both the actual and hypothetical derivative. The effective portion of the gold contracts is recorded in Other Comprehensive Income until the forecasted gold sale impacts earnings. Where applicable, the fair value of the derivative has been evaluated to account for the Company's credit risk.

On December 16, 2010, a portion of the gold hedge was moved from one counterparty to another where the underlying terms of the agreement were not materially changed. This resulted in a de-designation and subsequent immediate re-designation of the hedge position. On re-designation, the Company continued to meet the criteria for hedge accounting under the Canadian Institute of Chartered Accountants' Handbook section 3865 – Hedges in accounting for its gold hedge and fuel contracts. As such, the Company continues to account for the hedges in the same manner as it did prior to the change.

The remaining contracts were marked to market as at December 31, 2010 using the December 31, 2010 spot price of $1,406 per ounce, resulting in a cumulative unrealized pre-tax loss of $153.4 million that has been disclosed as a liability and a pre-tax adjustment of $65.8 million to Other Comprehensive Income for the year ending December 31, 2010.

F. LONG-TERM DEBT

The majority of the Company's contractual obligations consist of long-term debt and interest payable. At December 31, 2010, the Company had $229.9 million in long-term debt compared to $225.5 million at December 31, 2009.

Long-term debt obligations are comprised primarily of senior secured notes and subordinated convertible debentures. The senior secured notes ("Notes"), which were originally issued by New Gold 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 December 31, 2010 the face value of the Notes totalled $188.0 million (Cdn$187.0 million). Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year. Once the New Afton project is in commercial production, the Company will be obligated to offer to repay a

face value amount equal to 50% of excess cash flow each year, at the option of the note holders. The Company also has the option to prepay the Notes at a price ranging from 120% to 100% (decreasing rates based on the length of time the Notes are outstanding). At December 31, 2010 the redemption price was 110%, which is scheduled to decrease to 105% on June 28, 2011. These Notes are secured by the New Afton Project assets. Capitalized interest relating to the Notes was $4.9 million and $19.4 million in the fourth quarter of and full year 2010 compared to $4.1 million and $17.6 million during the fourth quarter of and full year 2009.

The Company has 55,000 subordinated convertible debentures ("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 a conversion price of Cdn$9.35 per share. At December 31, 2010, the aggregate principal of the Debentures was $55.3 million (Cdn$55.0 million). The Debentures are accounted for as compound financial instruments comprised of a liability and an equity component. At December 31, 2010, the carrying amount of the liability of $42.6 million will be accreted to the face value of the Debentures over their term to maturity. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year. Capitalized interest relating to the Debentures was $1.5 million and $5.6 million in the fourth quarter and full year 2010 compared to $1.4 million and $5.2 million during the fourth quarter of and full year 2009.

On December 16, 2010, the Company entered into an agreement for a $150 million revolving credit facility with a syndicate of banks. The amount of the Facility will be reduced by $50 million if the Cerro San Pedro Mine is not operational for 45 consecutive days due to any injunction, order, judgment or other determination of an official body in Mexico as a result of any disputes now or hereafter before an official body in Mexico with jurisdiction to settle such a dispute. However, the full $50 million of credit will be reinstated if operations at the Cerro San Pedro Mine resume in accordance with the mine plan for 45 consecutive days and no similar disruption event occurs during this period. The purpose of the Facility is for general corporate purposes, including acquisitions. The Facility, which is secured on the Company's material assets (excluding the New Afton and El Morro project assets) and a pledge of certain subsidiary shares, has a term of three years with annual extensions permitted. The Facility contains various covenants customary for a loan facility of this nature, including limits on indebtedness, asset sales and liens. Significant financial covenants are as follows:

Minimum tangible net worth	$1.38 billion at September 30, 2010 + 25% of positive quarterly net income
Minimum interest coverage ratio (EBITDA to interest)	4.0:1.0
Maximum leverage ratio (debt to EBITDA)	3.0:1.0

The Company is in compliance with these covenants at December 31, 2010.

The interest margin on drawings under the Facility ranges from 2.00% to 4.25% over LIBOR, the Prime Rate or the Base Rate, based on the Company's debt to EBITDA ratio (the Debentures are not considered debt for covenant purposes) and the currency and type of credit selected by the Company. Based on Prime Rate and

the Company's debt to EBITDA ratio, the interest at December 31, 2010 would be 5.0% if any funds had been drawn. The standby fees on undrawn amounts under the Facility range between 0.75% and 1.06% depending on the Company's debt to EBITDA ratio.

To the date of this MD&A, the Company has not drawn any funds under the Facility, however the Facility has been used to issue an A$10.2 million letter of credit related to Peak Mines' reclamation obligation to the New South Wales government in Australia. In addition, the previously issued C$9.5 million letter of credit provided to B.C. Hydro for support of power and transmission construction work has been brought under the Facility. No other changes have been made to the letter of credit. Subsequent to December 31, 2010 the Company used the Facility to issue an $8.0 million letter of credit in January 2011 related to the New Afton reclamation obligation to the British Columbia government in Canada. As a result of issuing the letter of credit, the British Columbia government has released to the Company in February 2011 the $8.0 million cash on deposit with a major Canadian bank. At December 31, 2010, $122.7 million of the Facility remains unused.

New Gold's wholly-owned subsidiary Western Goldfields Inc. had a $105.0 million term loan facility with a syndicate of banks under which $86.3 million was borrowed in connection with the development of the Mesquite Mine. The Facility was secured by all of the assets of WMMI and a pledge of the shares of WMMI owned by the Company. The loan was assumed upon completion of the Western Goldfields Inc. acquisition on May 27, 2009.

The remaining loan balance of $27.2 million was fully repaid on February 26, 2010 which allows the Company the flexibility to monetize the remaining hedges outstanding at its discretion. The gold hedge extends to the end of 2014 and the related security and covenants have been released by the syndicate of banks on December 14, 2010 when New Gold entered in to the Facility. The gold hedge is now secured under the new revolving credit facility and shares in security, on a pari passu basis, with the new lenders. One of the banks under the Facility has also replaced two of the original banking institutions as the hedge counterparty for a portion of the overall hedge under the same terms. The hedge will remain in place until the hedge is monetized or delivered over this period at 5,500 ounces per month at $801 per ounce.

G. FUTURE INCOME AND MINING TAXES

The net future income tax liability decreased slightly from $297.2 million on September 30, 2010 to $270.0 million on December 31, 2010 (December 31, 2009 - $327.5 million). The change was primarily attributed to the recognition of future income tax assets associated with corporate head office expenses in Canada and unrealized losses on gold hedging in the United States.

The current income tax liability increased from $20.6 million on September 30, 2010 to $34.0 million on December 31, 2010 (December 31, 2009 - $15.7 million). The change in the current income tax liability is a primarily a function of profitability, tax installment payments, and the impact of foreign exchange.

H. ASSET RETIREMENT OBLIGATION

Reclamation and closure cost obligations are asset retirement obligations that arise from the acquisition, development, construction and normal operation of mining property, plant and equipment, due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The Company has future obligations to retire its mining assets including dismantling, remediation and ongoing treatment and monitoring of sites. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future are subject to change, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

The Company's asset retirement obligations consist of reclamation and closure costs for the Mesquite Mine, Cerro San Pedro Mine, Peak Mines and the New Afton development project. Significant reclamation and closure activities include land rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs.

The long-term portion of the liability at December 31, 2010 is $25.7 million compared to $19.9 million at December 31, 2009. The increase relates to revisions to expected cash flows, accretion and a negative foreign exchange impact.

NON-GAAP MEASURE – TOTAL CASH COST (1) PER GOLD OUNCE CALCULATION

New Gold reports total cash cost (1) on a sales basis. In the gold mining industry, this is a common performance measure but does not have any standardized meaning under GAAP. 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 (1) per ounce of gold sold to the financial statements:

	Three months ended December 31,		Twelve months ended December 31,	
	2010	**2009**	**2010**	**2009**
Operating expenses from continuing operations	80,790	67,369	250,338	176,491
Operating expenses from discontinued operations	-	-	-	11,427
Treatment and refining charges on concentrate sales	2,708	2,643	7,477	7,912
By-product copper and silver sales	(38,097)	(20,075)	(97,273)	(58,612)
Non-cash adjustments	(3,966)	317	(2,421)	(1,368)
Total cash cost	41,435	50,254	158,121	135,850
Ounces of gold sold	116,964	106,475	369,077	292,407
Total cash cost (1) per ounce of gold sold	**354**	**472**	**428**	**465**

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010, the Company had cash and cash equivalents held by continuing operations of $490.8 million compared to $391.0 and $262.3 million at September 30, 2010 and December 31, 2009 respectively. These balances exclude $6.3 million and $9.0 million at September, 2010 and December 31, 2009 and $8.0 million and $9.0 million at December 31, 2010 of reclamation deposits for the New Afton project and Mesquite Mine, respectively, which are included in Reclamation Deposits and Other on the balance sheet, as well as $1.0 million at December 31, 2010 of amounts held in Builders Lien accounts. The increase in cash in the three month period to the end of 2010 was attributed to the following key items:

- § Strong cash flows from gold sales at the Company's Peak Mines, Cerro San Pedro Mine, and Mesquite operating mines which benefited from prevailing average market gold and silver prices of $1,367 and $26.43 per ounce during the quarter;
- § Project spending at the New Afton project for the quarter ended December 31, 2010 of $47.9 million;
- § Interest paid on senior secured notes and convertible debentures of $10.8 million;
- § Proceeds received from the monetization of the Beadell shares of $58.4 million; and
- § Value received from the strengthening of the Canadian dollar compared to the U.S. dollar, which has increased the U.S. dollar value of the Company's cash and cash equivalents held in Canadian dollars (approximately $331 million) to fund New Afton construction.

The Company's cash and cash equivalents are invested in highly liquid, low risk, interest-bearing investments with maturities of 90 days or less from the original date of investment. The surplus corporate funds are only invested with approved government or bank counterparties. This does not include the AB Notes (refer to AB Notes section in Critical Accounting Policies and Estimates for further discussion).

As at December 31, 2010, the Company had working capital of $484.8 million. In the opinion of management, the working capital at December 31, 2010, together with cash flows from operations, are sufficient to support the Company's normal operating requirements on an ongoing basis. However, taking into consideration volatile equity markets, global uncertainty in the capital markets and cost pressures, the Company is continually reviewing expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining or increasing production levels at its current operations. Based on our current cash balance it is expected that the Company's existing cash will be sufficient to fully fund the construction of the New Afton and El Morro projects, however this is subject to change if any acquisitions or external growth opportunities are realized.

During the year ended December 31, 2010, the Company had positive operating cash flows from continuing operations of $182.3 million and invested a total of $149.2 million in mining interests, including $3.1 million at the Mesquite Mine, $8.9 million at the Cerro San Pedro Mine, $29.7 million at the Peak Mines, $107.0 million at the New Afton project and $0.4 million at other projects.

LIQUIDITY AND CAPITAL RESOURCES OUTLOOK

The Company's future profits and cash position are highly dependent on metal prices, including gold, silver and copper. Copper will become increasingly important when the New Afton and El Morro projects are completed, which is expected in 2012 for New Afton and at a later date for El Morro. In addition to these internal growth opportunities, the Company has other prospective properties which include, but are not limited to, Cerro San Pedro Mine Sulphides, and Rio Figueroa in Chile. Internal growth will focus on the New Afton and El Morro projects; however there are other potential development properties that may become high priorities as further exploration and assessment is completed. In order to supplement this internal growth, the Company considers expansion opportunities through mergers and acquisitions.

Capital expenditures for 2011 are expected to be approximately $416.0 million with approximately $9.0 million allocated to the Mesquite Mine, $12.0 million to the Cerro San Pedro Mine, $45.0 million to the Peak Mines, $292.0 million (including capitalized interest) to the continued development of New Afton and $57.0 million for El Morro and $1.0 million for corporate expenditures.

At the end of the full year the Company has a significant cash and cash equivalents balance of $490.8 million with almost 70% of the funds in Canadian dollars in order to fund the significant spending on New Afton during the period from 2011 to mid-2012. There is a general expectation from economists and market observers that the Canadian dollar will continue to remain strong compared to the U.S. dollar over the mid-term and during the construction phase at New Afton. As a result, we believe holding significant Canadian dollar cash and cash equivalents balance is a prudent position in order to protect against any increase in the Canadian dollar during this period of significant spending at New Afton. Management believes the Company will not need external financing to complete its major development projects and will continue to seek opportunities to effectively utilize its cash funds. Based on our current cash balance it is expected that the Company's existing cash will be sufficient to fully fund the construction of the New Afton and El Morro projects.

The Company expects it will not need external financing to repay its remaining debt in 2014 and 2017 and the El Morro carried funding loan with Goldcorp will be repaid directly out of the Company's share of cash flows from El Morro. These statements are based on the current financial position of the Company and are subject to change if any acquisitions or external growth opportunities are realized.

OUTLOOK

The recovery in the global economy and commodity markets seen during 2009 and into early 2010 has continued in the fourth quarter of 2010 (after a weaker third quarter), however copper prices have been increasing from $3.65 per pound at the end of September 30, 2010 to $4.42 per pound at the end of December 31, 2010. Copper averaged $3.92 and $3.42 per pound during the quarter and year ended December 31, 2010 compared to $3.02 and $ 2.35 per pound in the fourth quarter and full year of 2009. Copper has been well supported by emerging market demand and expectations of supportive policy shifts in China and the U.S. which will lead to further tightening in commodity fundamentals, as well as a tightening supply outlook. In addition, gold and silver prices have increased from the December 31, 2009 and September 30, 2010 closing prices of $1,096 and $1,307 per ounce and $16.92 and $22.07 per ounce to

$1,406 and $30.63 respectively, at the end of December 2010. The average gold and silver prices for the fourth quarter and full year 2010 were $1,367 and $26.43 per ounce and $1,225 and $20.19 per ounce, respectively compared to the third quarter ended September 30, 2010 and full year ended December 31, 2009 when prices averaged $1,227 and $18.96 per ounce and $972 and $14.67 per ounce, respectively. Key factors influencing the price of gold include currency rate fluctuations and the relative strength of the U.S. dollar (less of an influence recently), the supply of, and demand for, gold and macroeconomic factors such as the level of interest rates and inflation expectations. Forecasting metal prices and demand has been difficult; however management believes the long term environment and prospects for our business are favourable. The Company has not hedged foreign exchange rates and metal prices, except to meet the lenders' requirements related to the Mesquite Mine's term loan facility (which has been fully repaid in early 2010).

New Gold's growth plan is focused on organic and acquisition-led growth, and the Company is seeking to be flexible in the current environment to be able to respond to opportunities as they arise, such as acquisitions, debt buybacks, gold hedge monetization and other transactions. Based on our current cash balance it is expected that the Company's existing cash will be sufficient to fully fund the construction of the New Afton project. In addition, New Gold is not required to fund any of the development capital for the El Morro project, as Goldcorp has agreed to fund our 30% share and will be repaid (principal and interest) solely out of future cash generated from New Gold's share of the El Morro project's distributable cash flows. As at December 31, 2010 the interest rate on New Gold's share of the capital funded by Goldcorp has been locked in at 4.58%, based on the 7 year U.S. treasury bond yield plus 1.87%, as per the Company's funding agreement with Goldcorp.

The New Afton project remains on schedule to start commercial production in July, 2012. The Company looks forward to production commencing as New Afton is expected to contribute significantly to New Gold's current portfolio of assets. As a low-cost operation, New Afton should meaningfully expand the Company's operating margin and cash flow generation.

New Gold's 2011 guidance for gold production is 380,000 to 400,000 ounces at a total cash cost [(1)] of $430 to $450 per ounce of gold sold, net of by-product sales.

Mine	Forecast 2011 Gold Production (ounces)	Forecast 2011 Total Cash Cost [(1)]
Mesquite Mine	145,000 – 155,000	$620 - $640
Cerro San Pedro Mine	135,000 – 145,000	$240 - $260
Peak Mines	90,000 – 100,000	$410 - $430
Total	380,000 – 400,000	$430 - $450

Assumptions used in the 2011 forecast include silver and copper prices of $23.00 per ounce and $3.75 per pound, respectively, and Canadian dollar, Australian dollar and Mexican peso exchange rates of 1.00, 1.05 and 12.50 to the U.S. dollar, respectively. The oil price is assumed to be $85 per barrel.

COMMITMENTS

The Company has entered into a number of contractual commitments related to purchases of equipment with long lead times or critical pieces of mining equipment related to the New Afton project. At December 31, 2010, these commitments totaled $54.0 million and are expected to be paid over the next 12 months.

In addition to the above, 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 at its operating mines. At December 31, 2010, these commitments totaled $32.2 million and are expected to be paid over the next 12 months.

CONTINGENCIES

In assessing the loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. If the assessment of a contingency suggests that a loss is probable, and the amount can easily be estimated, then a loss is recorded. When a contingent loss is not probable but if reasonably possible, or is probable but the amount of the loss cannot be reliably estimated, then details of the contingent loss are disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the Company discloses the nature of the guarantees. Legal fees incurred in connection with pending legal proceedings are expensed as incurred.

A. AMAPARI MINE

The Company completed the sale of the Amapari Mine to Beadell on April 13, 2010. As part of the agreement selling the Amapari Mine, the Company provided general indemnity for one year in connection with the representations and obligations of the Company under the sale agreement. The indemnity is limited to claims in excess of an amount equal to $5.0 million and in no event shall the aggregate amount of all claims exceed $10.0 million.

B. EL MORRO TRANSACTION

On January 13, 2010, New Gold received a Statement of Claim filed by Barrick in the Ontario Superior Court of Justice, against New Gold, Goldcorp and affiliated subsidiaries. A Fresh Amended Statement of Claim was received in August 2010 which included Xstrata and its affiliated subsidiaries as defendants. The claim relates to New Gold's exercise of its right of first refusal with respect to the El Morro copper-gold project. New Gold believes the claim is without merit and intends to defend this action using all available legal avenues. No amounts have been accrued for any potential loss under this claim.

C. CERRO SAN PEDRO MINE

New Gold owns 100% of the Cerro Sand Pedro Mine through the Mexican Company, MSX.

On November 18, 2009 PROFEPA, the Mexican environmental enforcement agency, issued an order that MSX was to suspend mining operations at the Cerro San Pedro Mine. PROFEPA's order followed a ruling by the Federal Court of Fiscal and Administrative Justice ("FCFAJ") in September 2009 that SEMARNAT, the Mexican government's environmental protection agency, nullify the Mine's Environmental Impact Statement ("EIS") which was issued in 2006. The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue during the appeals process. The latest injunction was received on October 4, 2010.

MSX appealed the September 2009 ruling of the FCFAJ. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. MSX appealed the negative decision and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of MSX's position in its appeal against the September 2009 nullification of the EIS. That ruling effectively reestablishes the validity of the mine's 2006 EIS.

MSX continues to work with all levels of government and other external stakeholders to maintain uninterrupted operation the Cerro San Pedro Mine.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Certain directors and officers of New Gold are also directors of a company to which the Company pays royalties in the normal course of business. Royalty payments were $7.1 million for the year ended December 31, 2010 (2009 $4.2 million). At December 31, 2010, the Company had $2.1 million included as accrued liabilities related to this company (December 31, 2009 - $1.3 million). These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.

A director of New Gold is also a director of the company that purchased from New Gold an interest in the El Morro project.

RISK FACTORS

Readers of this Management's Discussion and Analysis should give careful consideration to the information included in this document and the Company's audited consolidated financial statements and related notes. Significant risk factors for the Company are metal prices, government regulations, foreign operations, environmental compliance, asset backed commercial paper, the ability to obtain additional financing, risk relating to recent acquisitions, dependence on management, title to the Company's mineral properties, and litigation. For details of risk factors, please refer to our audited consolidated financial statements, and Annual Information Form filed from time to time on SEDAR at www.sedar.com.

FINANCIAL RISK MANAGEMENT

A. 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 comprised 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 credit 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 to primarily five customers.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold and copper concentrate trade receivables at December 31, 2010 is not considered to be high. The Company's maximum exposure to credit risk at December 31, 2010, is as follows:

	2010	2009
	$	$
Cash and cash equivalents	**490,754**	262,325
Restricted cash	**-**	9,201
Accounts receivable	**11,929**	10,345
Mark-to-market gain on fuel contracts	**-**	706
Investments	**7,533**	45,890
Reclamation deposits and other	**31,295**	17,646
	541,511	346,113

The aging of accounts receivable at December 31, 2010 was as follows:

(U.S. dollars in thousands)

	0-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	**2010 Total**	2009 Total
	$	$	$	$	$	**$**	**$**
Mesquite mine	193	-	249	-	-	**442**	273
Cerro San Pedro	3,501	74	42	18	163	**3,798**	5,348
Peak Mines	3,159	-	1	-	16	**3,176**	3,922
New Afton	3,581	-	-	-	-	**3,581**	632
Corporate	932	-	-	-	-	**932**	170
	11,366	74	292	18	179	**11,929**	10,345

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 with high investment-grade ratings and the governments of Canada and the U.S.

The Company has a bonding and insurance program, primarily with Chartis, formerly American International Specialty Lines Insurance Company ("AIG Insurance") in respect of the operations and closure liabilities of the Mesquite Mine. At December 31, 2010, the Company had $9.0 million in the account. In September 2008, AIG Insurance's parent company, American International Group, Inc. ("AIG"), suffered a liquidity crisis following the downgrade of its credit rating. The United States Federal Reserve loaned money to AIG in order for the company to meet its obligations to post additional collateral to trading partners. As a result of federal and state laws governing the operation of AIG Insurance and segregation of funds, it is not believed that the Company's funds are at risk. During 2009, AIG has been working through its restructuring under the supervision of the Federal Reserve Bank of New York and the U.S. Department of the Treasury. The U.S. Department of the Treasury has a majority stake in the equity of AIG, which owns Chartis. Chartis is advancing towards the goal of becoming an independent property-casualty and general insurance company and in December 2010 announced that they had signed a definitive recapitalization agreement with the government in the U.S.

The Company sells all of its copper concentrate production to a customer under an off-take contract. The loss of this customer or unexpected termination of the off-take contract could have a material adverse effect on the Company's results of operations, financial condition and cash flows, however, there are alternative customers in the market.

The Company is not economically dependent on a limited number of customers for the sale of its gold because gold can be sold through numerous commodity market traders worldwide. The Company has five customers (2009, four customers) that account for over 95% (2009, 90%) of the concentrate and doré sales revenue.

Metal sales

Customer	2010	2009
	$	$
1	186,450	112,733
2	142,029	59,516
3	87,758	48,011
4	62,735	47,677
5	22,986	24,728
Total	501,958	292,665
% of total metal sales	95%	90%

B. 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.

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.

(U.S. dollars in thousands)

	Less than 1 year	1-3 years	4-5 years	After 5 years	**2010 Total**	2009 Total
	$	$	$	$	**$**	$
Accounts payable and accrued liabilities	66,654	-	-	-	**66,654**	36,033
Long-term debt	-	-	55,297	188,010	**243,307**	258,467
Interest payable on long-term debt	-	-	-	-	**-**	-
	21,566	43,132	38,958	28,201	**131,857**	147,352
Gold contracts	40,072	76,620	36,683	-	**153,375**	95,986
	128,292	119,752	130,938	216,211	**595,193**	537,838

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 continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations. A period of continuous low gold and copper prices may necessitate the deferral of capital expenditures which may impact production from mining operations. These statements are based on the current financial position of the Company and are subject to change if any acquisitions or external growth opportunities are realized.

C. CURRENCY RISK

The Company operates in Canada, Australia, Mexico, Chile and the United States. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars. The three main types of foreign exchange risk for the Company can be categorized as follows:

i. Transaction exposure

The Company's operations sell commodities and incur costs in different currencies. This creates 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. 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, investments, accounts receivable, reclamation deposits, accounts payable and accruals, reclamation and closure cost obligations and long-term debt. The currencies of the Company's financial instruments and other foreign currency denominated liabilities, based on notional amounts, were as follows:

(in thousands)	Canadian dollar	Australian dollar	Mexican peso	December 31, 2010 Chilean peso
Cash and cash equivalents	**331,948**	**41,254**	**5,224**	**11**
Investments	**7,533**	**-**	**-**	**-**
Accounts receivable	**4,556**	**3,176**	**3,063**	**39**
Reclamation deposit	**8,043**	**-**	**-**	**-**
Prepayment option	**7,679**	**-**	**-**	**-**
Accounts payable and accruals	**(24,458)**	**(24,415)**	**(34,003)**	**-**
Reclamation and closure cost obligations	**(2,163)**	**(11,361)**	**(5,739)**	**-**
Share award units	**(3,294)**	**-**	**-**	**-**
Long-term debt	**(221,832)**	**-**	**-**	**-**
Gross balance sheet exposure	**108,012**	**8,654**	**(31,455)**	**50**

	Canadian dollar	Australian dollar	Mexican peso	December 31,2009 Chilean peso
Cash and cash equivalents	**165,147**	**32,008**	**2,670**	**18**
Investments	**45,890**	**-**	**-**	**-**
Accounts receivable	**549**	**3,922**	**5,674**	**-**
Reclamation deposit	**6,211**	**-**	**-**	**-**
Prepayment option	**-**	**-**	**-**	**-**
Accounts payable and accruals	**(6,529)**	**(11,566)**	**(8,806)**	**(94)**
Reclamation and closure cost obligations	**(1,846)**	**(8,330)**	**(4,314)**	**-**
Share award units	**-**	**-**	**-**	**-**
Long-term debt	**(206,653)**	**-**	**-**	**-**
Gross balance sheet exposure	**2,769**	**16,034**	**(4,776)**	**(76)**

iii. Translation exposure

The Company's functional and reporting currency is U.S. dollars. The Company's operations translate their operating results from the host currency to U.S. dollars. Therefore, exchange rate movements in the Canadian dollar, Australian dollar, Mexican peso and Chilean peso can have a significant impact on the Company's consolidated operating results. Some of the Company's earnings translation exposure to financial instruments 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 earnings (loss) from the financial instruments presented by the amounts shown below.

(in thousands)	**2010**	2009
	$	$
Canadian dollar	**10,801**	277
Australian dollar	**865**	1,603
Mexican peso	**(3,146)**	(478)
Chilean peso	**5**	(8)
	8,525	1,394

D. INTEREST RATE RISK

Interest rate risk is the risk that the fair value or 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 short-term investments. All of the Company's debt obligations are fixed and therefore there is no exposure to changes in market interest rates. The revolving credit facility interest is variable, however the Facility is undrawn at December 31, 2010. In particular, the Company is exposed to interest rate changes on short term investments included in cash and cash equivalents. The short term investment interest earned is based on prevailing one to 90 days money market interest rates which may fluctuate. A 1.0% change in the interest rate would result in an annual difference of approximately $3.0 million in interest earned by the Company on cash and short term investments. The Company has not entered into any derivative contracts to manage this risk.

Where possible and depending on market conditions, the Company follows the policy of issuing fixed interest rate debt to avoid future fluctuations in its debt service costs.

E. COMMODITY PRICE RISK

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 and are affected by numerous factors beyond the Company's 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.

As part of the Western Goldfields Inc. acquisition, the Company acquired gold contracts which mitigate the effects of price changes. The Company designated these contracts as an accounting cash flow hedge effective July 1, 2009. At December 31, 2010, the Company had remaining gold forward sales contracts for 264,000 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 48 months

In 2010, the Company's revenues and cash flows were impacted by the variation in copper prices in the range of $2.76 and $4.42 per pound. There is a time lag between the time of shipment for copper and final

pricing, and changes in copper pricing can significantly impact the Company's revenue and working capital position. As of December 31, 2010, working capital includes copper concentrate receivables totaling 0.43 million pounds. A $0.10 change in the copper price would have an impact of $0.1 million on the Company's working capital position.

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 entered into fuel contracts to mitigate these price risks, however at December 31, 2010, the Company no longer had a remaining commitment to purchase diesel after the final hedge was delivered in December 2010. The Company will continue to monitor fuel prices and consider future fuel hedges on an opportunistic basis.

The Company is also subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, a share award unit plan that the Company is required to satisfy in cash upon vesting. The amount of cash the Company will be required to expend is dependent upon the price per common share at the time of vesting. The Company considers this plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in compensation expense each period.

An increase in Gold, Copper and Silver prices would increase the Company's net earnings whereas an increase in Fuel or Share Award Unit prices would decrease the Company's net earnings. A 10% increase in prices would impact the Company's net earnings (loss) before taxes from continuing operations and Other Comprehensive Income before taxes as follows:

	2010 Net Earnings	**2010 Other Comprehensive Income**	2009 Net Earnings	2009 Other Comprehensive Income
	$	**$**	$	$
Gold price	**44,076**	**33,201**	27,303	31,793
Copper price	**4,889**	**-**	3,531	-
Silver price	**4,588**	**-**	2,136	-
Fuel price	**3,624**	**-**	2,700	695
Share Award Unit	**329**	**-**	-	-

F. ENVIRONMENTAL RISK

The Company is and will be subject to environmental regulation in Australia, Mexico and the United States where it operates, as well in Canada and Chile where it has development properties. In addition the Company will be subject to environmental regulation in any other jurisdictions in which the Company may operate or have development properties. These regulations mandate, among other things, the maintenance

of air and water quality standards, land use standards and land reclamation. They also set out limitations on the generation, transportation, storage and disposal of solid, liquid and hazardous waste.

Environmental legislation is evolving in a manner which will require, in certain jurisdictions, stricter standards 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. No certainty exists that future changes in environmental regulation, if any, will not adversely affect the Company's operations or development properties. Environmental hazards may exist on the Company's properties which are unknown to management at present and which have been caused by previous owners or operators of the properties.

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

CONTRACTUAL OBLIGATIONS

(U.S. dollars in thousands)	Payments due by period				
Contractual obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt	243,307	-	55,297	-	188,010
Interest payable on long-term debt	131,857	21,566	43,132	38,958	28,201
Operating Leases and Other Commitments	156,855	86,167	41,462	29,173	53
Asset retirement obligations	44,193	1,426	1,742	1,315	39,710
Total contractual obligations	576,212	109,159	141,633	69,446	255,974

The majority of the Company's contractual obligations consist of long-term debt and interest payable. Long-term debt obligations are comprised of senior secured notes and subordinated convertible debentures. The Notes, which were originally issued by New Gold 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 December 31, 2010, the face value of the Notes totaled $188.0 million (Cdn$187.0 million) with remaining interest payable totaling $122.2 million (Cdn$121.6 million). Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year. Once the New Afton project is in commercial production, the Company is obligated to offer to repay a face value amount equal to 50% of excess cash flow each year, at the option of the noteholders. The Company also has the option to prepay the Notes at a premium ranging from 110% to 101% (decreasing rates based on the length of time the Notes are outstanding). These Notes are secured on the New Afton project assets and do not have recourse to other assets of New Gold.

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

December 31, 2010, the aggregate principal of the subordinated convertible debentures was $55.3 million (Cdn$55.0 million) with remaining interest payable totaling $9.7 million (Cdn$9.6 million). Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year.

OUTSTANDING SHARES

As at March 3, 2011, there were 399,101,677 common shares of the Company outstanding. The Company had 13,776,248 stock options outstanding under its share option plan, exercisable for 13,776,248 common shares. In addition, the Company had 56,986,032 common share purchase warrants outstanding exercisable for 56,986,032 common shares

ACCOUNTING POLICIES TO BE IMPLEMENTED SUBSEQUENT TO DECEMBER 31, 2010

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace current Canadian GAAP for publicly accountable enterprises. This will result in the Company reporting under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP. The Company expects the transition to IFRS to impact accounting policies, financing reporting, IT systems and processes, as well as certain business activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current market conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. The following have been identified as critical accounting policies and estimates and a change in these policies or estimates could materially impact the consolidated financial statements. The Company's complete accounting policies are described in Note 2 to the consolidated annual financial statements for the year ended December 31, 2009.

A. INVENTORIES

Heap leach ore, work-in-process, finished goods, and stockpile ore are valued at the lower of average production costs or net realizable value.

Costs are added to ore on leach pad based on current mining costs, including applicable amortization and depletion relating to mining operations. Costs are removed from ore on leach pad as ounces are recovered based on the average cost per estimated recoverable ounce of gold on the leach pad. The estimates of recoverable gold on the leach pad are calculated from the quantities of ore placed on the leach pad (based on measured tonnage), the grade of ore placed on the leach pad (based on assay results), and a recovery percentage (based on ore type).

Under the heap leaching process, ore on leach pad is treated with a chemical solution which dissolves the gold contained in the ore. The solution is further processed in a plant where the gold is recovered. Metal-in-process inventories represent metal in solution or in subsequent stages of the refining process. In-process inventories are measured based on assays of the solution and projected recoveries from the refining circuit and are valued at average production cost or net realizable value. Average production cost is based on the average cost of material fed into the process from the leach pad plus the in-process conversion costs, including applicable amortization relating to the process facilities. Metal-in-process inventories are valued at the lower of average cost or net realizable value and any adjustment to net realizable value is reflected in the statement of operations as a component of mine operating costs.

Although the amount of recoverable gold ounces placed on the leach pad, based on tonnage and grade of ore, is reconciled to the gold ounces actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and estimates are refined based on actual results over time. The determination of both the ultimate recovery percentage and the quantity of metal expected over time requires the use of estimates, which are subject to revision since they are based upon metallurgical test work. The Company expects to continue to process and recover metal from leach pads until no longer considered economically feasible.

Bullion (metal refined to industry purity standards) inventory, which includes metal held on our behalf by third parties, is valued at the lower of average production cost or net realizable value.

B. MINERAL PROPERTIES

The Company records mineral property acquisition expenditures and mine development expenditures at cost. The Company capitalizes pre-production expenditures net of revenues received until the commencement of commercial production in accordance with GAAP.

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, GAAP requires 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 are present that may indicate a need for a write-down. 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. Volatility in equity and commodity markets could have a significant impact on the valuation of our mineral properties.

C. 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 existing 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 units-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.

D. FUTURE TAX ASSETS AND LIABILITIES

The Company recognizes the future tax benefit related to future income tax assets and sets 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 forecast cash flows from operations and the application of existing tax laws in each jurisdiction. The Company has reviewed its tax assets at December 31, 2009 and based on management's current view of future metal prices and exchange rates have determined that the tax assets are still recoverable.

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 and materially affect the amount of future income tax liabilities recorded at the balance sheet date.

E. 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. These types of adjustments can have a material impact on revenues.

F. 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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011, as the date International Financial Reporting Standards ("IFRS") will replace current Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises. As a result, the Company will report under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP.

IFRS PROJECT UPDATE

New Gold's IFRS conversion plan consists of three phases: Scoping and Diagnostic; Detailed Evaluation; and Implementation and Review. The Scoping and Diagnostic phase included the completion of a high-level impact assessment to identify key areas that may be affected by the conversion and the development of a detailed implementation plan. The Detailed Evaluation phase included a detailed analysis of the IFRS – Canadian GAAP differences and accounting policy choices under IFRS, and the initial assessment of the non-financial reporting related impacts. The Scoping and Diagnostic and Detailed Evaluation phases have been completed.

The Implementation and Review phase is in progress and will be completed in the first quarter of 2011. The Company has completed its determination of all significant accounting policies and finalized the IFRS 1 elective exemptions expected to be applied in the IFRS opening balance sheet. The quantification of the preliminary IFRS opening balance sheet was completed in Q4 2010.

Based on the work completed to date, the transition to IFRS did not result in significant impacts to the Company's business activities or its covenants, capital requirements or compensation arrangements. The transition did not result in significant changes to key controls during or after the transition to IFRS. Changes to financial reporting processes and data systems were required as a result of changes in accounting policies, and internal control and disclosure control documentation is being updated accordingly. The initial training of finance personnel was completed in 2010.

The International Accounting Standards Board responsible for the development and publication of IFRS has a significant number of projects underway, many of which could impact the differences between Canadian GAAP and IFRS applicable to the Company. Changes in IFRS could result in additional adjustments and/or

changes to the adjustments currently being recognized in the IFRS opening balance sheet. Accordingly, the Company continues to monitor and evaluate changes in IFRS, and to update the conversion plan as required.

PRELIMINARY IFRS OPENING BALANCE SHEET

The Company completed its preliminary IFRS opening balance sheet at January 1, 2010. The balance sheet reflects accounting policy differences that have been identified to date, as well as the IFRS 1 elections expected to be applied on transition to IFRS. The balance sheet is preliminary and the final opening balance sheet may reflect adjustments relating to any new IFRS pronouncements or other items identified through the first quarter of 2011.

Reconciliation of Consolidated Balance Sheets as Reported Under Canadian GAAP and IFRS:

(Expressed in thousands of U.S. dollars)	*Notes*	As at December 31, 2009 CGAAP (Audited)	Effect of IFRS Transition (Unaudited)	As at January 1, 2010 IFRS (Unaudited)
Assets				
Current assets				
Cash and cash equivalents		262,325		262,325
Restricted cash		9,201		9,201
Trade and other receivables		10,345		10,345
Inventories		86,299		86,299
Deferred income and mining taxes	A	8,848	(8,848)	-
Current portion of derivative assets		706		706
Prepaid expenses and other		6,933		6,933
Current portion of operations held for sale		10,298		10,298
Total current assets		394,955	(8,848)	386,107
Investments		45,890		45,890
Mining interests	B	2,000,438	(324,980)	1,683,373
	C		(2,626)	
	D		8,743	
	E		4,311	
	F		(2,513)	
Deferred tax assets	A	2,250	8,848	11,098
Reclamation deposits and other		17,646		17,646
Assets of operations held for sale	G	27,080	51,909	78,989
Total assets		2,488,259	(265,156)	2,223,103
Liabilities				
Current liabilities				
Trade and other payables	H	36,033	1,966	37,999
Current portion of long-term debt		12,088		12,088
Current portion of derivative liability		19,206		19,206
Current tax liabilities	H	15,677	(1,966)	13,711
Assets of operations held for sale		10,414		10,414
Total current liabilities		93,418	-	93,418
Reclamation and closure cost obligations	E	19,889	4,875	24,764
Provisions	I		4,541	4,541
Non-current portion of derivative liabilities		76,780		76,780
Share purchase warrants	J	-	29,841	29,841
Deferred taxes liabilities	B	316,426	(81,245)	262,092
	C		1,356	
	D		2,186	
	F		(754)	
	J		11,913	
	K		(9,507)	
	L		21,717	
Long-term debt	C	225,456	9,519	234,975
Employee benefits and other	I	5,355	(4,541)	814
Liabilities of operations held for sale		19,890		19,890
Total liabilities		757,214	(10,099)	747,115

Reconciliation of Consolidated Balance Sheets as reported under Canadian GAAP and IFRS (continued):

(Expressed in thousands of U.S. dollars)	*Notes*	As at December 31, 2009 CGAAP (Audited)	Effect of IFRS Transition (Unaudited)	As at January 1, 2010 IFRS (Unaudited)
Equity				
Common shares	J	1,810,865	(826)	1,810,039
Contributed surplus		82,984		82,984
Share purchase warrants	J	150,656	(138,806)	11,850
Equity components of convertible debentures	C	21,604	(14,145)	7,459
Other reserves	M	(29,205)	1,566	(27,639)
Deficit	B	(305,859)	(243,735)	(408,705)
	C		644	
	D		6,557	
	E		(564)	
	F		(1,759)	
	G		51,909	
	J		97,878	
	K		9,507	
	L		(21,717)	
	M		(1,566)	
Total equity		1,731,045	(255,057)	1,475,988
Total liabilities and equity		2,488,259	(265,156)	2,223,103

NOTES TO THE ABOVE RECONCILIATION

A. Deferred tax classified as current

IFRS does not permit deferred tax to be classified as current. Reclassification from current to non-current is therefore required. Accordingly, the balance of $8.9 million in deferred income and mining taxes was reclassified to deferred tax assets – non-current.

B. Fair value as deemed cost

Under IFRS 1, the Company elected to measure the New Afton project at fair value on transition to IFRS and use that fair value as its deemed cost (please refer below for further details on the IFRS 1 exemption). The Company has calculated the fair value of the project using a discounted cash flow methodology. Under Canadian GAAP, the estimates of future cash flows used to test the recoverability were on an undiscounted basis.

The write-down of the project to its fair value on the date of transition resulted in a $325.0 million decrease in mining interests, a decrease in deferred tax liabilities of $81.2 million, with an offsetting adjustment of $243.8 million to the deficit balance in the opening balance sheet. The use of the fair value as deemed cost election will result in setting a new historical cost base of the property from which potential future impairment losses and reversals will be measured.

C. Convertible debentures

IFRS requires the liability component of convertible financial instruments to be measured first, and the residual amount assigned to the equity component. Under Canadian GAAP, the Company used the relative fair values of the debt and equity to allocate.

As a result of the difference in allocation between debt and equity, the opening balance sheet adjustment required was an increase to long term debt of $9.5 million, a reduction in the equity portion of convertible debt of $14.1 million, a decrease in mining interests of $2.6 million, an increase in deferred tax liabilities of $1.4 million and a net adjustment of $0.6 million to the deficit balance.

D. Foreign currency translation

IFRS does not have the concept of group functional currency and requires a separate functional currency assessment for each entity within the consolidated group. Under Canadian GAAP, all the Company's entities have U.S. dollar functional currencies.

Under IFRS, the Company will continue with U.S. dollar functional currencies for all entities, with the exception of the New Afton project. The Canadian dollar was determined to be the functional currency for New Afton under IFRS. The project was considered an integrated operation under Canadian GAAP.

This difference resulted in an $8.7 million increase in mining interests, an increase in deferred tax liabilities of $2.2 million, with an offsetting adjustment to the deficit balance of $6.5 million in the Company's opening balance sheet.

E. Decommissioning Liabilities (Reclamation and closure cost obligations)

IFRS requires provisions to be updated at each statement of financial position (balance sheet) date using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability). Canadian GAAP requires the use of a current credit-adjusted, risk-free rate for upward adjustments, and the original credit-adjusted, risk-free rate for downward revisions.

This difference resulted in different discount rates being applicable for IFRS purposes than the discount rates used for Canadian GAAP. Accordingly, the Company was required to recalculate its reclamation and closure costs obligations and related asset amounts on transition. In performing the calculations, the IFRS 1 elective exemption for decommissioning liabilities was applied (see IFRS 1 below).

The impact on the opening balance sheet was an increase in reclamation and closure cost obligations of $4.9 million, an increase in mining interests of $4.3 million, with an offset to the deficit balance of $0.6 million.

F. Property, plant and equipment

IFRS requires identifying and measuring the cost of significant individual components of assets which have different useful lives than the core asset. Significant components are then separately depreciated based on their individual useful lives.

The impact on the opening balance sheet was a decrease in mining interests of $2.5 million, a decrease in deferred tax liabilities of $0.7 million, with an offset to the deficit balance of $1.8 million.

G. Reversal of Impairment loss

Under IFRS, previous impairment losses recognized must be reversed where circumstances have changed such that the impairments have reduced (other than for impairments of goodwill, which are not reversed). Reversals of impairment losses are not permitted under Canadian GAAP.

The Company increased the carrying value by $51.9 million for the Amapari property to reverse an impairment charge that was recognized in 2008. The increase resulted in an impairment reversal to the fair value of the property, less estimated costs to sell, at January 1, 2010.

As the Amapari property was held for sale at January 1, 2010, the adjustment resulted in an increase to assets of operations held for sale, with the offset to the deficit balance.

H. Interest and Penalties related to income taxes payable

IFRS does not permit interest and penalties related to income taxes to be classified as income and mining taxes payable. Accordingly, $2.0 million in current tax liabilities was reclassified to trade and other payables.

I. Provisions

IFRS requires provisions to be disclosed separately from other liabilities. Accordingly, $4.5 million in employee benefits was reclassified to provisions.

J. Share purchase warrants

Under IFRS, share purchase warrants with an exercise price denominated in a currency other than the Company's functional currency are required to be classified and accounted for as financial liabilities at their fair values, with changes in fair values being included in the statement of earnings. Under Canadian GAAP, all the Company's outstanding share purchase warrants are classified and accounted for as equity.

The opening balance sheet adjustment resulted in an increase in financial liabilities of $29.8 million, a reduction in share purchase warrants included in the equity of $138.8 million, an increase in deferred tax liabilities of $11.9 million, a reduction in common shares of $0.8 million, with a net adjustment of $97.9 million to the deficit balance.

K. Deferred taxes

Under Canadian GAAP, a deferred tax asset was not recognized on the disposition of the AB Notes, as it was assumed there was no future source of capital gains. Under IFRS, due to the deferred tax liability recognized on the warrants (refer to Note J above), a deferred tax asset is required to be recognized on disposition of the notes.

The impact on the opening balance sheet was a decrease in deferred tax liabilities of $9.5 million, with an offsetting adjustment to the deficit balance.

L. Deferred taxes

IFRS requires a deferred tax asset or liability to be recognized for exchange gains and losses related to non-monetary assets and liabilities that are re-measured into the functional currency using the historical exchange rates. Under Canadian GAAP, a deferred tax asset or liability is not recognized for a temporary difference arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets and liabilities of integrated foreign operations.

As a result of this difference, an adjustment was required to increase deferred tax liabilities by $21.7 million, with an offset to the deficit balance on transition.

M. Foreign currency IFRS 1 transitional provision

IFRS 1 allows cumulative translation differences for all foreign operations to be reset to zero at the date of transition to IFRS. Please refer to IFRS 1 below for further details on this optional exemption.

The Company had $1.6m in accumulated other comprehensive income which was reset to zero on transition.

IFRS 1 EXEMPTIONS

IFRS 1 - First-Time Adoption of International Financial Reporting Standards ("IFRS 1") provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. A summary of each of the exemptions elected by Company is as follows:

i) Business combinations

IFRS 1 provides an option to not restate business combinations that occurred prior to the transition date or to only restate business combinations that occurred after a designated date prior to the transition date. The Company elected to apply this exemption to all business combinations that occurred prior to January 1, 2010. As a result, all prior business combinations will continue to be accounted for as they were under Canadian GAAP.

There was no impact on the opening balance sheet as a result of this election.

ii) Fair value as deemed cost

IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value on the transition date or at an event-driven fair value (i.e. a fair value determined through a business combination or initial public offering). This elective exemption can be applied on an individual asset basis.

The Company elected to measure the New Afton project at January 1, 2010 at fair value and use that fair value as its deemed cost. Please refer to reconciliation Note (B) above.

iii) Cumulative translation account ("CTA")

IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from prior to the date of transition to IFRS. The Company elected to apply this exemption, and accordingly reset the CTA to zero on transition to IFRS. Please refer to reconciliation notes (D) and (M) above.

iv) Decommissioning liabilities

Under IFRS 1, an entity can elect to not apply the provisions of IFRIC 1 - Changes in Existing Decommission, Restoration and Similar Liabilities, as they relate to changes in such liabilities before the date of transition to IFRS.

When applying this exemption, an entity determines its decommissioning liabilities at the transition date, discounts the liabilities back to the dates when they first arose using management's best estimate of the historical risk-adjusted discount rates, and depreciates these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets. The Company elected to apply this exemption on transition to IFRS. Please refer to reconciliation note (E) above.

v) Share-based payment

IFRS 1 encourages, but does not require a first time adopter to apply IFRS 2 – Share-based Payment ("IFRS 2") to equity instruments that were granted on or before November 7, 2002, or were granted after November 7, 2002 but vested before the Company's IFRS transition date. Accordingly, an entity may elect not to retrospectively apply IFRS 2 to these equity instruments.

The Company elected this exemption and as a result, has applied IFRS 2 retrospectively for only share-based payments that were granted after November 7, 2002, that had not vested at the date of transition.

There was no impact on the opening balance sheet as a result of this election.

vi) Borrowing costs

IFRS 1 permits an entity to apply the transitional provisions of IAS 23 - Borrowing Costs ("IAS 23") as an alternative to full retrospective application. Under these provisions, the Company may elect to only apply IAS 23 to qualifying assets for which the commencement date for capitalization is on or after the date of transition (or an elected earlier date).

The Company elected to apply this exemption from its transition date of January 1, 2010, and as a result, will apply IAS 23 from this date onwards to qualifying properties for which the commencement date for capitalization is January 1, 2010 or later.

There was no impact on the opening balance sheet as a result of this election.

Preliminary Impact of IFRS conversion on 2010 Results

The Company is in the process of quantifying the impacts of IFRS conversion on the 2010 interim periods and for the year ended December 31, 2010. The most significant recurring adjustments to profit or loss identified to date relate to share purchase warrants, foreign currency translation, property, plant and equipment and share-based payments.

Under IFRS, the Company's share purchase warrants with Canadian dollar exercise prices are classified as derivatives liabilities. Accordingly, the mark-to-market gains/losses from changes in fair value will be reflected in profit or loss. Under Canadian GAAP, the share purchase warrants were classified as equity. The expected impact of this difference on the Company's statement of earnings for the year ended December 31, 2010, is an unrealized loss on derivative liabilities of $93 million and a $4 million foreign exchange loss.

Under IFRS, the functional currency of the Company's New Afton project is the Canadian dollar. Under Canadian GAAP, the project has a U.S. dollar functional currency. This difference results in the foreign currency translation gains/losses for New Afton's financial statements being included in CTA in equity, rather than in the Company's statement of earnings. The expected impact of this difference is a decrease in unrealized foreign exchange loss in the Company's statement of earnings for the year ended December 31, 2010.

The Company is currently finalizing the impact of accounting for significant components on its operating results for the year ended December 31, 2010. The expected impact is a reduction in operating expenditures and an increase in depreciation and depletion expense to be recognized in the Company's operating results for the year ended December 31, 2010.

Under Canadian GAAP, the Company is recognizing each share-based payment award as a single pool with a fair value based on the specified vesting period for the overall arrangement. Under IFRS, the fair value of each tranche of a share-based payment award is considered a separate grant based on the vesting period with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period. In addition, IFRS requires that forfeitures be estimated in advance, whereas a policy choice exists under Canadian GAAP. The Company is currently finalizing the impact of these differences on its statement of earnings for the year ended December 31, 2010, but the expected impact is a reduction in share-based payment expense.

CONTROLS AND PROCEDURES

A. DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods.

B. MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting ("IFCR") is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- § Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- § Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- § Provide reasonable assurance regarding prevention or timely detections of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The 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, the 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 or 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 of controls is also 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.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, it used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

The Company's internal control over financial reporting as of December 31, 2010 has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants who also audited the Company's Consolidated Financial Statements for the year ended December 31, 2010. Deloitte & Touche LLP as stated in their report, that immediately precedes the Company's audited consolidated financial statements for the year ended December 31, 2010, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

C. CHANGES IN INTERAL CONTROL OVER FINANCIAL REPORTING

There has been no change in the Company's design of internal controls and procedures over financial reporting that has materially affected, or 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.

ENDNOTES

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, realized gains and losses on fuel contracts, but is exclusive of amortization, reclamation, capital and exploration costs and net of by-product sales. Total cash cost is then divided by gold ounces sold to arrive at the total cash cost per ounce sold. 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.

2. Average realized price per ounce of gold sold is a non-GAAP financial measure which:

   - § excludes from revenues unrealized gains and losses on non-hedge derivative contracts; and,
   - § includes revenues from the Amapari Mine which has been presented as a discontinued operation.

CAUTIONARY NOTE TO U.S. READERS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED MINERAL RESOURCES

Information concerning the properties and operations of New Gold has been prepared in accordance with Canadian standards under applicable Canadian securities laws, and may not be comparable to similar information for United States companies. The terms "Mineral Resource", "Measured Mineral Resource", "Indicated Mineral Resource" and "Inferred Mineral Resource" used in this MD&A are Canadian mining terms as defined in accordance with NI 43-101 under guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms "Mineral Resource", "Measured Mineral Resource", "Indicated Mineral Resource" and "Inferred Mineral Resource" are recognized and required by Canadian regulations, they are not defined terms under standards of the United States Securities and Exchange Commission. Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve calculation is made. As such, certain information contained in this MD&A concerning descriptions of mineralization and resources under Canadian standards is not comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the United States Securities and Exchange Commission. An "Inferred Mineral Resource" has a great amount of uncertainty as to its existence and as to its economic and legal feasibility. It cannot be assumed that all or any part of an "Inferred Mineral Resource" will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. Readers are cautioned not to assume that all or any part of Measured or Indicated Resources will ever be converted into Mineral Reserves. Readers are also cautioned not to assume that all or any part of an "Inferred Mineral Resource" exists, or is economically or legally mineable. In addition, the definitions of "Proven Mineral Reserves" and "Probable Mineral Reserves" under CIM standards differ in certain respects from the standards of the United States Securities and Exchange Commission.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information contained in this document, including any information relating to New Gold's future financial or operating performance may be deemed "forward looking". All statements in this document, other than statements of historical fact, that address events or developments that New Gold expects to occur, are "forward-looking statements". Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "does not expect", "plans", "anticipates", "does not anticipate", "believes", "intends", "estimates", "projects", "potential", "scheduled", "forecast", "budget" and similar expressions, or that events or conditions "will", "would", "may", "could", "should" or "might" occur. All such forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and are subject to important risk factors and uncertainties, many of which are beyond New Gold's ability to control or predict. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to known and unknown risks, uncertainties and other factors that may cause New Gold's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Such factors include, without limitation: significant capital requirements; 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 New Gold currently or may in the future carry on business; taxation; controls, regulations and political or economic developments in the countries in which New Gold does or may carry on business; the speculative nature of mineral exploration and development, including the risks of obtaining and maintaining the validity and enforceability of the necessary licenses and permits and complying with the permitting requirements of each jurisdiction that New Gold operates, including, but not limited to, Mexico, where New Gold is involved with ongoing challenges relating to its environmental impact statement for the Cerro San Pedro Mine; the lack of certainty with respect to the Mexican and other foreign legal systems, which may not be immune from the influence of political pressure, corruption or other factors that are inconsistent with the rule of law; the uncertainties inherent to current and future legal challenges the Company is or may become a party to, including the third party claim related to the El Morro transaction with respect to New Gold's exercise of its right of first refusal with respect to the El Morro copper-gold project in Chile and its partnership with Goldcorp Inc., which transaction and third party claim were announced by New Gold in January 2010; 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; 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 the risk of inadequate insurance or inability to obtain insurance to cover these risks) as well as "Risks Factors" included in New Gold's latest Annual Information Form filed on www.sedar.com and this Management's Discussion and Analysis for the year ended December 31, 2010, both available at www.sedar.com. Forward-looking statements are not guarantees of future performance, and actual results and future events could materially differ from those anticipated in such statements. All of the forward-looking statements contained in this document are qualified by these cautionary statements. New Gold expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except in accordance with applicable securities laws.

Dodd-Frank Act Disclosure of Mine Safety and Health Administration Safety Data

The operation of New Gold Inc.'s (the "**Company**") Mesquite Mine in California, the Company's sole mine in the United States, is subject to regulation by The Federal Mine Safety and Health Administration ("**MSHA**") under the Federal Mine Safety and Health Act of 1977 (the " **FMSH Act**"). MSHA inspects the Mesquite Mine on a regular basis and issues citations and orders when it believes a violation has occurred under the FMSH Act.

As required by the reporting requirements regarding coal mine safety included in section 1503(a)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), the table below presents the following information for the Mesquite Mine, for which the Company is the operator, for the year ended December 31, 2010:

(a) The total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the FMSH Act for which the operator received a citation from the MSHA;

(b) The total number of orders issued under section 104(b) of the FMSH Act;

(c) The total number of citations and orders for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of the FMSH Act;

(d) The total number of flagrant violations under section 110(b)(2) of the FMSH Act;

(e) The total number of imminent danger orders issued under section 107(a) of the FMSH Act;

(f) The total dollar value of proposed assessments from MSHA under the FMSH Act; and

(g) The total number of mining-related fatalities.

Mine	(a) #	(b) #	(c) #	(d) #	(e) #	(f) $	(g) #
Mesquite Mine	18	-	-	-	-	$3,995.00	-

In addition, as required by the reporting requirements regarding coal mine safety included in section 1503(a)(2) of the Dodd-Frank Act, for the year ended December 31, 2010, the Mesquite Mine has not received written notice from MSHA of:

(a) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of the FMSH Act; or

(b) the potential to have such a pattern.

Exhibit 99.5

Certification of Chief Executive Officer as Required by Rule 13a-14(a) under the Securities Exchange Act of 1934

I, Robert J. Gallagher, certify that:

1. I have reviewed this annual report on Form 40-F of New Gold Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 31, 2011

/s/ Robert J. Gallagher
Robert J. Gallagher
Chief Executive Officer

Exhibit 99.6

Certification of Chief Financial Officer as Required by Rule 13a-14(a) under the Securities Exchange Act of 1934

I, Brian W. Penny, certify that:

1. I have reviewed this annual report on Form 40-F of New Gold Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 31, 2011

/s/ Brian W. Penny

Brian W. Penny
Chief Financial Officer

Exhibit 99.7

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Annual Report on Form 40-F for the fiscal year ended December 31, 2010 (the "Report") by New Gold Inc. (the "Company"), I, Robert J. Gallagher, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2011

/s/ Robert J. Gallagher

Robert J. Gallagher
Chief Executive Officer

Exhibit 99.8

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Annual Report on Form 40F for the fiscal year ended December 31, 2010 (the "Report") by New Gold Inc. (the "Company"), I, Brian W. Penny, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2011

/s/ Brian W. Penny

Brian W. Penny
Chief Financial Officer

Exhibit 99.9

Consent of Independent Registered Chartered Accountants

We consent to the incorporation by reference in Registration Statement No. 333-160500 on Form S-8 and to the use of our reports dated March 3, 2011 relating to the consolidated financial statements of New Gold Inc. and subsidiaries and the effectiveness of New Gold Inc.'s internal control over financial reporting appearing in this Annual Report on Form 40-F of New Gold Inc. and subsidiaries for the year ended December 31, 2010.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 30, 2011

Exhibit 99.10

Consent of Peter Lloyd

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of reference to my name and to the use of information derived from the technical report entitled “Technical Report on Peak Gold Mines, New South Wales, Australia,” dated January 1, 2009, as amended and restated on June 12, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Peter Lloyd

Name: Peter Lloyd
Title: FAusIMM, BESc (Mining), and
Mining Engineer for New Gold Inc.

Exhibit 99.11

Consent of Rex Berthelsen

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral resource estimates for the Mesquite Mine, Cerro San Pedro Mine and El Morro Project, and to use of information derived from the technical report entitled “Technical Report on Peak Gold Mines, New South Wales, Australia,” dated January 1, 2009, as amended and restated on June 12, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Rex Berthelsen

Name: Rex Berthelsen
Title: FAusIMM, CPGeo, and Principal Geologist for New Gold Inc.

Exhibit 99.12

Consent of Eric Strom

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name and to the use of information derived from the technical report entitled “Technical Report on Peak Gold Mines, New South Wales, Australia,” dated January 1, 2009, as amended on June 12, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this31st day of March, 2011

/s/ Eric Strom

Name: Eric Strom
Title: P. Eng and Senior Mining Engineer for New Gold Inc.

Exhibit 99.13

Consent of Sean Pearce

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral reserves estimates for the Peak Gold Mines, and to use of information derived from the technical report entitled "Technical Report on Peak Gold Mines, New South Wales, Australia," dated January 1, 2009, as amended and restated on June 12, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Sean Pearce

Name: Sean Pearce
Title: MAusIMM

Exhibit 99.14

Pincock Allen & Holt
Consultants for Mining and Financial Solutions
165 South Union Boulevard, Suite 950
Lakewood, Colorado 80228-2226

Consent of Barton Stone

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral reserve and resource estimates for the El Morro Project and to the use of information derived from the technical report entitled “Feasibility NI 43-101 Technical Report for the El Morro Copper-Gold Project, Region III, Chile,” dated May 9, 2008, and readdressed to New Gold on August 26, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Barton Stone
Name: Barton Stone, C.P.G.
Title: Chief Geologist for Pincock, Allen & Holt

Exhibit 99.15

Pincock Allen & Holt
Consultants for Mining and Financial Solutions
165 South Union Boulevard, Suite 950
Lakewood, Colorado 80228-2226

Consent of Pincock, Allen & Holt

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral reserve and resource estimates for the El Morro Project and to the use of information derived from the technical report entitled "Feasibility NI 43-101 Technical Report for the El Morro Copper-Gold Project, Region III, Chile," dated May 9, 2008 and readdressed to New Gold on August 26, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

PINCOCK, ALLEN & HOLT

/s/ Barton G. Stone
Name: Barton G. Stone, C.P.G
Title: Chief Geologist

Exhibit 99.16

Roscoe Postle Associates Inc.
Suite 501, 55 University Avenue,
Toronto, Ontario M5J 2H7

Consent of Roscoe Postle Associates Inc.

We consent to the inclusion in this annual report on Form 40-F of New Gold, Inc., which is being filed with the United States Securities and Exchange Commission, of references to our name in connection with mineral resource estimates for the New Afton Project, Mesquite Mine and Cerro San Pedro Mine and to the use of information derived from the technical report entitled “Technical Report on the New Afton Project, British Columbia, Canada” dated December 31, 2009, the technical report entitled “Technical Report on the Mesquite Mine, Brawley, California, USA” dated February 26, 2010, and the technical report entitled “Technical Report on the Cerro San Pedro Mine, San Luis Potosí, Mexico” dated February 16, 2010 and amended March 22, 2010, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

ROSCOE POSTLE ASSOCIATES INC.

/s/ Richard J. Lambert
Name: Richard J. Lambert
Title: P.E. and Executive Vice-President
of Roscoe Postle Associates Inc.

Exhibit 99.17

Consent of David W. Rennie

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral resources estimates for the New Afton Project and to the use of information derived from the technical report entitled “Technical Report on the New Afton Project, British Columbia, Canada” dated December 31, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ David Rennie

Name: David W. Rennie
Title: P. Eng. and Principal Geologist
for Roscoe Postle Associates Inc.

Exhibit 99.18

Consent of Dennis Bergen

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral reserves estimates for the New Afton Project and to the use of information derived from the technical report entitled “Technical Report on the New Afton Project, British Columbia, Canada” dated December 31, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Dennis Bergen

Name: Dennis Bergen
Title: P. Eng. and Principal Geologist
for Roscoe Postle Associates Inc.

Exhibit 99.19

Consent of Kevin C. Scott

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name and to the use of information derived from the technical report entitled “Technical Report on the New Afton Project, British Columbia, Canada” dated December 31, 2009, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Kevin C. Scott

Name: Kevin C. Scott
Title: P. Eng. and Principal Metallurgist and
General Manager Vancouver Office
for Roscoe Postle Associates Inc.

Exhibit 99.20

Consent of Richard J. Lambert

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral reserve and resource estimates for the El Morro Project, Cerro San Pedro Mine and Mesquite Mine and to the use of information derived from the technical report entitled "Feasibility NI 43-101 Technical Report for the El Morro Copper-Gold Project, Region III, Chile" dated May 9, 2008 and readdressed to New Gold on August 26, 2009, the technical report entitled "Technical Report on Cerro San Pedro Mine, San Luis Potosí, Mexico" dated February 16, 2010 and amended March 22, 2010, and the technical report entitled "Technical Report on the Mesquite Mine, Brawley, California, USA" dated February 26, 2010, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Richard J. Lambert

Name: Richard J. Lambert
Title: P.E. and Executive Vice-President
of Roscoe Postle Associates Inc.

Exhibit 99.21

Consent of Holger Krutzelmann

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name and to the use of information derived from the technical report entitled “Technical Report on the Cerro San Pedro Mine, San Luis Potosí, Mexico” dated February 16, 2010 and amended March 22, 2010, and the technical report entitled “Technical Report on the Mesquite Mine, Brawley, California, USA” dated February 26, 2010, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Holger Krutzerlmann

Name: Holger Krutzelmann
Title: P. Eng and former Principal Metallurgist
for Roscoe Postle Associates Inc.

Exhibit 99.22

Consent of Christopher Moreton

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name and to the use of information derived from the technical report entitled “Technical Report on the Cerro San Pedro Mine, San Luis Potosí, Mexico” dated February 16, 2010 and amended March 22, 2010, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Christopher Moreton

Name: Christopher Moreton
Title: P. Geo and Senior Consulting Geologist
for Roscoe Postle Associates Inc.

Exhibit 99.23

Consent of Wayne W. Valliant

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name and to the use of information derived from the technical report entitled “Technical Report on the Mesquite Mine, Brawley, California, USA” dated February 16, 2010 and amended March 22, 2010, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Wayne W. Valliant

Name: Wayne W. Valliant
Title: P. Geo and Principal Geologist
for Roscoe Postle Associates Inc.

Exhibit 99.24

Consent of Hubert Schimann

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral reserve estimates for the Mesquite Mine, Cerro San Pedro Mine and El Morro Project, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Hubert Schimann

Name: Hubert Schimann
Title: P. Eng., and Corporate Mining Engineer
of New Gold Inc.

Exhibit 99.25

Consent of Manfred Wimberger

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral resources estimates for the Peak Gold Mines, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Manfred Wimberger

Name: Manfred Wimberger
Title: MAusIMM, and Geology Superintendent
for Peak Gold Mines Pty Ltd.

Exhibit 99.26

Consent of Mark Petersen

I consent to the inclusion in this annual report on Form 40-F of New Gold Inc., which is being filed with the United States Securities and Exchange Commission, of references to my name in connection with mineral reserve and resource estimates for the Peak Gold Mines, New Afton Project, Mesquite Mine, Cerro San Pedro Mine and El Morro Project, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2010, and I consent to the incorporation by reference of such information in the registration statement on Form S-8 (File No. 333-160500) of New Gold Inc.

Dated this 31st day of March, 2011

/s/ Mark Petersen

Name: Mark Petersen
Title: Certified Professional Geologist (CPG-10563)
Vice President, Exploration of New Gold Inc.