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

FORM 40-F

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

For the fiscal year ended December 31, 2011 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, 2011**, the Registrant had outstanding 461,357,915 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. xYes 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, 2011 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, 2011 and 2010, including the related auditor reports, are filed as Exhibit 2 to this annual report on Form 40-F.

The Company’s management’s discussion and analysis (“MD&A”) for the year ended December 31, 2011 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 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 annual report on Form 40-F and the documents incorporated by reference (“Annual Report”) 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 (“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 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 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 Commission.

The Company prepares its financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”), and they may be subject to Canadian auditing and auditor independence standards. Accordingly, the financial statements of the Company included in this Annual Report may not be comparable to financial statements of United States companies.

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

FORWARD LOOKING STATEMENTS

This Annual Report contains “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 are statements that are not historical facts and are generally, but not always, identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", “projects”, “potential”, "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", “should”, "might" or "will be taken", "occur" or "be achieved" or the negative connotation. 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, many of which are beyond our ability to control, that may cause our 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 metals and commodities consumed in our mining operations and the impact of any related hedging activities; the uncertainties inherent in current and future legal challenges we are or may become a party to, including the third-party claim relating to the El Morro Project; controls, regulations and political or economic developments in the countries in which we currently or may in the future conduct business; changes in national and local government legislation in Canada, the United States, Australia, Mexico and Chile or any other country in which we currently 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 in which we operate; inherent hazards and risks associated with mining operations, including accidents; diminishing quantities or grades of reserves; difficulties identifying appropriate acquisition targets or completing desirable acquisitions, or integrating businesses and assets that we have acquired or may acquire in the future; 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; inherent uncertainties associated with mineral exploration; dependency of cash flow and earnings growth upon the development of our current reserve base and converting our resource base to reserves and production; actual capital costs, operating costs and expenditures, production schedules and economic returns from our mining projects; fluctuations in the international currency markets and in the rates of exchange between the U.S. dollar and the currencies of Canada, Australia, Mexico and Chile; volatility of global financial conditions; taxation, including with respect to tax laws and regulations that are unclear or subject to ongoing varying interpretations; significant capital requirements and additional funding requirements; risks associated with joint ventures; dependence on transportation, electric and water facilities and infrastructure; fluctuation in the cost of significant inputs including fuel; delays or disruptions in supplies required for mining, processing, development or exploration activities; disruptions arising from non-performance of our off-take and other counterparties; changes in environmental laws and regulations; potential losses, liabilities and damages related to our business which are uninsured or uninsurable; regulation of greenhouse gas emissions and climate change issues; labor disputes; Aboriginal title claims; defective title to mineral claims or property or contests over claims to mineral properties; competition; and the loss of key employees and our ability to attract and retain qualified personnel. 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 Report and any documents incorporated by reference 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, 2011. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as at December 31, 2011 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 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 and 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 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, 2011. 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, 2011, 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, 2011 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, 2011 and 2010, filed as Exhibit 2 to this Annual Report, Deloitte & Touche LLP expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

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, 2011 and 2010 are filed as Exhibit 2 to this Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the fiscal year ended December 31, 2011, 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 65) and "External Auditor Service Fees (By Category)" (page 65) contained in the AIF is incorporated by reference.

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, March 3, 2011 and March 1, 2012. 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 and/or ratified on November 24, 2008, March 12, 2009, March 4, 2010, March 3, 2011 and March 1, 2012, 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
as of December 31, 2011

		Payments due by period			
Contractual obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Long-term debt	237,959	0	54,082	0	183,877
Interest payable on long-term debt	107,867	21,092	40,806	36,775	9,194
Operating Leases and Other Commitments	194,455	150,506	14,697	14,639	14,613
Asset retirement obligations	70,785	4,416	3,304	6,237	56,828
Total contractual obligations	611,066	176,014	112,889	57,651	264,512

MINE SAFETY DISCLOSURE

The Company's subsidiary, Western Mesquite Mines, Inc., is the operator of the Mesquite mine located in southern California. The information concerning mine safety violations and other regulatory matters required by Section1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 16 of General Instruction B to Form 40-F in respect of the Mesquite mine is filed as Exhibit 4 to this Annual Report.

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: *"Brian Penny"*
Name: Brian Penny
Title: Chief Financial Officer

Date: March 26, 2012

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, 2011
2.	Audited Consolidated Financial Statements for the years ended December 31, 2011 and 2010, including the reports of the auditor with respect thereto
3.	Management's Discussion and Analysis for the year ended December 31, 2011
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 Neil N. Gow
15.	Consent of A. Paul Hampton
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 Ronald G. Simpson
25.	Consent of GeoSim Services Inc.
26.	Consent of Mark Petersen
27.	Consent of Lee P. Gochnour

Exhibit 99.1

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Annual Information Form for the Financial Year Ended December 31, 2011

March 26, 2012



GROWING NEW GOLD

New Gold Inc.
Annual Information Form
For the Financial Year Ended December 31, 2011

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Annual Information Form

FOR THE YEAR ENDED DECEMBER 31, 2011

All information in this annual information form ("Annual Information Form") is as at December 31, 2011 unless otherwise indicated.

Cautionary Note Regarding Forward-Looking Statements

Certain information contained in this Annual Information Form, including any information relating to New Gold's 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 use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "projects", "potential", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur" or "be achieved" or the negative connotation. All such forward-looking statements are based on the opinions and estimates of management as of the date such statements are made. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to known and unknown risks, uncertainties and other factors, many of which are beyond our ability to control, that may cause our 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 metals and commodities consumed in our mining operations and the impact of any related hedging activities; the uncertainties inherent in current and future legal challenges we are or may become a party to, including the third-party claim relating to the El Morro Project; controls, regulations and political or economic developments in the countries in which we currently or may in the future conduct business; changes in national and local government legislation in Canada, the United States, Australia, Mexico and Chile or any other country in which we currently 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 in which we operate; inherent hazards and risks associated with mining operations, including accidents; diminishing quantities or grades of reserves; difficulties identifying appropriate acquisition targets or completing desirable acquisitions, or integrating businesses and assets that we have acquired or may acquire in the future; 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; inherent uncertainties associated with mineral exploration; dependency of cash flow and earnings growth upon the development of our current reserve base and converting our resource base to reserves and production; actual capital costs, operating costs and expenditures, production schedules and economic returns from our mining projects; fluctuations in the international currency markets and in the rates of exchange between the U.S. dollar and the currencies of Canada, Australia, Mexico and Chile; volatility of global financial conditions; taxation, including with respect to tax laws and regulations that are unclear or subject to ongoing varying interpretations; significant capital requirements and additional funding requirements; risks associated with joint ventures; dependence or transportation, electric and water facilities and infrastructure; fluctuation in the cost of significant inputs including fuel; delays or disruptions in supplies required for mining, processing, development or exploration activities; disruptions arising from non-performance of our off-take and other counterparties; changes in environmental laws and regulations; potential losses, liabilities and damages related to our business which are uninsured or uninsurable; regulation of greenhouse gas emissions and climate change issues; labor disputes; Aboriginal title claims; defective title to mineral claims or property or contests over claims to mineral properties; competition; and the loss of key employees and our ability to attract and retain qualified personnel.

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" included in New Gold's disclosure documents filed on and 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 Annual Information Form 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.

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, 2011 (a copy of which is available under the Company's profile on SEDAR at www.sedar.com). Readers should refer to such financial statements for additional information.

Cautionary Note to U.S. Readers Concerning Estimates of Mineral Reserves and 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 National Instrument 43-101 Standards of Disclosure for Mineral Projects ("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 reserves 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 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 Costs

"Total cash costs" per gold ounce is a common financial performance measure in the gold mining industry but with no standard meaning under IFRS. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, 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 IFRS. 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.

Total cash costs 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 widely accepted as the standard of reporting cash costs 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. New Gold reports total cash costs on a sales basis. Total cash costs 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 costs is reduced by any by-product revenue and is then divided by ounces sold to arrive at the total by-product cash costs of sales. The measure, along with sales, is considered to be a key indicator of a company's ability to generate operating earnings and cash flow from its mining operations.

Total cash costs is intended to provide additional information only and do not have any standardized definition under IFRS and should not be considered in isolation or as substitutes for measures of performance prepared in accordance with IFRS. Other companies may calculate these measures differently. See page 52 of the Company's Management's Discussion and Analysis for the year ended December 31, 2011, available under the Company's profile on SEDAR at www.sedar.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$" and Australian dollars are referred to as "Australian dollars" or "A$". Refer to Schedule D of this Annual Information Form for applicable exchange rate information.

Technical Information

The scientific and technical information in this Annual Information Form has been reviewed and approved by Mark Petersen, a Qualified Person under Canadian NI 43-101 and an officer of New Gold. Mr. Petersen is not "independent" of New Gold within the parameters prescribed by NI 43-101.

Additional Information

Additional information about the Company, including, without limitation, directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans may be found in the Management Information Circular of the Company filed for its most recent annual meeting of shareholders and other continuous disclosure documents of the Company filed on SEDAR. Additional financial information is provided in the Company's audited consolidated financial statements and the MD&A for the financial year ended December 31, 2011. These documents and other information about the Company are available through the Company's profile on SEDAR at www.sedar.com.

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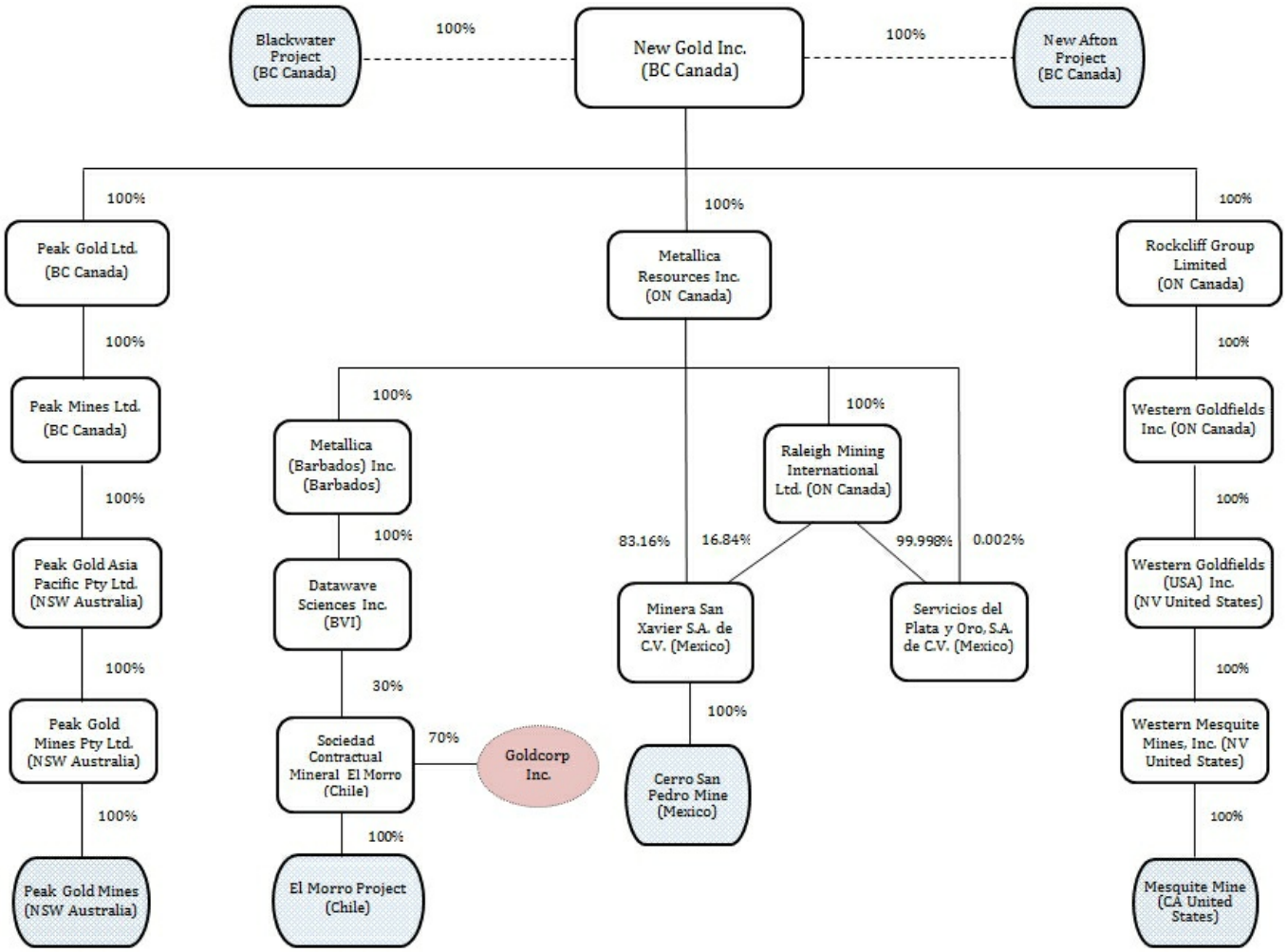
CORPORATE STRUCTURE

The Company 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) ("Act"). 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. Effective January 1, 2012, New Gold completed an amalgamation with its wholly-owned subsidiaries Silver Quest Resources Ltd., Geo Minerals Ltd. and Richfield Ventures Corp. under the Act. The amalgamated company continues as 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 mines and development 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

New Gold is an intermediate gold mining company engaged in the acquisition, exploration, development and operation of mineral properties.

Presently, New Gold has the following material mines and development projects which are described in detail in the "Mineral Properties" section of this Annual Information Form:

- 100% interest in the Mesquite gold mine in Imperial County, California, United States ("Mesquite Mine")
- 100% interest in the Cerro San Pedro gold-silver mine in Mexico ("Cerro San Pedro Mine")
- 100% interest in the Peak gold-copper mines in Australia ("Peak Gold Mines")
- 100% interest in the New Afton copper-gold project in Kamloops, British Columbia, Canada ("New Afton Project")
- 100% interest in the Blackwater gold project in Prince George, British Columbia, Canada ("Blackwater Project")
- 30% interest in the El Morro copper-gold project in Chile ("El Morro Project")

New Gold has been a natural resource exploration and development company engaged in the acquisition, exploration and development of natural resource properties since 1980. In August 2005, it acquired the New Afton Project. New Gold completed a business combination with Peak Gold Ltd. ("Peak") and Metallica Resources Inc. ("Metallica") on June 30, 2008 ("Peak/Metallica Business Combination") which resulted in the acquisitions of the Cerro San Pedro Mine, Peak Gold Mines, El Morro Project and the Amapari Mine located in Brazil. In January 2009, the Company placed its Amapari Mine on temporary care and maintenance due to depletion of ore suitable for treatment at the existing facilities. The Amapari Mine was sold on April 13, 2010 to Beadell Resources Ltd, ("Beadell"), with New Gold receiving $37.0 million in cash and 115 million Beadell shares. In December 2010, New Gold sold its Beadell shares for $58.4 million.

New Gold completed a business combination with Western Goldfields Inc. ("Western Goldfields") on June 1, 2009 ("Western Goldfields Business Combination") which resulted in the acquisition of the Mesquite Mine. On October 7, 2009, the Company announced that the terms of its Mesquite Mine term loan facility had been amended and a $15 million prepayment was made, reducing the outstanding principal to $45.8 million. The facility was fully repaid in February 2010.

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.

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 ongoing legal challenges. MSX was issued an environmental authorization ("EIS") for the Cerro San Pedro Mine by SEMARNAT, the Mexican environmental regulatory agency, in February 1999 for exploration, construction and production stages. The 1999 EIS was nullified and a new one was issued in 2006 following an action brought by a group opposing the Cerro San Pedro Mine. In 2006, a group opposing the Mine filed a lawsuit against SEMARNAT alleging that the 2006 EIS did not comply with a Mexican Federal Court order. After protracted litigation, the Collegiate Appeals Court in Mexico City ruled unanimously in favour of MSX's position in its appeal against the nullification of the 2006 EIS and the Federal Court of Fiscal and Administrative Justice issued a new resolution in July 2011 requiring SEMARNAT to reanalyze the challenge to the 2006 EIS. In March 2011, the municipality of Cerro De San Pedro approved a new municipal land use plan ("New Municipal Plan"), after public consultation. The New Municipal Plan clearly designates the area of the Cerro San Pedro Mine for mining, and New Gold believes that this resolves any ambiguity regarding land use in the area in which the Cerro San Pedro Mine is located. In April 2011, MSX filed a request for a new EIS based on the New Municipal Plan and on August 5, 2011 a new EIS was granted by SEMARNAT. The 2011 EIS contains a number of conditions with which MSX must comply and the work to fulfill these conditions is in progress. In particular, MSX must present a proposal for the remediation of contaminated soils at the conclusion of the Mine's productive life and build and operate additional subsurface monitoring wells. The duration of MSX's recent municipal land usage permit is open-ended and its other operating permits remain in full effect.

The Company previously held asset backed commercial paper ("ABCP") that matured in 2007. When the ABCP matured but was not redeemed, there was a restructuring resulting in the issuance of long-term asset backed securities ("Asset Backed Notes") 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.

On January 7, 2010, New Gold's wholly owned subsidiary Datawave Sciences Inc. ("Datawave") provided notice to Xstrata Copper Chile S.A. ("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. Datawave held a right of first refusal over Xstrata's 70% interest, which came into effect when an agreement between Barrick Gold Corporation ("Barrick") and Xstrata was announced October 12, 2009. 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 the Datawave subsidiary, Datawave sold that subsidiary to a subsidiary of Goldcorp. Concurrent with this sale, Datawave received a $50.0 million payment and the parties amended the terms of the existing shareholders' agreement. Under the revised shareholders' agreement, Goldcorp (through its subsidiary) agreed to fund 100% of Datawave's share of the development and construction capital for the El Morro Project. 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 affiliated subsidiaries as defendants. The claim relates to Datawave's exercise of its right of first refusal with respect to the El Morro Project. New Gold believes the claim is without merit and is defending this action using all available legal avenues. The trial commenced June 2011 and the closing arguments are now complete, with a decision expected by the end of the second quarter 2012. See "Legal Proceedings and Regulatory Actions".

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.

Recent Acquisitions

The Company completed three separate acquisitions during 2011, each relating to its Blackwater Project located in central British Columbia, Canada.

On June 1, 2011, the Company acquired all of the outstanding shares of Richfield Ventures Corp. ("Richfield") through a plan of arrangement, pursuant to which Richfield shareholders received 0.9217 of a common share of New Gold and nominal cash consideration for each Richfield share held. New Gold issued 48.6 million common shares under the arrangement. Following completion of the arrangement, New Gold added the Backwater Project to its portfolio of assets.

On December 21, 2011, the Company acquired all of the outstanding shares of Geo Minerals Ltd. ("Geo") which had additional landholdings in the Blackwater Project area. The transaction was a plan of arrangement under which shareholders of Geo (including holders of options and warrants) received cash consideration of $22.0 million for their Geo shares. Following New Gold's acquisition of Geo's cash balance at closing of the Geo Arrangement, the net cash payment made by New Gold in respect of the arrangement was $18.3 million.

On December 23, 2011, the Company acquired Silver Quest Resources Ltd. ("Silver Quest") which held the remaining 25% interest in the Blackwater Project as well as the Capoose property which is located near the Blackwater Project and covers approximately 410 square kilometres of land. The transaction was a plan of arrangement under which the shareholders of Silver Quest (including holders of options) received 0.09 of a common share of New Gold and nominal cash consideration for each Silver Quest share held. New Gold issued 10.5 million common shares to former Silver Quest shareholders under the arrangement.

New Gold did not file a Form 51-201F4 ("Business Acquisition Report") in respect of its acquisitions of Richfield, Geo or Silver Quest.

On March 7, 2012, New Gold announced an updated Mineral Resource Estimate for its Blackwater Project that will form the basis for its Preliminary Economic Assessment targeted for completion during the third quarter of 2012. See the notes to the "Summary of Mineral Reserve and Mineral Resource Estimates" in the "Description of Business" section of this Annual Information Form for the updated Mineral Resource Estimate for the Blackwater Project.

On March 23, 2012 New Gold adopted a shareholder rights plan ("Plan") to provide the Board of directors with more time to consider alternatives in the event of a takeover bid for the common shares of New Gold. The record date for the distribution of the rights to shareholders is April 2, 2012. The Plan is effective, but it is subject to ratification by shareholders within six months of its implementation.

DESCRIPTION OF THE BUSINESS

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 and Blackwater Projects in Canada, 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 a safe and an environmentally and socially responsible manner.

Refer to the Company's MD&A for the year ended December 31, 2011, available under the Company's profile on SEDAR at www.sedar.com for a detailed description of the Company's business, including each of its operating segments. 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 Skills 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; gold, silver and copper at the New Afton Project; and gold and silver at the Blackwater Project. See "Summary of Mineral Reserve and Mineral Resource Estimates".

Employees

As at December 31, 2011, the Company had the following employees and contractors:

Location	Full-Time	Contractors
Vancouver Office	19	2
Toronto Office	19	4
Corporate Exploration Team	9	-
Mesquite Mine	279	6
Cerro San Pedro Mine*	435	39
Peak Gold Mines	297	39
New Afton Project	385	409
Blackwater Project	66	97
El Morro Project	-	-
	1,509	**596**

* As at December 31, 2011, 300 employees at the Cerro San Pedro Mine belonged to a union.

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 to such regulations) 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 and Social and Environmental Policies

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 for the year ended December 31, 2011.

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, through 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, the Blackwater 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' 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.

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Summary of Mineral Reserve and Mineral Resource Estimates

On February 2, 2012, the Company reported consolidated Mineral Reserve and Resource estimates for its mines and development projects as at December 31, 2011. 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.

The Company's Mineral Reserve and Resource estimates have been complied by Mark Petersen, a qualified person under NI 43-101 and an officer of New Gold, based on estimates prepared under the direction of qualified persons under NI 43-101. See - "Mineral Properties".

New Gold Mineral Reserves and Resources Summary as at December 31, 2011

	Contained Metals				
	Gold Koz	**Silver Koz**	**Copper Mlbs**	**Zinc Mlbs**	**Lead Mlbs**
Mineral Reserves					
Proven	2,803	13,525	1,182	-	-
Probable	5,059	20,822	1,706	-	-
Total P&P	7,863	34,347	2,888	-	-
Mineral Resources					
Measured	4,432	22,449	2,313	187	29
Indicated	14,365	92,819	1,633	566	77
Total M&I	18,797	115,268	3,946	753	106
Inferred	6,323	76,856	2,202	698	190

Notes to the Mineral Reserve and Resource estimates are provided on pages 13 and 14 of this Annual Information Form.

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Mineral Reserves

Mineral Reserve estimates for the Mesquite Mine, Cerro San Pedro Mine, Peak Gold Mines, New Afton Project and El Morro Project as at December 31, 2011, are presented in the table below.

Mineral Reserve Estimates – as at December 31, 2011

		Metal Grade			Contained Metal		
	Tonnes 000's	**Gold g/t**	**Silver g/t**	**Copper %**	**Gold Koz**	**Silver Koz**	**Copper Mlbs**
Mesquite Mine							
Proven	14,548	0.67	-	-	313	-	-
Probable	138,796	0.55	-	-	2,448	-	-
Mesquite P&P	153,345	0.56	-	-	2,762	-	-
Cerro San Pedro Mine							
Proven	23,972	0.58	16.99	-	447	13,091	-
Probable	35,267	0.49	15.30	-	559	17,352	-
CSP P&P	59,239	0.53	15.98	-	1,006	30,443	-
Peak Gold Mines							
Proven	1,608	6.33	8.4	0.82	327	434	29
Probable	1,811	4.80	6.7	0.92	279	390	37
Peak P&P	3,419	5.50	7.5	0.87	606	824	66
New Afton Project							
Proven	-	-	-	-	-	-	-
Probable	47,900	0.64	2.0	0.90	986	3,080	954
New Afton P&P	47,900	0.64	2.0	0.90	986	3,080	954
El Morro Project		*100% Basis*				*30% Basis*	
Proven	308,036	0.58	-	0.57	1,716	-	1,153
Probable	212,167	0.38	-	0.51	787	-	715
El Morro P&P	520,024	0.50	-	0.54	2,503	-	1,868

Notes to the Mineral Reserve estimates are provided on pages 13 and 14 of this Annual Information Form.

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Mineral Resources

Mineral Resource estimates for the Mesquite Mine, Cerro San Pedro Mine, Peak Gold Mines, New Afton Project and El Morro Project inclusive of Mineral Reserves, as well as Mineral Resource estimates for the Blackwater Project, as at December 31, 2011, are presented in the tables below.

Measured and Indicated Mineral Resource Estimates (Inclusive of Reserves) as at December 31, 2011

		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 - oxide	19,182	0.51	-	-	-	-	316	-	-	-	-
Indicated - oxide	269,872	0.39	-	-	-	-	3,407	-	-	-	-
Mesquite M&I - oxide	289,054	0.40	-	-	-	-	3,723	-	-	-	-
Measured – non-oxide	4,688	0.91	-	-	-	-	137	-	-	-	-
Indicated – non-oxide	79,851	0.65	-	-	-	-	1,674	-	-	-	-
Mesquite M&I – non-oxide	84,539	0.66	-	-	-	-	1,811	-	-	-	-
Mesquite M&I	373,594	0.46	-	-	-	-	5,534	-	-	-	-
Cerro San Pedro Mine											
Measured – open pit oxide	25,722	0.44	15.36	-	-	-	367	12,706	-	-	-
Indicated – open pit oxide	55,647	0.31	12.28	-	-	-	546	21,976	-	-	-
CSP M&I – open pit oxide	81,369	0.35	13.26	-	-	-	913	34,682	-	-	-
Measured – open pit sulphide	13,317	0.54	13.60	-	0.64	0.10	232	5,823	-	187	29
Indicated – open pit sulphide	46,697	0.44	10.23	-	0.55	0.08	667	15,355	-	566	77
CSP M&I – open pit sulphide	60,014	0.47	10.98	-	0.57	0.08	899	21,178	-	753	106
CSP M&I							1,812	55,860			
Peak Gold Mines											
Measured	3,092	4.89	7.3	1.14	-	-	486	726	78	-	-
Indicated	3,697	3.89	7.1	1.09	-	-	462	844	89	-	-
Peak M&I	6,789	4.30	7.2	1.11	-	-	948	1,570	167	-	-
New Afton Project											
Measured	36,500	0.90	2.7	1.24	-	-	1,058	3,194	1,002	-	-
Indicated	33,300	0.64	2.1	0.80	-	-	685	2,276	584	-	-
New Afton M&I	69,800	0.78	2.4	1.03	-	-	1,742	5,470	1,586	-	-
Blackwater Project											
Indicated	163,605	1.03	4.9	-	-	-	5,423	25,774	-	-	-
Capoose property											
Indicated	31,216	0.38	26.5	-	-	-	384	26,594	-	-	-
El Morro Project			*100% basis*						*30% basis*		
Measured - open pit	343,088	0.55	-	0.54	-	-	1,836	-	1,233	-	-
Indicated – open pit	333,312	0.35	-	0.44	-	-	1,117	-	960	-	-
El Morro M&I – open pit	676,400	0.45	-	0.49	-	-	2,954	-	2,193	-	-

Notes to the Mineral Resource estimates are provided on pages 13 and 14 of this Annual Information Form.

Inferred Mineral Resource Estimates as at December 31, 2011

	Tonnes 000's	Gold g/t	Silver g/t	Copper %	Zinc %	Lead %	Gold Koz	Silver Koz	Copper Mlbs	Zinc Mlbs	Lead Mlbs
Mesquite Mine	38,633	0.41	-	-	-	-	512	-	-	-	-
Cerro San Pedro Mine											
Inferred – open pit oxide	40,355	0.17	8.55	-	-	-	214	11,091	-	-	-
Inferred – open pit sulphides	24,736	0.47	7.40	-	0.50	0.07	374	5,882	-	271	39
							588	16,972		271	39
Manto underground sulphide	6,270	1.83	94.51	-	3.09	1.09	368	19,052	-	427	151
Peak Gold Mines	3,147	2.56	4.8	1.5	-	-	259	486	107	-	-
New Afton Project	29,200	0.51	1.6	0.61	-	-	483	1,478	390	-	-
Blackwater Project	69,267	0.84	4.2	-	-	-	1,860	9,350	-	-	-
Capoose property	37,256	0.37	24.6	-	-	-	443	29,518	-	-	-
El Morro Project			*100% basis*						*30% basis*		
Open pit	637,495	0.10	-	0.25	-	-	605	-	1,045	-	-
Underground	128,280	0.97	-	0.78	-	-	1,205	-	660	-	-
El Morro Inferred							1,810		1,705		

Notes to the Inferred Mineral Resource estimates are provided on pages 13 and 14 of this Annual Information Form.

Notes to Mineral Reserve and Resource Estimates

Mineral Reserves for properties where reserves have been defined are contained within Measured and Indicated Mineral Resources. Measured and Indicated Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability as defined by a technical feasibility study. Inferred Mineral Resources are not known with the same degree of certainty as Measured and Indicated Resources, have not demonstrated economic viability, and are exclusive of Mineral Reserves. Mineral Reserves have been estimated and reported in accordance with the CIM Standards and NI 43-101, as well as the AusIMM JORC equivalent for Peak Mines. The Mineral Reserve and Resource estimates and other technical information in this Annual Information Form have been reviewed and approved by Mark Petersen, a Qualified Person under Canadian NI 43-101 and an officer of New Gold. Mr. Petersen is not "independent" of New Gold within the parameters prescribed by NI 43-101.

1. Subsequent updated Mineral Resource Estimate for the Blackwater Project as at March 7, 2012:

Blackwater Project March 7, 2012 Mineral Resource Estimate

	Indicated Resource						Inferred Resource				
Cut-off (g/t)	**Tonnes (000's)**	**Au (g/t)**	**Ag (g/t)**	**Au (Moz)**	**Ag (Moz)**	**Cut-off (g/t)**	**Tonnes (000's)**	**Au (g/t)**	**Ag (g/t)**	**Au (Moz)**	**Ag (Moz)**
0.40	174,407	0.98	4.6	5.47	25.8	0.40	91,566	0.78	3.8	2.28	11.2

For additional information with respect to the above, updated estimates, including key parameters, assumptions and associated risks, refer to the Blackwater Report available on SEDAR at www.sedar.com.

2. 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 cut-off
Mesquite	$ 1,200	-	-	0.21 g/t Au – Oxide reserves 0.41 g/t Au – Non-oxide reserves
Cerro San Pedro	$ 1,200	$ 20.00	-	US$3.49/t NSR
Peak Mines	$ 1,300	$ 25.00	$ 2.75	A$130 – 184/t NSR
New Afton	$ 1,200	$ 20.00	$ 2.50	US$24/t NSR
El Morro	$ 1,200	-	$ 2.75	0.20% Cu

3. 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	$ 1,300	-	-	-	-	0.11 g/t Au – Oxide Resources 0.22 g/t Au – Non-oxide Resources
Cerro San Pedro	$ 1,300	$ 24.00	-	$ 1.00	$ 1.00	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 Resources
Peak Mines	$ 1,300	$ 24.00	$ 2.75	$ 0.85	$ 0.65	A$103 - 137/t NSR
New Afton	$ 1,300	$ 24.00	$ 2.75	-	-	0.40% CuEq – All Resources
El Morro	$ 1,350	-	$ 3.25	-	-	0.15% Cu – Open pit Resources 0.20% Cu – Underground Resources
Blackwater	$ 1,300	-	-	-	-	0.40 g/t Au – All Resources
Capoose	$ 1,025	-	-	-	-	0.40 g/t AuEq – All Resources

4. Mineral Resources have been estimated and reported in accordance with the standards of the CIM and NI 43-101, as well as the AusIMM JORC equivalent for Peak Mines.

5. The Company's Mineral Reserve and Resource estimates may be subject to legal, political, environmental and other risks that may materially affect the development of such estimates. Readers should carefully review the Risk Factors section of this Annual Information Form and the Company's technical reports available under its profile on the SEDAR website at www.sedar.com for more information on such risks.

Mineral Resources are classified as measured, indicated and inferred resources and are reported based on technical and economic parameters consistent with the methods most suitable for their potential extraction and mineral processing. Where different mining and/or processing methods might be applied to different portions of a Mineral Resource, the designators 'open pit' and 'underground' have been applied to indicate likely mining method. Likewise the designators 'oxide', 'non-oxide' and 'sulphide' have been applied to indicate the type of mineralization as it relates to appropriate mineral processing method. Additional details regarding Mineral Resource estimation methods, classification criteria and reporting parameters for each of New Gold's mines and projects are provided in the respective NI 43-101 Technical Reports available on SEDAR.

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 ("Mesquite Report"). The Mesquite Report is available for review under the Company's profile on SEDAR at www.sedar.com. The following disclosure has been updated to include information about the Mesquite Mine subsequent to the date of the Mesquite Report. See "Interests of Experts" for details of the Qualified Persons who prepared the Mesquite Report and approved the following disclosure.

Project Description, Location, Access and Other Information

The Mesquite Mine is located in Imperial County, in southern California, United States, 39 kilometres (24 miles) north of the border with Mexico and 26 kilometres (16 miles) west of the border with the State of Arizona. Access to the property is via good quality paved roads. Local resources are available in the towns of Brawley, California and Yuma, Arizona, at distances from the mine of 56 kilometres (35 miles) and 84 kilometres (52 miles) respectively.

The Company became the owner of the Mesquite Mine in 2008 following the Western Goldfields Business Combination. The mine is operated by the Company's wholly owned subsidiary, Western Mesquite Mines, Inc. ("WMMI").

Currently, the major assets and facilities associated with the Mesquite Mine are:

- Mineral resources and reserves in the Cholla, Big Chief, Rainbow, Vista, and North Big Chief deposits.
- The physical plant site including heap leach pads, process plant, workshops, warehouses, administration buildings, and dry facilities.
- Facilities providing basic infrastructure to the mine, including electric power, heat, water treatment and supply, and sewage treatment.
- Mine infrastructure including open pits, ramps, maintenance shops, and mobile equipment fleet.

The mineral rights at the Mesquite Mine cover a total area of approximately 1,890 hectares (4,670 acres). They comprise 212 unpatented and 53 patented mining lode claims, 122 patented and 97 unpatented mill site claims, 266.3 hectares (658 acres) of California state leased land, and 127.5 hectares (315 acres) of fee lands. All of the present and future property of the Mesquite Mine is subject to a first ranking lien in favour of the lenders under the Facility (see the "General Development of the Business" section for more information).

In November 2003, Western Goldfields ("WGI") acquired the Mesquite Mine from Newmont Mining Corporation ("Newmont"). Under the terms of the agreement, WGI assumed the environmental reclamation and closure liability at the Mesquite Mine along with liability for 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 material planned for future mining at Mesquite will be subject only to the 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 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 landfill cover and other general purposes. Additional details of the Landfill Agreement are available in the Mesquite Report.

Mesquite's climate is arid, with high temperatures in summer and an average annual temperature of 73 degrees Fahrenheit (22.7 degrees Celsius). The Mine is located southwest of the Chocolate Mountains at an elevation of between 600 to 1,000 feet (183 to 305 metres) above sea level. The Mine is on an alluvial fan that slopes gently from the northeast to the southwest. Its vegetation consists of sparse desert vegetation, including creosote bush, brittle brush, barrel cactus and cholla cactus.

History

Gold was discovered at Mesquite around 1876 by railroad track crews. Exploration began in earnest during the 1970s and included work by Placer-Amex, Conoco, Glamis Gold Corporation ("Glamis"), Newmont, and Gold Fields Mining Corporation ("Gold Fields").

In the 1980s, Gold Fields initiated an exploration program that included surface sampling, geophysics and drilling. By 1993, Gold Fields had drilled over 5,000 holes totalling approximately 732,000 metres or 2.4 million feet.

Gold Fields began a commercial heap leach gold operation at Mesquite in March 1986. Santa Fe Pacific Gold Corporation ("Santa Fe") acquired the Mine from Gold Fields in 1993. Newmont acquired the Mesquite Mine in 1997 via its acquisition of Santa Fe, and mined the deposit through May 2001 when a slope failure in the Big Chief pit and the low price of gold caused the existing reserves to be uneconomic. Approximately 3.05 million ounces of gold were recovered between 1985 and the suspension of heap leach operations in 2007, with a calculated average gold recovery of 76.5%.

The Mesquite Mine received regulatory approval to begin mining operations anew on July 2, 2007. Commercial production recommenced in January 2008. In June 2009, following the business combination with Western Goldfields, New Gold became the operator.

Geological Setting and Mineralization

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 of extremely complex history. Readers are referred to the "Geological Setting" section of the Mesquite Report for further details on regional and local geology.

The Mesquite Mine comprises two sub-parallel, Oligocene-age ore bodies: Big Chief – Vista and Rainbow. Gold mineralization is hosted by Mesozoic gneisses that are intruded by biotite/muscovite rich granites. The district is covered by a thin veneer (0-90 metres) of Tertiary and Quaternary sediments. Gold mineralization is bound by post-mineral faulting related to the Neogene San Andreas fault system.

The gold mineralization at Mesquite was deposited in an epithermal setting, within 150 to 300 metres (500 feet to 1,000 feet) of the surface. The bulk of the economically attractive mineralization occurs as disseminations and veins in the gneisses. The majority of the veining is controlled by moderate to steeply dipping faults. Two types of gold mineralization are dominant: pods of mineralization of limited extent at fault intersections and mineralized trends along faults.

Gold occurs at Mesquite as native gold ranging in size from very coarse to submicron disseminations. Silver-free native gold is the most common type in the oxidized zone. A second type of gold is silver-bearing coarse gold typically found in the unoxidized zone.

Test work on unoxidized 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.

Exploration and Drilling

Most of the exploration work conducted at Mesquite pre-dates New Gold's ownership and occurred as drilling. The Mesquite Mine historical database represents approximately 823,000 metres or 2.7 million feet of drilling in 6,221 drill holes, most of which are RC holes. A total of 103 holes in the database are diamond ("core") drill holes. Most of the drill holes are vertical and have not been subjected to down hole surveys. In general, the disseminated mineralization appears to be flat-lying or slightly dipping. Consequently, the vertical drilling provides a reasonable estimate of the true mineralization thickness.

Gold Fields conducted the majority of the drilling on the property. Additional details on its drilling methods and results are chronicled in the Mesquite Report. Santa Fe and Newmont also carried out drill campaigns but no documentation of those campaigns is available.

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 beneath the Mineral Reserve pit. The program consisted of 37 holes totaling 11,079 metres (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 the 2010 drilling program, an additional 1.1 million ounces were added to the Mesquite oxide resource base. No significant exploration drilling was conducted during 2011. The Company has no plans to conduct further exploration work at Mesquite during 2012.

Sampling and Analysis

The majority of drilling conducted at Mesquite is historic in nature and, in the case of the Santa Fe and Newmont programs, sampling methods were not documented. There are no indications of deficiencies in sampling method or sample recovery that would impact the reliability of results. Furthermore, it is the authors' opinion, as stated in the Mesquite Report, that the historic sampling method and approach are appropriate for Mineral Resource estimation, an assertion supported by the fact that the Mineral Resource estimates reconcile reasonably well with actual production.

Reverse circulation sampling conducted during New Gold's 2010 drilling program was completed using water injection methods as required by California environmental regulations. Sampling of both RC cuttings and core was carried out at nominal one and a half metre (five foot) intervals. The sample was split to create a duplicate sample. 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.

Core and RC drilling samples collected during New Gold's 2010 exploration program were analyzed for gold via fire assay with an AA finish and were also analyzed for cyanide-soluble gold. A pulp from each sample is stored in the core storage facility at the Mesquite Mine site.

The Company's 2010 exploration program included a quality assurance/quality control ("QA/QC") program at the Mesquite Mine using industry best practices that are consistent with the QA/QC protocols in use at all of its exploration and development projects. Key elements of the Company's QA/QC program include chain of custody of samples, regular insertion of certified reference standards and blanks, and duplicate check assays. Drill core is halved and shipped in sealed bags to an independent analytical service provider in Reno, Nevada.

Refer to the Mesquite Report for specifics of the quality control and data verification programs. As stated in the Mesquite Report, the data quality was considered adequate for Resource estimation as defined under NI 43-101 and the present protocols for data acquisition and management reasonable.

Metallurgical Testing

Metallurgical testing continued during 2011 in order to confirm estimated gold recoveries for sulphide mineralization via the existing heap leach process.

Mineral Resource and Mineral Reserve Estimates

The Mesquite Mineral Resources effective December 31, 2011, are summarized in the "Measured and Indicated Mineral Resource Estimates (Inclusive of Reserves) as at December 31, 2011" and "Inferred Mineral Resource Estimates as at December 31, 2011" tables. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Resources".

The Mesquite Mineral Reserves, effective December 31, 2011, are summarized in the "Mineral Reserve Estimates – as at December 31, 2011" table. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Reserves".

Mining Operations

Mining Methods

The Mesquite Mine is an operating open pit mine. Mining is performed using a conventional truck/shovel open-pit mining method. Run-of-mine ore is hauled directly to the leach pad for processing. Current mine production in 2011 was a nominal 126,000 tonnes per day on average of total material, including a nominal 32,000 tonnes per day of ore that was hauled to the leach pad.

Recovery Methods

Mineral processing is by heap leach in a carbon in-column circuit assaying approximately 92% gold. Process recoveries are determined by oxidation. Ultimate gold recovered 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.

Markets and Contracts

Doré is shipped from site to a major refiner where the gold and silver are further refined to bullion. Gold is subsequently sold to bullion banks on the spot market when outturned at the refinery.

Environmental Conditions

There are no notable environmental conditions affecting mining operations, and WMMI is in compliance with all permits. Total undiscounted closure cost liability as at December 31, 2011 is estimated at $12.4 million excluding salvage value of the assets. New Gold expects to incur this obligation between 2012 and 2028.

Economic Analysis

The Mesquite Mine is projected to operate through 2023 based on metal prices of $1,200 per ounce gold.

During 2011, Mesquite produced 158,004 ounces gold at total cash costs of $646 per ounce. The Mesquite Mine is expected to produce 140,000 to 150,000 ounces of gold in 2012 at total cash costs of $710 to $730 per ounce.

The applicable U.S. federal income taxes are 35% and California state income taxes are 8.8%, yielding a combined income tax burden of 40.7%.

Exploration and Development

No noteworthy exploration or development is planned.

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 ("CSP Report"). The CSP Report is available for review under the Company's profile on SEDAR at www.sedar.com. The following disclosure has been updated to include information about the Cerro San Pedro Mine subsequent to the CSP Report. See "Interests of Experts" for details of the Qualified Persons who prepared the CSP Report and approved the following disclosure.

Project Description, Location, Access and Other Information

The Cerro San Pedro Mine is an open-pit gold and silver heap-leach operation located in central Mexico in the state of San Luis Potosí, approximately 400 kilometres north of Mexico City. The property is easily accessible via federal highway and secondary road. Resources are available 20 kilometres away in San Luis Potosí. The mine is operated by the Company's wholly owned subsidiary, Minera San Xavier, S.A. de C.V. ("MSX").

The mineral rights at the Cerro San Pedro Mine consist of 53 mineral concessions (consolidated to 17) covering an area of 7,969 hectares. The mineral concessions begin to expire in December 2036 through October 2058.

All property of the Cerro San Pedro Mine is subject to a first ranking lien in favour of the lenders under the Facility (see "General Development of the Business" for more information). The sole outstanding royalty is a 1.95% gross value royalty owned by Franco-Nevada Corporation.

Cerro San Pedro Mine surface rights are controlled by private parties and ejidos (communal agrarian entities). The Company holds a Temporary Occupancy and Right of Way Authorization for land belonging to ejido Cerro San Pedro, ejido Cuesta de Campa, and ejido Palma de la Cruz, providing surface rights for the life of the mine.

The Company was issued an EIS for the Cerro San Pedro Mine by the Mexican federal agency, SEMARNAT, in February 1999. The EIS was the primary federal permit required for the approval of the proposed mine. The 1999 EIS was nullified and a new one was issued in 2006 following an action brought by a group opposing the Cerro San Pedro Mine. See "Legal Proceedings and Regulatory Actions" for further details.

In August 2011, SEMARNAT approved a new EIS for Cerro San Pedro. Consistent with Mexican regulations, the EIS includes a number of conditions to be monitored and fulfilled through the continued operation and eventual closure of the Mine. The current Mine plan anticipates completion of mining in 2016.

The Cerro San Pedro Mine's climate is semi-arid, with an average temperature of 21 degrees Celsius during summer and 7.4 degrees Celsius during winter. Average precipitation is 350 millimetres per year. The mine is located within the Sierra de Cerro San Pedro which is characterized by moderate to rugged relief with elevations of between 1,800 to 2,300 metres above sea level. The vegetation at the mine consists of various shrubs, mesquite and cactus.

History

Significant historical mineral production from the Cerro San Pedro district occurred during the Spanish Colonial era (up to 500,000 ounces of gold and five million ounces of silver) and during the period 1930-1948 when American Smelting and Refining Company ("Asarco") produced 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 from the La Victoria and Barreno properties.

The 1970s brought renewed interest in the District with exploration campaigns by Geocon, Inc., Bear Creek Mining Company, Compañía Fresnillo and ultimately MSX (a subsidiary of New Gold).

In 1998, MSX executed a 50:50 joint venture agreement with Cambior, Inc. ("Cambior"), which ultimately sold its interest in the property to Glamis Gold Ltd ("Glamis"). In November 2000, Glamis completed a feasibility study for the project which serves as the basis for current operations. In 2003, Metallica acquired Glamis' 50% interest in the project.

Construction of the Cerro San Pedro Mine began in 2004 and commercial production commenced on May 1, 2007. New Gold acquired the Mine in 2008 as a result of its business combination with Metallica Resources.

Geological Setting and Mineralization

The Cerro San Pedro mining district is located within the Parras Nappe section of the Eastern Sierra Madre fold belt. The local stratigraphic section is dominated by Cretaceous age limestones.

The Cerro San Pedro deposit is characterized by an upper zone of gold-silver mineralization associated with secondary limonitic iron oxides and a lower zone of gold-silver-zinc-lead sulphide mineralization hosted by a late Cretaceous to early Tertiary age monzodiorite porphyry. The porphyry intrudes Cretaceous limestones subjected to Laramide folding and faulting. The San Pedro porphyry, as presently defined, is an elongate, wedge-shaped body (1.5 kilometres to 2.0 kilometres long by 200 metres to 400+ metres thick) emplaced along a westerly-dipping system of thrust faults. The complex deformational history of the district is believed to be the primary factor behind the localization of the mineralization.

Both the upper oxide and lower sulphide assemblages occur within a well-developed system of stockwork fracturing and veining in the San Pedro porphyry and along faults and joint sets that extend into the surrounding limestone. The majority of the current Mineral Resource and Reserves are contained within the upper oxide portion of the Cerro San Pedro deposit. A deeper assemblage of higher grade gold, silver, zinc and lead bearing massive sulphide mineralization has been mined previously from underground and is the focus of current exploration efforts at Cerro San Pedro.

Exploration and Drilling

The historic Cerro San Pedro drill hole database includes results from four companies (Bear Creek, Fresnillo, MSX-Metallica, and MSX under the Cambior-Metallica Joint Venture) covering exploration drilling during the period 1982 through 1998. The data comprise 94 core holes and 177 RC holes totalling 16,180 metres and 42,659 metres respectively. Nearly all of these holes (56,612 metres in 266 holes) were drilled by MSX and its immediate predecessor, Minera Metallica Limitada, during the period 1995 through 2002.

The database for the current Resource/Reserve estimate includes gold and silver assay results for approximately 284 drill holes totalling 75,003 metres. The area defined by the Mineral Resource estimate typically has been drilled on 50 metre centers. The current open pit Mineral Reserve generally has been drilled at a spacing approaching 25 metres.

During the period 2008 through 2010, MSX completed 24,178 metres of core drilling in 42 holes and 1,511 metres of RC drilling in seven holes as part of the Cerro San Pedro Sulphide drilling project to explore the gold, silver, zinc and lead sulphide mineralization as it extends beneath the CSP pit toward the historic Asarco mine area. Holes typically have been drilled on 50 to 100 metre centers. The heterogeneous nature of the mineralization has made it difficult to ascertain the true thickness and orientation of mineralization.

The Cerro San Pedro Sulphide drilling project continued during 2011 with 21,000 metres, drilled in 30 core holes, completed during the year. At the end of 2011 an Inferred Mineral Resource estimate of 6.3 million tonnes, averaging 1.83 g/t gold, 94 g/t silver, 3.1% zinc and 1% lead had been defined. The Company's objective during 2012 is to continue exploration drilling to expand the manto sulphide resource beyond its current limits.

Sampling and Analysis

The MSX sampling procedure for core holes drilled prior to 2008 generally involved systematic sampling at two metre intervals. In subsequent drilling, this was increased to three metres in un-mineralized rock and decreased to intervals ranging from 0.5 to 1.0 metres in mineralized rock. The abundance of historic mine workings and related collapse voids in the upper parts of the San Pedro deposit sometimes caused sample recovery problems but the Company made every effort to minimize this by drilling wet, using additives, and employing a center-return hammer bit where appropriate.

Samples from all MSX drilling campaigns were prepared and analyzed in accordance with accepted industry practice. Bondar-Clegg was the laboratory of record for MSX drilling programs prior to 2008. ALS Chemex and SGS Laboratories prepared and analyzed the samples collected during the 2008-2009 drilling program.

The Bondar-Clegg assay procedure involved a standard gold-silver fire assay with an AA finish. Samples reporting above certain limits were re-analyzed for cyanide-soluble gold and were re-assayed with a gravimetric finish. The ALS Chemex assay procedure was a fire assay with AA finish. Silver assays were completed using a 4-acid digest method. Analyses reporting above certain limits were re-analyzed with a gravimetric finish.

During 2008-2011 drilling, all manto and porphyry samples were subjected to gold fire assay and multi-element ICP analysis for silver, zinc and lead, as well as other elements. Analyses were performed by SGS Mineral Services ("SGS"), an independent analytical service provider in Durango, Mexico. Additionally, in the fall of 2009, 1,544 pulps from historic drilling in sulphide or mixed sulphide-oxide zones of significant length were submitted to SGS for multi-element analysis.

Quality control techniques employed during MSX drilling programs have included internal checks by Bondar-Clegg and re-assays by umpire laboratories. For samples collected in 1995 and 1996, the data from the principal and umpire laboratory showed a marked difference for silver assays. The authors of the CSP Report suggested that further review of the discrepancy be undertaken.

The authors of the CSP Report reviewed the data collected as at December 2009, believed it to be free of significant errors, and were satisfied with the adequacy of the sample preparation, security and analytical procedures.

The Company's Cerro San Pedro Sulphide project maintains a QA/QC program using industry best practices that are consistent with the QA/QC protocols in use at all of its exploration and development projects. Key elements of the Company's QA/QC program include chain of custody of samples, regular insertion of certified reference standards and blanks, and duplicate check assays. Drill core is halved and shipped in sealed bags to an independent analytical service provider in Durango, Mexico.

Refer to the CSP Report for specifics of the quality control and data verification programs. As stated in the CSP Report, the data quality was considered adequate for Resource estimation as defined under NI 43-101 and the present protocols for data acquisition and management reasonable.

Metallurgical Testing

Metallurgical testing of high grade manto style sulphide, porphyry hosted sulphide and porphyry hosted mixed oxide-sulphide mineralization continued during 2011. Results of this work indicate favourable recoveries can be achieved through conventional flotation to produce zinc and lead concentrates, followed by cyanide leaching of the flotation tailings to extract any remaining gold and silver. These results will be incorporated into future Mineral Resource estimates and engineering development studies for the project.

Mineral Resource and Mineral Reserve Estimates

The Cerro San Pedro Mineral Resources effective December 31, 2011, are summarized in the "Measured and Indicated Mineral Resource Estimates (Inclusive of Reserves) as at December 31, 2011" and "Inferred Mineral Resource Estimates as at December 31, 2011" tables. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Resources".

The CSP Mineral Reserves, effective December 31, 2011, are summarized in the "Mineral Reserve Statement – as at December 31, 2011" table. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Reserves".

Mining Operations

Mining Methods

The Cerro San Pedro Mine is an operating open pit mine. Ore is processed by heap leaching in a Merrill-Crowe circuit that recovers both gold and silver. In 2011, mine production was a nominal 91,000 tonnes per day of total material, including a nominal 46,000 tonnes per day of ore. Mining is performed through a conventional truck/loader open pit mining method provided by a mine contractor. Run of mine ore is hauled directly to the leach pad for processing.

Recovery Methods

Mineral processing is by heap leach. At the leach pad, a weak cyanide solution is applied to dissolve the gold and silver. The pregnant solution is collected in the Merrill-Crowe plant where zinc is added to precipitate gold and silver. The precipitate is collected and sent to a furnace where impurities are removed and doré bars poured. Average life-of-mine recovery is estimated to be 54% gold and 21% silver.

Markets and Contracts

Doré is shipped from site to a refinery where the silver and gold are further refined to bullion. Gold is subsequently sold to bullion banks on the spot market when outturned at the refinery.

Environmental Conditions

In March 2008, PROFEPA conducted a complete review of the CSP Mine and issued a report that MSX was in substantial compliance with the terms of the Environmental Authorization.

Closure activities are the principal remaining regulatory hurdle. The schedule for completing the closure activities is dictated by the Environmental Authorization; specifically, the site reclamation must be completed within four years of final processing. Total undiscounted closure cost liability as at December 31, 2011 is estimated to be $19.4 million. New Gold expects to incur this obligation between 2012 and 2024.

Economic Analysis

The Cerro San Pedro Mine is projected to conclude operations in 2016 based upon current reserves and metals prices of $1,200 per ounce gold and $2(per ounce silver.

The Mine produced 143,700 ounces of gold and 1,989,300 ounces of silver in 2011 at total cash costs net of by-product sales of $115 per ounce. For 2012, Cerro San Pedro is expected to produce 140,000 to 150,000 ounces of gold and 1.9 to 2.1 million ounces of silver at total cash costs per ounce sold, net of by-product sales, of $250 to $270 per ounce. Total cash costs assume a $30 per ounce silver price and foreign exchange rate of 13.00 Mexican pesos to one U.S. dollar.

Mine revenues are subject to Mexican income taxes at a rate of 28%.

Exploration and Development

During 2011 the Company continued the Cerro San Pedro Sulphide exploration program with the completion of 30 core holes totalling approximately 21,000 metres. The results of this drilling have been incorporated into the Company's Mineral Resource Estimate as at December 31, 2011 provided earlier.

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 ("Peak Report"), as amended and restated on June 12, 2009. The Peak Report is available for review under the Company's profile on SEDAR at www.sedar.com. The following disclosure has been updated to include information about the Peak Mine subsequent to the Peak Report. See "Interests of Experts" for details of the Qualified Persons who prepared the Peak Report and approved the following disclosure.

Project Description, Location, Access and Other Information

Peak Gold Mines is located within the Cobar mining district approximately 600 kilometres northwest of Sydney and eight kilometres south of the town of Cobar in New South Wales (NSW), Australia. The property is accessible from Sydney via 700 kilometres of highway and eight and a half kilometres of secondary and private roads. Limited resources are available at Cobar and more generally available at Dubbo, 300 kilometres to the east. The mines are operated by Peak Gold Mines Pty Ltd ("PGM"), a subsidiary of the Company.

The Peak Gold Mines comprise five commercially active mines and a copper-gold processing plant. The deposits, all currently mined from underground, include, from south to north, the Perseverance, Peak, New Occidental, Chesney and New Cobar. The Peak, New Occidental and Perseverance ore bodies are accessed via a shaft and surface decline located at the Peak site. The New Cobar and Chesney ore bodies are accessed via a decline near the base of the New Cobar open pit. The Peak site hosts the processing facility and administration buildings.

Peak Gold Mines' mineral rights consist of approximately 86,110 hectares of mining leases and exploration licenses, including 33,832 hectares subject tc option agreements. The exclusively owned rights include four consolidated mining leases covering the Tharsis to Peak Gold Mine area, the Coronation-Beechworth area and Queen Bee area; and a mining lease, mining purposes lease and four exploration licenses. The option agreements are with Zintoba Pty Ltd. on exploration lease EL 5982 and with Lydail Pty Ltd. on exploration lease EL 6127. Peak Gold Mines has earned a 75% interest in both of these exploration licenses.

All property of Peak Gold Mines is subject to a first ranking lien in favour of the lenders under the Facility (see "General Development of the Business" for more information). Peak Gold Mines is required to pay a production royalty to the Department of Primary Industries. The net effective rate is 3% of metal sales value.

Peak Gold Mines' climate is semi-arid, with an average maximum temperature of 33 degrees Celsius during summer and 16 degrees Celsius during winter. In years of normal rainfall average precipitation is approximately 416 millimetres per year. The landscape is mainly flat, composed of sandy plains with minor undulations. The mine is named after the "Peak", a small conical hill 324.3 metres above sea level, which has the Peak deposit located at its southern base. The vegetation at the mine consists largely of semi-arid low woodland, with minor seasonal creeks and rivers lined by taller eucalypt species.

History

There has been sporadic gold mining in the Cobar mining district since the 1870s. Notable activity prior to the mid-1900s was limited to the New Occidental Mine which produced 700,000 ounces, of gold between 1935 and 1952.

Various companies conducted exploration in the district from the late 1940s to 1980. In 1980, Rio Tinto plc. acquired the New Occidental, New Cobar and Chesney mines. The Peak gold deposit was discovered in 1981 and PGM was formed in 1987 to develop the deposit. Commercial production commenced at the Peak gold Mine in 1992.

In July 2000, the New Occidental deposit was approved for development. The Perseverance deposit was approved for development in December 2001. The New Cobar open pit became operational in 1998 and operated until 2005. In 2005, a decline was completed from the New Cobar open pit to access reserves beneath the pit.

Statistics for the Cobar district through 2008 show total production of 3.3 million ounces of gold, 103 million ounces of silver and 389 million pounds of copper.

Geological Setting and Mineralization

The Cobar Gold Field ("CGF") is located on the eastern margin of the Early Devonian Cobar Basin. The Cobar Basin comprises predominantly siliciclastic (quartz-rich) turbidites of the Cobar Supergroup.

PGM's mines occupy a 10 kilometre section of the regional Rookery Fault shear zone along the eastern margin of the Cobar sedimentary basin. The mineral deposits are structurally controlled vein-style lodes developed at dilational flexures along shears and fault splays of the Rookery Fault. Individual deposits occur as steeply dipping, lens-shaped bodies 100 to 300 metres long, up to 20 metres wide, and more than 1,200 metres deep. Gold and copper (plus subordinate lead and zinc) mineralization occurs within zones of extensive silicification and chloritic alteration. The deposits typically are more gold-rich in the south (e.g., Perseverance, Peak and New Occidental) and more copper-rich in the north (e.g., Chesney, New Cobar and Great Cobar).

Exploration and Drilling

The Company has conducted exploration in the CGF for more than 20 years. Exploration techniques have included geologic mapping, geochemical and geophysical surveys and surface and underground drilling. Specifics on the Company's historical exploration programs dating back to 2000 can be found in the Peak Report.

During 2011, the Company completed 48,142 metres of underground exploration and delineation drilling in 332 holes around four of its five mines. Results were incorporated into the Company's updated Mineral Resource estimate for 2011. Exploration activities more than replaced Reserves mined during the year. Additionally in 2011, the Company completed 9,897 metres of reconnaissance drilling in 38 holes drilled on multiple targets within the greater region. Further evaluation of these targets is anticipated.

All drilling is performed by independent contractors under the direct supervision of the Company. The reader is referred to the Peak Report for specific drilling procedures. All near-mine drill-hole collars are surveyed by the mine surveyors. Underground drill holes are subject to down-hole surveys as drilling progresses.

During 2012, the Company will continue to conduct underground exploration and delineation drilling to expand the Mineral Resources around its existing mines and surface exploration drilling on targets identified within the Company's greater mineral exploration tenures which cover more than 70 kilometres of prospective terrain along the Rookery Fault trend.

Sampling and Analysis

Records of sampling and analysis methods employed during pre-1980 drilling campaigns are not readily available. The reader is referred to the Peak Report for specifics on sampling and analysis during post-1980 historical drill campaigns.

PGM currently samples core using one metre intervals. RC holes are sampled using face-sampling hammers to minimize sample contamination from drill hole walls. An RC sample may ultimately comprise a one, two or four metre composite, depending on the resolution required. All samples are stored securely and are collected daily by a representative of the assaying laboratory. The authors of the Peak Report consider the core and RC sampling methods reasonable for the style of mineralization and consider the samples representative and free of sampling-introduced bias.

Samples are submitted to SGS Cobar for preparation and analysis according to accepted industry standards. The remaining pulps are returned to PGM for storage. All drill samples are analyzed for gold, copper, lead, zinc, silver and bismuth.

Current site QA/QC practices includes routine use of: certified standards and blanks; replicate and duplicate samples; laboratory standards and blanks; calibration of density recording equipment; umpire laboratories; check assays; and field duplicates. Refer to the Peak Report for a detailed discussion of the results for each type of QA/QC. Data are automatically subjected to QA/QC validation as part of the drilling database loading process and flagged if outside acceptable limits.

Refer to the Peak Report for specifics of the quality control and data verification programs. As stated in the Peak Report, the data quality was considered adequate for Resource estimation as defined under NI 43-101 and the present protocols for data acquisition and management reasonable.

Mineral Resource and Mineral Reserve Estimates

The Company currently has five deposits with economic Mineral Reserves and Resources and a sixth deposit with undeveloped Mineral Resources within the Cobar gold field. The deposits, from south to north, are Perseverance, Peak, New Occidental, Chesney, New Cobar and Great Cobar.

Peak Gold Mines Mineral Resources inclusive of Mineral Reserves and Ore Reserves, effective December 31, 2011, are summarized in the "Measured and Indicated Mineral Resource Estimates (Inclusive of Reserves) as at December 31, 2011" and "Inferred Mineral Resource Estimates as at December 31, 2011" tables. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Resources".

Peak Gold Mines Mineral Reserves, effective December 31, 2011, are summarized in the "Mineral Reserve Estimates – as at December 31, 2011" table. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Reserves".

Mining Operations

Mining operations at PGM comprise four distinct underground zones and ore stockpiled from the completed open pit operation at New Cobar. Current mining is from zones contiguous with, or near, mined out areas.

Mining Methods

At Peak, Perseverance, New Occidental and New Cobar, the mining is done by bench stoping. At Chesney a combination of bench stoping and open stoping is planned. Mining progresses from bottom up in each panel. Drifts are driven along strike in the ore on each level, a slot is developed and ore is blasted into the void. Ore is extracted, and waste rock is used to backfill the void.

Footwall or hanging wall drives are developed in ore bodies of long strike lengths and widths greater than eight metres. Waste rock is introduced to the mined out section for stability and to reduce the need for pillars. Cemented Rock Fill is under investigation as a potential method to assist in mining wide, high value zones.

Recovery Methods

Ore from Peak, Perseverance and New Occidental is crushed underground and hoisted to a surface stockpile and ultimately to the SAG mill feed conveyor. Ore from New Cobar and Chesney is hauled to Peak where it is fed onto the SAG mill feed conveyor via a separate bin.

Gold and silver are recovered in a gravity circuit with Knelson concentrators, further concentrated in an intensive leach reactor, electrowon and sludge smelted in a gas-fired furnace to produce gold doré bars. Gold, silver and copper are also recovered as a copper concentrate in a conventional flotation circuit. The flotation concentrate is thickened, dewatered and stockpiled prior to transporting to the smelter. A third method of gold and silver recovery is by cyanidation in a tank leach circuit. The resulting sludge is smelted into gold doré bars. Metal recoveries are approximately 90% and 87% for gold and copper respectively.

Markets and Contracts

Copper concentrate is sold to one customer under an agreement which has a term expiring at the end of 2014. The copper concentrate contains copper, gold and silver. Doré is refined under a contract with one customer.

Environmental Conditions

PGM has a responsibility under state law to rehabilitate areas of historic and current mining activities on its leases to an agreed end land use. A closure plan is updated yearly. Total undiscounted closure cost liability as at December 31, 2011 is estimated to be $26.1 million. The Company expects to incur this obligation between 2012 and 2021.

Economic Analysis

The projected life of the Peak Gold Mines extends beyond 2019 based on ore reserves plus a portion of the Mineral Resource. Economic projections assume a gold price of $1,300 per ounce and a copper price of $2.75 per pound for the life of mine.

PGM operations produced 85,400 ounces gold and 12.7 million pounds copper in 2011 at total cash costs per ounce sold, net of by-product sales, of $625 per ounce. Production is expected at approximately 90,000 ounces of gold and 12 million pounds of copper in 2012 at slightly higher total cash costs.

Taxes levied on the proceeds of PGM operations include: Australian federal income taxes at a 30% rate, after eligible deductions; New South Wales state tax at 3% of gross revenue, before treatment charges and all other costs; and payroll tax of approximately 6%.

Exploration and Development

Exploration in 2012 will concentrate on increasing the Mineral Resources at Perseverance, New Cobar and Chesney. Near mine exploration of satellite targets around known deposits will continue, as will evaluation of 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 ("New Afton Report"). The New Afton Report is available for review under the Company's profile on SEDAR at www.sedar.com. The following disclosure has been updated to include information about the New Afton Project subsequent to the New Afton Report. See "Interests of Experts" for details of the Qualified Persons who prepared the New Afton Report and approved the following disclosure.

Project Description, Location, Access and Other Information

The New Afton copper-gold development-stage project is located approximately 350 kilometres northeast of Vancouver in the south-central interior of British Columbia. The property is only 10 kilometres from the regional hub of Kamloops and is easily accessible by paved road.

The New Afton Project occupies the site of the historic Afton Mine, a previous operation of Teck Resources Limited ("Teck"), and includes an open pit, underground workings, historic support facilities, a new concentrator and recently constructed tailings facility. The New Afton deposit extends to the southwest from immediately beneath the Afton Mine open pit. New Afton's commercial production is scheduled for August 2012. The underground operation is expected to produce, on average, 85,000 ounces of gold and 75 million pounds of copper per year over a 12-year mine life.

The Company's holdings in the Project area comprise the Afton Group and the Ajax Group. The New Afton deposit lies within the Afton Group. The Afton Group consists of 61 mineral claims included in a mining lease issued by the Ministry of Energy, Mines and Petroleum Resources on November 29, 2006 (the "Afton Mining Lease"). The total area of the Afton Mining Lease and all other claims is 12,450.4 hectares.

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.

Two First Nations, the Tk'emlúps te Secwépemc and the Skeetchestn Indian Band (the "Bands"), have asserted aboriginal rights and interests in the project area. A formal agreement between the Bands and New Gold dated March 20, 2008, and amended March 30, 2011 (the "Participation Agreement") provides 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, New Gold is obligated to pay into a socioeconomic trust created for the benefit of Band members. The Company's 2011 obligation in this regard was C$500,000. Furthermore, 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 per 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 per pound in a given year, this payment will increase to 2% of NSR for that year.

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).

The New Afton Project is located in the rain shadow of the Coast Mountains with average precipitation of 257 millimetres per year (of which 175 millimetres is rainfall). The project has a continental, semi-arid climate, with light winter snow and infrequent rain during the spring and fall. Summer temperatures can reach 38 degrees Celsius and winter temperatures are generally at or near freezing. The project's landscape is characterized by hilly terrain and dispersed, small water bodies with a surface elevation of 700 metres above sea level. Vegetation at the project consists of open grasslands and sparse pine forests.

History

The first significant mining-related activity in the Afton area commenced in 1970, when drilling by Afton Mines Ltd. intercepted 170 feet of 0.4% copper in what ultimately became the Afton deposit. During 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. Mining took place at the Afton, Crescent, Pothook, and Ajax pits. The mine closed in 1997.

In 1999, the Company acquired an option on the property, staked additional claims, and carried out surface drilling in the New Afton deposit. In 2001, the Company completed a Scoping Study followed by further definition drilling. An Advanced Scoping Study was completed in 2004.

The Company commissioned a Feasibility Study in 2005. The study, completed in 2007, contemplated a block cave mine and conventional grinding/flotation mill operation with a daily throughput of 11,000 tonnes.

Geological Setting and Mineralization

The Afton deposits are copper-gold silica-saturated, alkalic porphyry systems situated within the Iron Mask batholith complex. The Iron Mask complex is part of the Paleozoic island-arc assemblage known as the Quesnel Terrane. Regional-scale fault zones are believed to be the principal control to intrusion of the batholithic rocks and the mineralization processes in the New Afton area.

The hypogene mineralization at New Afton is dominated by fine-grained disseminated chalcopyrite. 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 rare. 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 spanning a vertical distance of approximately 350 metres. The zone dips vertically to steeply south-southeast. Two subsidiary satellite bodies occur to the northeast of the Main Zone.

Faulting subsequent to the mineralizing event has reshuffled portions of the deposit in a manner not fully understood, resulting in truncation and displacement of the mineralized zone along a hanging wall fault. The ground conditions in the vicinity of the fault are poor, hampering efforts to drill through it. As a result, drill information on the hanging wall side of the fault is limited.

Exploration and Drilling

In November 2004, an underground access portal was excavated in the former Afton open pit and a ramp driven 2,200 metres to provide access for underground sampling, infill drilling, and further exploration drilling.

In late 2005, New Gold contracted 1,323 line-kilometres of airborne electromagnetic surveying of the Afton and Ajax claims. Tensor Magnetotelluric, DC Resistivity and Induced Polarization surveys totalling 34.5 line–kilometres were completed in 2008.

In addition to the work at Afton, New Gold has carried out relatively small exploration programs on the Ajax Group, located approximately seven kilometres to the southeast of the Afton pit. The results of these programs are described in the New Afton Report.

All drilling completed at the New Afton Project as at the date of the New Afton Report has been diamond core drilling, conducted in a series of programs from 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. The details regarding specific drilling programs are available in the New Afton Report. According to the New Afton Report, the drilling and core handling protocols are consistent with common industry practice and are appropriate for the Project.

During 2011, the Company completed an airborne geophysical survey its mineral claim holdings as they extend northwest from the New Afton Project. The results of this work will be used to support ongoing exploration of the New Afton district in the future.

In 2012, the Company will initiate an underground drilling program to test the potential to expand the C-zone Mineral Resource located below the main zone reserve currently under development, and continue regional scale reconnaissance of its mineral claim holdings around the New Afton Project to identify new targets for exploration drilling.

Sampling and Analysis

Sampling protocols have varied among the different drill campaigns. Sampling intervals were predominantly two to three metres during 2000-2003 and two metres in subsequent programs. Routine insertion of blanks and standards into the sample stream has been conducted since 2005. A program of randomly selected check samples during the 2000-2003 drilling correlated well with originals.

Sample preparation has been conducted according to accepted industry practice. All analytical work has been conducted by Eco Tech Laboratories Ltd. (Eco Tech) of Kamloops, British Columbia. Analytical procedures for samples collected during the 2000-2003 drilling programs included conventional fire assay with an AA or ICP finish for gold and palladium, and AA for copper and silver. During 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.

Starting in early 2007, New Gold began to build a database of potentially undesirable elements via ICP analysis of every fifth sample.

Refer to the New Afton Report for specifics of the quality control and data verification programs. As stated in the New Afton Report, the data quality was considered adequate for resource estimation as defined under NI 43-101 and the present protocols for data acquisition and management reasonable.

Mineral Resource and Mineral Reserve Estimates

The New Afton Mineral Resources inclusive of Mineral Reserves, effective December 31, 2011, are summarized in the “Measured and Indicated Mineral Resource Estimates (Inclusive of Reserves) as at December 31, 2011” and “Inferred Mineral Resource Estimates as at December 31, 2011” 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 Estimates – as at December 31, 2011" 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 the authors of the New Afton Report.

The authors of the New Afton Report prepared an independent audit of an updated Mineral Resource block model prepared by the Company in 2010. The New Afton Mineral Resource Estimate is based on a copper-equivalent cut-off of 0.4%, as supported by the present financial model for the mine.

Several concerns regarding the approach taken to determine the Mineral Resource were identified by Roscoe Postle Associates, Inc. in the New Afton Report. Uncertainties in the interpretation of mineralized zone boundaries resulted in the use of a grade shell approach to grade interpolation. The authors of the New Afton report recommend replacing the grade shell with wireframes based on geological characteristics. They also found the assay database for undesirable elements insufficiently robust for block modeling purposes and recommended additional analytical work to determine undesirable elements.

Mining Operations

Mining Methods

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. The deposit has been partitioned into three zones. The two nearest the surface are expected to cave readily and will provide the initial mine production. The deeper block may require assistance in cave development.

An undercut and extraction level will be developed at each block. Ore will be hauled to ore passes and dropped to a tramming level for transport to the crusher. Ore from the deeper 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.

Recovery Methods

The New Afton mill is designed to process 11,000 tpd (4 Mtpa) of ore at full capacity, recovering copper, gold, and silver. The mill will process a blend of primary, transition and supergene ores using conventional crushing, grinding, and concentration processes. Mineral separation will be by gravity concentration and differential flotation. A regrinding stage will be included in the flotation circuit. Life-of-mine recoveries are expected to total 88% copper, 87% gold and 75% silver.

Markets and Contracts

The New Afton Project's principal commodities are copper concentrates containing copper, gold and silver. Off take agreements are in place for 100% of projected concentrates over the next several years.

Environmental Conditions

On October 31, 2007, the Ministry of Energy, Mines and Petroleum Resources issued Mine Permit M229 approving the work system and reclamation program for the New Afton Project. The Mine Permit obligates New Gold to post reclamation security totalling C$9.5 million. As at December 31, 2010 the Company has posted this in the form of an irrevocable standby letter of credit. The undiscounted closure cost liability as at December 31, 2011 is estimated to be $13.1 million. New Gold expects to incur this obligation between 2012 and 2029.

Economic Analysis

The New Afton Project is expected to begin commercial production in August 2012. It has a current projected life of 12 years based upon current reserves and metals prices of $1,200 per ounce gold, $20 per ounce silver, and $2.50 per pound copper.

New Afton is expected to produce an estimated 75 million pounds of copper and 85,000 ounces of gold on average annually. The LOM operating cost is estimated to be approximately $20.00 per tonne milled. The resulting life-of-mine average total cash costs are expected to be ($1,750) per ounce of gold net of copper by-product credits (assuming $3.50 per pound and a parity foreign exchange rate) or, on a co-product basis, approximately $525 per ounce of gold and $1.15 per pound of copper.

Total project development costs as updated at year end 2011 are expected to be C$765 million. The Company spent $291 million, excluding capitalized interest, during 2011. The Project's estimated undiscounted after-tax cash flow on a stand-alone basis totals C$707 million over the mine life. Simple payback is expected to be achieved after approximately 4.5 years. The after-tax NPV at a 5% discount rate is estimated to be C$374 million and the internal rate of return ("IRR") is estimated to be 19%.

The taxes applicable to the New Afton Project include the BC provincial income tax at a rate of 10.5% and federal income tax at a rate of 15%. Commencing in 2012 the New Afton Project will be subject to British Columbia mineral taxes as legislated by the *Mineral Tax Act* (British Columbia). The British Columbia mineral taxes are essentially a two-tier tax with companies initially subject to net proceeds tax of 2%, eventually transitioning to net revenue tax of 13% with a corresponding credit for the net proceeds tax.

Exploration and Development

Caving and stockpiling of ore began during the third quarter of 2011. At year end, 300,000 tonnes of ore had been stockpiled. The stockpile is expected to reach 900,000 tonnes (a three-month production supply) by 2012 start-up.

Mine development will continue until and after the commencement of production. The development of the deepest 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 mine is expected to reach its full mining rate of 11,000 tonnes per day by year-end 2012.

Completion of underground development at New Afton will allow for further exploration of the "C-Zone" located beneath and to the side of the New Afton reserve block. The Company has budgeted $5 million for New Afton exploration during the second half of 2012.

BLACKWATER PROJECT, CANADA

The following disclosure relating to the Blackwater Project is based, in part, on information derived from the technical report entitled "Technical Report, Blackwater Gold Project, Omineca Mining Division, British Columbia, Canada", dated March 23, 2012 ("Blackwater Report"). The Blackwater Report is available for review under the Company's profile on SEDAR at www.sedar.com. See "Interests of Experts" for details of the Qualified Persons who prepared the New Afton Report and approved the following disclosure.

Project Description, Location, Access and Other Information

The Blackwater Gold Project is located in central British Columbia approximately 110 kilometres southwest of the town of Vanderhoof and 446 kilometres northeast of Vancouver. Access is by forest service and mine road, or by helicopter. The project area lacks infrastructure other than roads. Services are available in Vanderhoof or at the regional hub of Prince George, 82 kilometres east of Vanderhoof.

The Company acquired the property via its June 2011 acquisition of Richfield and December 2011 acquisitions of Silver Quest and Geo. Richfield acquired the Blackwater property through option agreements with Silver Quest and from private individuals in early 2009.

The Blackwater property comprises 64 mineral claims, 61 of which are 100% owned by the Company with the remaining three subject to an option by the Company to acquire a 100% interest in mineral claims. The total area of the project tenures is approximately 252.4 square kilometres.

The Project is situated within the asserted traditional territories of several First Nations, including the Lhoosk'uz Dene (also known as Kluskus), Ulkatcho, and Nazko. In late 2011 and early 2012, New Gold entered in agreements with the Lhoosk'uz Dene Nation and the Ulkatcho First Nation to promote a cooperative and mutually respectful relationship concerning proposed exploration work in the area of the Project. Pursuant to the terms of these Agreements, these First Nations consented to the issuance of authorizations and approvals for the exploration work.

In order to keep its claims in good standing, the Company must annually perform a minimum value of work or pay cash-in-lieu equal to $4 per hectare in the first three years of tenure and $8 per hectare thereafter.

The Blackwater Project is located on the northern flank of Mt. Davidson on the Nechako Plateau. The project's climate is characterized by brief, warm summers with long cold winters. The area receives average precipitation of 33 centimetres per year and temperatures range from minus 40 degrees Celsius in winter to 32 degrees Celsius in summer. The exploration period is between mid-June and late October, however year round diamond drilling is possible given a suitable supply of water and a winterized camp. The project's landscape is characterized by rolling north to northwest trending hills cut by small to medium sized drainages. Elevations on the property range from 182 to 490 metres above sea level. Vegetation in the project area is balsam fir and white spruce with lodgepole pine.

Property Agreements

As a result of New Gold's acquisitions of Richfield, Silver Quest and Geo, the Company has inherited the terms of the following agreements.

In November, 2010, Richfield acquired a 100% interest in the Dave Property from five private individuals. The Optionors retain a 2.5% NSR royalty, of which the Company may purchase 1% for C$1,000,000.

In March 2011, Richfield acquired a 100% interest in the Jarrit Property from four private individuals. The Optionors retain a 2% NSR royalty, of which the Company may purchase 1% for C$1,200,000.

In January, 2011, Richfield acquired an option to earn a 100% interest in three mineral tenures from four private individuals by making cash payments totalling C$75,000 and incurring an aggregate $600,000 in exploration expenditures within two years of TSX Venture Exchange acceptance of the agreement. The Optionors retain a 3% NSR royalty, of which the Company may purchase 2% for C$1,000,000.

In April 2005, a predecessor company of Silver Quest entered into an option agreement to earn a 100% interest in three mineral tenures ("Got Option") from a private individual. The terms of the Got Option were subsequently fulfilled and Silver Quest acquired a 100% interest in the relevant mineral tenures. The Optionor retains a 2% NSR royalty, which the Company may purchase at any time for C$2,000,000.

In September 2011, Geo acquired a 100% interest in mineral tenure 835014 from a private individual. The Optionor retains a 2% NSR royalty, of which the Company may purchase 1% for C$1,000,000.

Environmental Liabilities and Permits

New Gold is carrying out its exploration activities at the Blackwater Gold Project pursuant to Notice of Work and Reclamation No. MX-13-177, which expires on December 31, 2015. In accordance with the Notice requirements, New Gold has provided a letter of credit in the amount of $250,000 as at December 31, 2011 to the Ministry of Energy and Mines to secure its reclamation obligations.

History

The mineral potential of the Blackwater property was discovered by Granges, Inc. in 1973 during a regional geochemical survey. A range of geophysical surveys was conducted during the period 1973 – 1985. Drilling commenced in 1981. By 1994 Granges had drilled 7,878 metres in 70 holes.

Silver Quest drilled an additional 1,333 metres in 2005-2006. The focus of the work through 2006 was on high grade vein targets which, at the time, were the only known gold targets in the Nechako Plateau.

Richfield's Blackwater Gold Project began in 2009 when the bulk gold potential of the property was recognized. New Gold acquired the property through its acquisition of Richfield in June 2011, and further consolidated its ownership position with the acquisition of Silver Quest and Geo in December 2011.

Geological Setting and Mineralization

The Blackwater property lies within a structurally raised block called the Nechako Uplift, which juxtaposes older Jurassic arc-related rocks (Hazelton and Bowser Lake groups) with younger Eocene extensional-related rocks (Ootsa Lake and Endako groups). The uplift provides a direct window into the volcanic, volcaniclastic, and sedimentary rocks of the Hazelton and Bowser Lake groups. Late Cretaceous felsic plutons locally intrude the Hazelton and Bowser Lake rocks. The Eocene Ootsa Lake and Endako groups overlie the older volcanic and intrusive rocks. The entire package is capped by basalts of the Chilcotin Group. Quaternary glacial, colluvial and fluvial deposits obscure most of the bedrock within the immediate project area.

The project site is underlain by intercalated volcanic and volcaniclastic felsic to intermediate tuff, volcanic breccia, and andesitic flows belonging to the Hazelton Group. These rocks form a local wedge of stratigraphically chaotic and laterally discontinuous strata believed to dip generally northwest. Steeply dipping faults bound the wedge to the west and to the south suggesting that the Blackwater block is a horst or high standing remnant.

Low-grade, disseminated gold and silver mineralization at Blackwater occurs in the previously described wedge of volcanic rocks. The mineralization extends at least 1,200 metres in an east-west direction and at least 700 metres in a north-south direction. The presently defined zone is up to 400 metres thick and occurs at relatively shallow depth. The rocks are extensively hydro-fractured, silicified and shot through with fine-grained pyrite and other sulphide minerals (primarily pyrrhotite, sphalerite, and chalcopyrite). Gold mainly is associated with the sulphide minerals and occurs as grains between 5 and 50 microns across.

Exploration and Drilling

The considerable data collected on the property since its discovery in 1973 by various operators includes the results of a soil geochemical survey, ground total magnetic field survey, and an IP survey carried out as part of the pre-Richfield work. These data have been digitized, synthesized and re-interpreted to help guide the current work on the property.

During 2010, Richfield contracted a 17.5 line-kilometre deep-focus Induced Polarization (IP) survey on five 3.5 kilometre long north-south lines spaced 400 metres apart. The correspondence between chargeability and known mineralization is used to guide drilling.

Drilling at the Blackwater Project began in 1981 and continued through 2006 under various operators as summarized under “History”. Further details of the historical drilling campaigns are available in the Blackwater Report. Holes drilled subsequent to 1986 were reviewed and re-logged by Richfield geologists.

Richfield began drilling at Blackwater in August 2009 and during that year drilled 18 holes for a total of 3,369 metres. In 2010, Richfield drilled an additional 58 holes for a total of 21,586 metres. At the end of 2010 Richfield’s drilling had delineated a large, irregularly shaped, low grade gold-silver deposit at least 1,200 metres long, 700 metres wide and typically 300 to 400 metres thick.

Drill holes completed in 2011 through to February 2012 include 184 drill holes totalling 64,897 metres completed by New Gold and predecessor company Richfield. Total core drilling since 1985 is 115,444 metres in 318 holes.

An updated Indicated and Inferred Mineral Resource estimate announced March 7, 2012 represents drilling results through December 2011. It estimated an Indicated Resource of 5.5 million ounces of gold and an Inferred Resource of 2.3 million ounces of gold at a 0.4 gram per tonne cut-off grade. Refer to the Company’s Mineral Resource Estimates for further details.

During 2012, the Company intends to drill approximately 500 holes totalling over 200,000 metres at the Blackwater Project. Objectives of the program include: a drilling program to explore and delineate the Blackwater Mineral Resource to Measured and Indicated classification to support a feasibility study in 2013; an exploration drilling program to test the mineral potential of adjacent areas being considered for future site facilities and infrastructure; and a reconnaissance drilling program to test other targets within the Company’s greater mineral properties comprising the Blackwater Project. The Company will also conduct a property-wide surface reconnaissance program to identify new exploration targets for future drill testing during 2012.

Sampling and Analysis

Information on sampling and analytical procedures is not readily available for historical drilling programs. The following information applies to New Gold’s drilling program, unless otherwise specified.

New Gold maintains a QA/QC program at the Blackwater Project using industry best practices that are consistent with the QA/QC protocols in use at all of its exploration and development projects. Key elements of New Gold’s QA/QC program include controlled chain of custody of samples, regular insertion of certified reference standards and blanks, and duplicate check assays. Drill core is halved and shipped in sealed bags to ALS Global, Vancouver, British Columbia, where it is analyzed for gold and silver along with a suite of other elements. Gold analyses are performed via fire assay/AA finish methods and silver analyses are performed via ICP. ALS Global is an independent, ISO accredited and registered analytical services provider. Eco Tech was the primary analytical laboratory. Acme Analytical Laboratories Ltd. in Vancouver, British Columbia. was used for re-checks. Multi-element analyses (28 elements) were conducted via an aqua-regia digest and ICP Optical Emission Spectrometer finish. Gold analyses were performed using fire assay with an AA finish.

QA/QC practices during Richfield’s drilling programs included insertion of a standard sample, a blank sample, or a duplicate sample into the sample stream every tenth sample. Results of these analyses were deemed to be within acceptable limits. However, the certified gold grades of the standards used in recent programs were found to be too high at nearly twice Blackwater’s average grade. It has been recommended that more appropriate standards be employed going forward.

Refer to the Blackwater Report for specifics of the quality control and data verification programs. As stated in the Blackwater Report, the data quality was considered adequate for Resource estimation as defined under NI 43-101 and the present protocols for data acquisition and management reasonable.

Metallurgical Testing

Metallurgical testing on samples from the Blackwater Project was carried out on composites comprised largely of samples taken from four metallurgical drill holes drilled in 2010-2011 as well as from up to 85 resource drill holes. Whole core samples were used from the metallurgical drill holes and quarter core for the resource drill hole samples. Test composites were generally defined by lithology and oxidation state. The work was carried out in late 2011 and early 2012 at a number of commercial metallurgical laboratories, including SGS in British Columbia, G&T in British Columbia, Dawson Metallurgical Laboratories in Utah and McClelland Laboratories in Nevada. Testing demonstrated that the Blackwater ore is non-refractory and amenable to extraction by conventional gold processing technologies.

Metallurgical testing was designed to investigate metallurgical response to three main flowsheets: direct cyanidation, flotation and heap leaching. Results from 64 tests at different conditions showed that the samples responded well to direct whole ore cyanidation tests on oxide, transition and sulphide ores with gold and silver recoveries ranging from 87%-92% and 55% –60% respectively. Testwork on sulphide ores also showed that the samples responded well to bulk sulphide flotation followed by regrinding and cyanide leaching of the concentrate, with gold and silver recoveries averaging 85% and 40% respectively from 30 tests at different conditions. Only two flotation tests were carried out on oxide and transition samples, which indicated gold recoveries in the range 50%-78%. Further flotation test work will be focused on the transition ore, to characterize the metallurgical response of this material.

Grinding characterization test work was carried out, generating JKSimmet (JKS) and Bond data. The results suggest that the sulphide ores can be described as moderate to hard with an average JKS axb parameter of 38 and Bond Ball work index of 16.6 kWh/t.

The composites were also subjected to direct gravity concentration and indicated that the ore is amenable to gravity concentration with results in line with the previous testing carried out in early 2010 by the Metallurgical Division of Inspectorate Exploration and Mining Services Ltd. in Richmond, British Columbia.

The current metallurgical test work program is in the process of completion and an additional program is due to commence in mid-2012 to provide further understanding of ore hardness, gold and silver recovery confirmation and variability testing through the ore body.

Mineral Resource and Mineral Reserve Estimates

The Blackwater Mineral Resources, effective December 31, 2011, are summarized in the “Measured and Indicated Mineral Resource Estimates as at December 31, 2011” and “Inferred Mineral Resource Estimates as at December 31, 2011” tables. Updated Indicated and Inferred Mineral Resource Estimates as at March 7, 2012 are also summarized. See “Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates – Mineral Resources”.

Analytical and lithologic data from 218 core holes (67,848 metres) were used to develop the December 31, 2011 resource model. The March 7, 2012 Mineral Resource update incorporates the results of 43 additional holes, totalling 21,612 meters. The Blackwater Project Mineral Resource now includes all drilling results through the end of December 2011 and is based on 261 holes totalling 89,460 meters. Only assays received between January 1, 2009 and December 31, 2011 were used for grade interpolation. Resource estimation was constrained by a combination of three-dimensional geologic domains models and grade shells developed from geological and analytical data. Grade estimation for the current Resource estimate dated March 7, 2012, utilized the ordinary kriging method based on five metre sample composites. Prior to compositing, gold grades were capped at 22 to 33 g/t according to geologic domain. Silver grades were capped at 50 g/t. The Mineral Resource is reported within a Lerch-Grossman optimized pit shell based on a gold price of $1300 per ounce. The density values assigned to the main lithologies were based on 7,705 bulk density measurements. The applicable cut-off grade is 0.4 g/t gold.

Exploration and Development

Activity at the Blackwater Project in 2012 is expected to include approximately 210,000 metres of drilling, further camp and infrastructure upgrades, finalization of a second exploration participation agreement with local First Nations, and initiation of the environmental assessment process.

A Preliminary Economic Assessment (PEA) is underway to scope a 60,000 tonne per day open pit operation and to further update the Mineral Resource. The PEA is targeted for completion in the third quarter of 2012.

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 "Technical Report for the El Morro Project, Region III, Chile," dated March 26, 2012 ("El Morro Report"). The El Morro Report is available for review under the Company's profile on SEDAR at www.sedar.com. See "Interests of Experts" for details of the Qualified Persons who prepared the El Morro Report and approved the following disclosure.

Project Description and Location

The El Morro Project is a copper-gold development project located in Region III of northern Chile approximately 660 kilometres north of Santiago. The site covers 417 square kilometres, with the mine and plant operation located 4,000 metres above sea level and the construction and operations camp at 3,680 metres above sea level. The site is accessible from the Chilean city of Vallenar via 129 kilometres of paved and unpaved roads. Resources and mining expertise are available in Vallenar and other cities in Region III. Goldcorp is the project operator with a 70% interest in the project. The Company holds the remaining 30% interest.

The El Morro Project comprises three centers of porphyry style copper-gold mineralization (the La Fortuna, El Negro and El Morro areas). Of these, La Fortuna is the most significant. Construction of an open pit mine to develop the La Fortuna deposit is slated to begin September 2012. Initial production is projected for 2017. New Gold's 30% share of annual production is projected to be over 100,000 ounces of gold and 95 million pounds of copper over a projected 18-year mine life.

The mine development plan contemplates: a new access route from the Pan American Highway; a new power substation with overhead transmission lines to the mine; and a concentrate filtration plant and seawater desalinization plant to supply water to the mine, both adjacent to a port approximately 200 kilometres from the mine.

The El Morro Project is located in a high altitude Cordilleran desert environment, in the southern part of the Atacama Desert region and is devoid of any significant vegetation. The project's average monthly temperatures range from 0.4 degrees Celsius in July to 7.3 degrees Celsius in January. Annual precipitation is around 214 millimetres, occurring primarily as snow during the Andean winter months.

Mineral Property Summary

The El Morro Project comprises three mining exploration concessions (two of which are in process), 176 development concessions and 313 mining development concessions in process, all of which are under Goldcorp's protection and maintenance.

A portion of the El Morro Project is subject to a 2% NSR royalty which may be payable to two third parties once production begins. In addition a one-time payment of $133,333 is owed to each of the three former shareholders of the owner of the Santa Julia 1 al 3 concession within two years of commencement of production.

The Company also holds a 30% interest in a 2% NSR in respect of any mining that occurs on certain mining exploitation concessions covering a combined area of 1,849 hectares of the El Morro Project. The remaining 70% interest in the NSR royalty is held by Xstrata.

Under Chilean law, sufficient title to develop a mining project consists of having easement rights and or rights of way over the surface properties where the project pit and facilities will be emplaced. The surface rights for the on-site portion of the Project are owned principally by the Los Huasco Altinos Community, a grazing and livestock cooperative and Hacienda Jarilla. Strategic access to these properties has been partially secured through a judicial mining easement. Linear and other off-site infrastructure such as a concentrate pipeline, power lines, aqueducts, concentrate filtering and desalinization plants are spread over properties where easement rights are partially secured.

Liens and Litigation

Goldcorp has agreed to fund the Company's share of development and construction capital for the El Morro Project (estimated at approximately $1.2 billion) under a carried funding loan to be repaid from project cash flows on completion of development and construction (see "General Development of the Business – El Morro Project"). At December 31, 2011, the outstanding carried funding loan balance was $30.2 million, including accrued interest.

During 2010, Barrick Gold filed a lawsuit against New Gold, Goldcorp and Xstrata and affiliated subsidiaries disputing the legality of Goldcorp's acquisition of the 70% interest in El Morro (see "Legal Proceeding and Regulatory Actions").

Environmental Requirements and Liabilities

An Environmental Impact Assessment for the El Morro Project was completed to assess the anticipated social, economic and environmental impact of the project. An Environmental Impact Study for the El Morro Project was subsequently approved in March 2011, facilitating commencement of construction. Additionally, an Environmental Impact Statement ("Statement") is being prepared regarding a small number of modifications to the Project to improve its operations and minimize impacts on the environment. Once the Statement is approved, the remaining support permits and authorizations can be obtained. Appeals are currently pending seeking to overturn a Chilean court decision upholding a challenge to the Resolution of Environmental Qualification relating to the El Morro Project.

History

Small scale copper and gold mining activity in the immediate vicinity of the El Morro Project dates back to at least 1931, based on a report that mentions activity at Piuquenes (now El Morro), La Fortuna, Potrerillo and Cantarito mines. Rights to the Santa Julia, Cantarito and Tronquito properties were claimed during the period 1964-1984. During 1987-1988, Leonel Polgatti and Compania Minera del Pacifico (CMP) conducted geological and geochemical exploration for precious metal epithermal deposits at Piuquenes (El Morro) and La Fortuna.

BHP acquired claims surrounding the Santa Julia and Cantarito-Tronquitos properties during the period 1992-1994 and conducted a program of geophysics, geochemistry, geologic mapping and drilling. Twenty-nine holes were drilled during the period including 3,567 metres at La Fortuna, 1,376 metres at Cantarito and 100 metres at El Negro. The mineralization at La Fortuna was interpreted as the structurally controlled, high-sulphidation portion of a porphyry copper-gold system. An estimated resource was identified but the project was shelved for failing to meet BHP's deposit size and grade objectives.

In 1997, Minera Metallica Limitada optioned the El Morro property from BHP and in 1999 signed a joint venture agreement with Noranda, reducing Metallica's interest to 30%. Noranda's activities at El Morro were built upon by successor companies Falconbridge and Xstrata. Feasibility studies were completed by Fluor (2007) and Bechtel (2009) on Xstrata's behalf. In 2009, New Gold entered into a plan of arrangement with Metallica and subsequently purchased Xstrata's 70% share of the property after exercise of a right of first refusal. The Company sold the 70% interest to Goldcorp in February 2010, leaving New Gold with its current 30% interest.

Geological Setting and Mineralization

The El Morro Project is located along a southern extension of the Eocene-Oligocene porphyry copper belt of northern Chile, host to some of Chile's most prolific mining districts. The project occupies a large-scale graben containing Paleozoic to Permo - Triassic basement rocks. The western edge of the graben occupies the southern extension of the Domeyko fault system, the main controlling structural feature for the porphyry copper belt. Basement rocks within the graben 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 emplaced at the intersection of two regional fault systems. Younger Tertiary age post-mineral volcanic rocks and gravels locally overlie older rocks and may conceal additional prospective porphyry centers.

Three "belts" of eastward younging Eocene-Oligocene intrusives occur in the El Morro District. The central group is 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. To date, Mineral Resources have 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 of granodioritic to dioritic composition emplaced at a major fault intersection within the older volcanic and sedimentary rocks. Copper-gold mineralization occurs as stockwork veins containing pyrite, magnetite and variable amounts of copper-bearing sulphide minerals (chalcopyrite, bornite, and chalcocite). Molybdenum content is negligible.

The La Fortuna ore body is columnar in shape and open at depth. Overall dimensions are 800 metres by 600 metres by at least 1,000 metres. The deposit comprises an upper oxidized zone of barren to weak "leached" copper-gold mineralization, an intermediate zone of 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.

Exploration and Drilling

In 1997, Metallica optioned BHP's El Morro properties and claimed adjacent exploration ground to the west in the namesake El Morro area. During the period 1997-1999, Metallica conducted general reconnaissance, geochemical and geophysical studies, and drilled 18 reverse circulation and core holes totalling 3,713 metres in the project area. The work identified a zone of prospective secondary enriched copper sulphide mineralization in the namesake El Morro area.

In September 1999, Metallica entered a joint venture with Noranda Chile Ltda. Noranda conducted diamond drilling on 200 metre centers in the namesake El Morro area to further delineate the mineralized zone discovered by Metallica. Although a few minor intrusive dikes were intersected during drilling, all mineralization encountered in the area to date is hosted within volcanose dimentary country rocks which are believed to overlie a buried porphyry intrusive source for the mineralization.

Attention turned to the La Fortuna area where reconnaissance drilling in 2000 confirmed the presence of a well-mineralized copper and gold-bearing porphyry intrusive. Exploration during the period 2000-2006 resulted in 146 holes totalling 60,000 metres at La Fortuna, 14 holes totalling 4,043 metres drilled at El Morro, 26 holes totalling 6,651 metres at El Negro, and two holes totalling 634 metres at Cerro Colorado. Additionally, magnetic and electrical IP-Resistivity geophysical surveys and geochemical soil sampling and chip sampling were conducted over all mineralized areas providing further support for continued exploration in the future.

Exploration concluded in 2007 with a 14-hole infill drilling program to upgrade a portion of the La Fortuna Mineral Resource to Measured classification status and improve the quality of the Mineral Reserve and mine plan within the open pit design. The central sulphide portion of the deposit, drilled on a 55 by 55 metre grid, approximates the portion of the Mineral Resource classified as “Measured”. Its dimensions are roughly 450 metres east-west by 650 metres north-south by 450 metres deep. It is surrounded by a 200 metre wide ring, drilled on nominal 100 to 150 metre spacing, approximating the “Indicated” portion of the resource.

The sulphide mineralization within the secondary enrichment zone (supergene blanket) and the underlying primary hypogene zone compose the bulk of the copper-gold resource and are 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 with no indication of diminishing grade at the bottom of the holes.

All exploration programs conducted at El Morro during the period 1997 through 2006 were conducted under the direction of experienced employees of the various operating companies described. The work was performed by the combined efforts of company technical personnel or by independent contractors operating under the direct supervision of the latter.

Sampling and Analysis

Resource estimates for the La Fortuna deposit principally derive from Noranda-Falconbridge diamond drill programs where core was sampled at two-metre intervals and drilling was otherwise conducted according to standard industry practices. A portion of the remaining core was preserved for reference in offsite storage facilities. Samples were always attended or locked in the on-site sample dispatch facility. There was no formal sample security program established for El Morro drilling programs due to the remote nature of the site and the low gold grades.

Density samples were systematically collected from drill core beginning in 2002. The density data represent the major lithologies, mineralization types and alteration units present at La Fortuna and provide good spatial coverage throughout the La Fortuna Mineral Resource.

Several primary assay laboratories have been used for routine analyses over the project history. From 1997 onwards these were Actlabs S.A. (Coquimbo and La Serena, Chile), Bondar Clegg (Coquimbo) and ACME Analytical Laboratorios S.A. (Santiago).

Samples were prepared according to standard industry practice. Additional information on sample preparation is available in the El Morro Report as well as in the El Morro technical reports previously published. Analytical techniques during early programs comprised geochemical analysis for copper and molybdenum and fire assay with an AA finish for gold. Beginning in 2005, copper, silver and molybdenum were analyzed by four-acid digest – AA techniques. Gold was analyzed via fire assay with an AA finish. From February 2006, analysis for arsenic was routinely included.

Neither the Metallica nor the BHP drilling programs included quality assurance/quality control samples. These programs were conducted before the discovery of the La Fortuna deposit by Noranda. Refer to historical El Morro technical reports for additional details on specific QA/QC programs. According to the results of the QA/QC programs, the sample preparation and assaying have acceptable precision and no apparent bias. The QA/QC program methodology and results have been checked and validated by internal and external reviews. The authors of the El Morro Report believe the assays from the drilling program and the associated QA/QC procedures, which included the regular insertion of blind reference standards and blanks, meet the standards required for reserve and resource calculations for a feasibility level study.

A number of data verification programs and audits have been undertaken over the project history, including: multiple assay database audits; a downhole survey database audit; and an independent review by AMEC assessing the ability of the proposed database to support feasibility-level studies. These programs indicate that the assay database is capable of supporting the Mineral Resource and Mineral Reserve estimations.

Mineral Resource and Mineral Reserve Estimates

The updated El Morro Project Mineral Resource and Reserve Estimates as at December 31, 2011 are summarized in the "Measured and Indicated Mineral Resource Estimates (Inclusive of Reserves) as at December 31, 2011", "Inferred Mineral Resource Estimates as at December 31, 2011" and "Mineral Reserve Estimates – as at December 31, 2011" tables respectively. See "Description of Business – Summary of Mineral Reserve and Mineral Resource Estimates".

The Mineral Resource estimate is supported by 214 diamond and 67 reverse circulation drill holes totalling 101,957 metres. Pit optimization is based on a cutoff at $2.75 per pound of copper and $1,200 per troy ounce of gold. The corresponding cut-off grade is approximately 0.20% copper. Additional details regarding the Mineral Reserve and Resource estimates are provide in the El Morro Report.

Mining Operations

The El Morro Project will be developed as an open pit mine truck and shovel operation, supplying material for crushing and processing in a copper flotation mill producing a copper-gold concentrate. Planned production is approximately 90,000 tonnes of ore per day, equating to an annual average production of approximately 486,000 dry tonnes per year of copper concentrate containing approximately 317 million pounds copper and 342,000 ounces of gold on a 100% Project basis.

Mining Methods

Open pit mining will be carried out by haul trucks and a combination of rope and electric shovels, excavators, and large front-end loaders. The mine will have 15-metre benches, ramp and step-out widths of 38 metres, with about 180 metres between ramps. The primary crusher will be situated adjacent to the pit rim. Crushed ore will be transferred to the concentrator by conveyor. The main waste rock facility is located to the south of the open pit. The tailings storage facility is located to the south and west of the open pit and downstream of the main waste rock facility.

Recovery Methods

There are five distinct ore types identified at the El Morro Project. Copper and gold will be recovered via flotation. Average projected rates of recovery are 85.1% copper and 67.2% gold.

The proposed plant design is conventional for the copper industry, and uses some of the largest processing machinery currently available. Plant design includes a crushing plant, semi-autogenous grinding (SAG) circuit, pebble crusher, rougher flotation and regrind circuit, and cleaner and scavenger flotation banks.

Concentrate will be transferred via pipeline to a concentrate filter plant located at the port facility about 200 kilometres from site. Tailings from the plant will be thickened, and gravity-fed to the tailings storage facility.

Markets and Contracts

Gold and copper markets are mature global markets with reputable smelters and refiners located throughout the world. There are no smelting and refining contracts currently in place for the El Morro Project.

Environmental Conditions

Total closure costs at El Morro are estimated to be in the range of $25 million net of the salvage value of the assets. Chile does not require reclamation and closure bonding. The Project has been designed to satisfy applicable international requirements but further review will be required as the Project moves forward and activities and estimates will need to be adjusted to account for actual site conditions at closure.

Economic Analysis

The El Morro Mine is expected to have an 18-year mine life commencing in 2017. New Gold's 30% share of annual production is expected to be over 100,000 ounces of gold and 95 million pounds of copper.

Life of mine cash costs are expected to be approximately negative ($730) per ounce of gold on a copper byproduct basis and approximately $590 per ounce of gold and $1.35 per pound of copper on a co-product basis.

Total initial capital requirements through year one of the mine (100% basis) are approximately $3.834 billion. An additional $859 million in sustaining capital is expected to be required for years two through 18 of the mine life.

Using a copper price of $2.75 per pound and gold price of $1,200 per troy ounce and applying the Chilean income tax rate of 17%, the Project, on a 100% basis, has a before-tax estimated IRR of 9.2% and an after-tax estimated IRR of 7.9%. The net present value, using a 5% discount rate, is estimated to be $1.5 billion on a before tax basis and $1.0 billion on an after tax basis. Total after-tax cash flow is estimated to be $4.78 billion. Project payback is estimated to occur at 7.9 years.

The principal corporate taxes levied in Chile are a general income tax and a value-added tax (VAT). The economic model assumes income taxes at the Chilean tax rate of 17% of net income and no VAT, as it is assumed that the mine owners would be exempt as exporters.

In 2010, Chile introduced new legislation that increased the mining tax rate for large mines from a 5% fixed rate to a progressive tax regime with rates ranging from 5% to 14% depending on the mining operating profit margin in a given taxation year. The mining operating profit margin is defined as the taxable income of the operation divided by the gross mining revenue of the operation. Mines with operating margins at 35% or below would still be subject to the 5% mining tax rate. Mines with an operating profit margin of higher than 85% would be subject to a 14% rate. The new legislation did not apply to the Company as they had a fiscal stability agreement, in the form of Decree Law (D.L.) 600 that prevented this legislation from applying to the El Morro Project.

During 2011, the Company waived the fiscal stability established by its previous D.L. 600 filing. Simultaneously, Goldcorp filed a new D.L. 600 application that provides fiscal stability to both Goldcorp and the Company. The D.L. 600 also prevents the new legislation from applying to the El Morro Project for the first 15 years of production.

Exploration and Development

Development of the La Fortuna deposit is proposed to begin in September 2012. Development activities during 2012 will include access road construction, engineering, equipment procurement and exploration. Drilling will be a continuation of condemnation drilling and exploration drilling to test potential extensions of the La Fortuna deposit.

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.

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.

Changes in Metal Prices

The Company's earnings and cash flows are subject to 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 large holders, including speculators;
- demand for jewelry containing gold; and
- investment activity, including speculation, in gold as a commodity.

The price of gold increased by 10% at December 31, 2011 compared to December 31, 2010, rising to a nominal record price of $1,920 per ounce in September 2011 before declining to close the year at $1,531 per ounce. Future metal price declines could cause continued development of, and commercial production from, the Company's properties to be uneconomic. Depending on the price of gold, copper and silver, the Company's cash flow from mining operations may be insufficient to meet its operating needs, and as a result it could be forced to discontinue production and could lose our interest in, or be forced to sell, some or all of its properties. Reserve calculations and mine plans using significantly lower gold, silver, copper and other metal prices could result in significant reductions in Mineral Reserve and Resource estimates and revisions in the Company's life-of-mine plans, which in turn could result in material write-downs of its investments in mining properties and increased amortization, reclamation and closure charges. In addition, metal price fluctuations create adjustments to the provisional prices of sales made in previous periods that have not yet been subject to final pricing, and these adjustments could have an adverse impact on the Company's financial results and financial condition. Any of these factors could result in a material adverse effect on the Company's results of operations and financial condition.

In addition to adversely affecting the Company's Reserve and Resource estimates and its financial condition, declining metal prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays and/or may interrupt operations until the reassessment can be completed, which may have a material adverse effect on the Company's results of operations and financial condition.

As part of the Western Goldfields Business Combination, the Company acquired gold contracts that require it to sell the gold subject to such contracts at a price of $801 per ounce. On May 27, 2009, the Company assumed liability for gold forward sales contracts for 374 thousand ounces of gold at such price. As at December 31, 2011, the remaining gold contracts are for a total of 198 thousand ounces with a commitment to deliver 5.5 thousand ounces per month for 36 months, with the last commitment deliverable in December 2014.

From time to time the Company engages in commodity hedging transactions intended to reduce the risk associated with fluctuations in metal prices, but there is no assurance that any such commodity-hedging transactions 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. Furthermore, although hedging may protect the Company from a decline in the price of the metal being hedged, it may also prevent it from benefiting from price increases.

Litigation

New Gold is party to legal proceedings, which, if decided adversely to New Gold, may have a material effect on the financial or business position or prospects of New Gold. Investors 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 has operations in the United States, Australia, Mexico, Canada and Chile and is accordingly 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: fluctuations in currency exchange rates; high rates of inflation; labor unrest; environmental controls and permitting; restrictions on the use of land and natural resources; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; corruption; unstable legal systems; changes in taxation policies; changes in mining policies; restrictions on foreign exchange and repatriation; changing political conditions, social unrest, currency controls and governmental regulations that favor or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of or purchase supplies from a particular jurisdiction; and other risks arising out of foreign sovereignty issues. 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.

Furthermore, in the event of a dispute arising from New Gold’s activities, the Company may be subject to the exclusive jurisdiction of courts outside of North America or may not be successful in subjecting persons to the jurisdiction of courts in North America, either of which could unexpectedly and adversely affect the outcome of a dispute.

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. Any such amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation, could have a material adverse impact on the Company, such as increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties, or could require abandonment or delays in the development of new mining properties. Failure to comply with any applicable laws, regulations or permitting requirements may result in enforcement actions against the Company, 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. For example, New Gold could be forced to compensate those suffering loss or damage by reason of our mining activities and could face civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Any such regulatory or judicial action could materially increase the Company's operating costs and delay or curtail the Company's 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 operating mines, located in the United States, Mexico and Australia, have all required permits for their current operations, there have been historical challenges to permits that were temporarily successful and delays in the renewal of certain permits and there is no assurance that delays will not occur in connection with obtaining 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. Before it may begin any development, the Company must also receive permits from appropriate governmental authorities. There can be no assurance that the Company will obtain or continue to hold all permits necessary to develop any of its existing development projects in Canada and Chile or any future project that it may acquire.

The Company is also involved with ongoing challenges relating to its EIS 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. In addition, appeals are currently pending seeking to overturn a Chilean appellate court decision upholding a challenge to the Resolution of Environmental Qualification relating to the El Morro Project. 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 each require 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.

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 Mineral Reserve or Mineral 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 are not Mineral Reserves and as such 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 a higher category of Mineral Resources or to Proven and Probable Mineral Reserves as a result of continued exploration.

Need for Additional Mineral Reserves and Mineral Resources

Because mines have limited lives based on Proven and Probable Mineral Reserves, New Gold must continually 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.

The Company's Mineral Reserves and Mineral Resources and the corresponding grades are estimates, and such estimated Reserves, Resources and grades may not prove accurate and the indicated level of gold, silver and/or copper or any other mineral may never be produced. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralization or formations may be different from those predicted, and any material inaccuracy in the estimated Reserves, Resources, grade or stripping ratio at our properties may affect the economic viability of the Company's properties.

Acquisition and Integration 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 be successfully integrated to and benefit New Gold's business. Further, any acquisition the Company makes will require a significant amount of time and attention of its management, as well as resources that otherwise could be spent on the operation and development of its existing business.

Any future acquisitions would be accompanied by risks, such as a significant decline in the relevant metal price after the Company commits to complete an acquisition on certain terms; the quality of the mineral deposit acquired proving to be lower than expected; the difficulty of assimilating the operations and personnel of any acquired companies; the potential disruption of its ongoing business; the inability of management to realize anticipated synergies and maximize the Company's financial and strategic position; the failure to maintain uniform standards, controls, procedures and policies; the impairment of relationships with employees, customers and contractors as a result of any integration of new management personnel; and the potential for unknown or unanticipated liabilities associated with acquired assets and businesses, including tax, environmental or other liabilities. There can be no assurance that any business or assets acquired in the future will prove to be profitable, that New Gold will be able to integrate the acquired businesses or assets successfully or that it will identify all potential liabilities during the course of due diligence. Any of these factors could have a material adverse effect on New Gold's business, expansion, results of operations and financial condition.

Exploration and Development

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 have been carefully prepared and reviewed, 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. Declining metal prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays and/or may interrupt operations until the reassessment can be completed, which may have a material adverse effect on the Company's results of operations and financial condition.

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 Mineral Reserves and Mineral 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.

Reclamation Costs

New Gold's operations are subject to reclamation plans that establish its obligations to reclaim properties after minerals have been mined from a site. These obligations represent significant future costs for the Company. As at December 31, 2011, the total estimated reclamation liability for New Gold's mines was approximately $55.0 million. Reclamation bonds or other forms of financial assurance are often required to secure reclamation activities. Governing authorities require companies to periodically recalculate the amount of a reclamation bond and may require bond amounts to be increased. It may be necessary to revise the planned reclamation expenditures and the operating plan for a mine in order to fund an increase to a reclamation bond. Reclamation bonds represent only a portion of the total amount of money that will be spent on reclamation over the life of a mine operation. The actual costs of reclamation set out in mine plans are estimates only and may not represent the actual amounts that will be required to complete all reclamation activity. If actual costs are significantly higher than the Company's estimates, then its results from operations and financial position could be materially adversely affected.

Foreign Currency Exchange Rates

New Gold's assets are located in Mexico, Australia, Canada and Chile, as well as in 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 the Company faces 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 its profitability as exchange rates fluctuate;

- *exposure to currency risk*: the Company is exposed to currency risk through a portion of the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, investments, trade and other receivables, reclamation deposits, trade and other payables, 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 the New Afton Project and Blackwater Project, whose functional currency is Canadian dollars. New Gold's other operations may have assets and liabilities denominated in currencies other than the U.S. dollar, with translation foreign exchange gains and losses included from these balances in the determination of profit or loss. Therefore, exchange rate movements in the Mexican peso, Australian dollar, Canadian dollar and Chilean peso can have a significant impact on the Company's consolidated operating results. New Gold will translate the New Afton Project and Blackwater Project's Canadian dollar balances to U.S. dollars through the foreign exchange translation adjustment reserve in equity; therefore, only foreign currency transaction gains and losses for these projects will be reflected in the consolidated operating results.

As a result, fluctuations in currency exchange rates could significantly affect New Gold's business, financial condition, results of operations and liquidity.

Global Financial Conditions

Global financial conditions have been subject to continued 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 commodity prices, exchange rates and interest rates and have a detrimental effect on the Company's business.

Taxation

New Gold has operations and conducts business in a number of different jurisdictions and is subject to the taxation laws of each such jurisdiction. These taxation laws are complicated and subject to changes and are subject to review and assessment in the ordinary course. Any such changes in taxation law or reviews and assessments could result in higher taxes being payable by New Gold, which could adversely affect its profitability. Taxes may also adversely affect the Company's ability to repatriate earnings and otherwise deploy its assets.

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. The cost and terms of such financing may significantly reduce the expected benefits from new developments and/or render such developments uneconomic. 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.

Joint Ventures

The Company holds a 30% interest in the El Morro Project, through a joint venture with Goldcorp which owns the remaining 70% interest, and may enter into more joint ventures in the future with other third parties. There are a variety of risks associated with joint ventures, including, without limitation:

- disagreement with a counterparty about how to develop, operate or finance a project;
- that a counterparty may at any time have economic or business interests or goals that are, or become, inconsistent with the Company's business interests or goals;
- that a counterparty may not comply with the agreement;
- the possibility that a counterparty might become bankrupt;
- that a counterparty may be in a position to take action contrary to the Company's instructions, requests, policies, objectives or interests;
- possible litigation with a counterparty about joint venture matters;
- the Company's inability to exert control over decisions relating to a joint venture in which it does not hold a controlling interest, such as the El Morro Project; and
- the possibility that the Company may not be able to sell its interest in a joint venture if it wants to exit the joint venture.

These risks could result in legal liability or affect the Company's ability to develop or operate a joint venture project, either of which could have a material adverse effect on its future growth, results of operations and financial position.

New Afton, Blackwater and El Morro 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.

The El Morro Project is in its development phase and subject to numerous risks including, but not limited to, obtaining permits required to commence construction, maintaining environmental permits, changes in environmental or other government regulations and financing risks. There can be no assurance that the development of the El Morro Project will continue in accordance with current expectations or at all.

The Blackwater Project is in the early stages of its development. The Blackwater Project has no Mineral Reserves defined in accordance with CIM Definition Standards. Development of the Project is subject to numerous risks, and there can be no assurance that the exploration and development of the Blackwater Project will continue in accordance with current expectations or at all.

Infrastructure and supply of goods and services

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.

Disruptions in the supply of products or services required for our activities could also adversely affect our operations, financial condition and results of operations. In particular, due to the limited number of suppliers of sodium cyanide in each jurisdiction in which the Company operates, a delay in supply, a force majure event or a breach of contract by one of the Company's sodium cyanide suppliers could result in delays in processing times which may adversely affect operations results.

Operation and production costs

Mining operations and facilities are intensive users of electricity and carbon-based fuels. Energy prices can be affected by numerous factors beyond the Company's control, including global and regional supply and demand, political and economic conditions, and applicable regulatory regimes. The prices of various sources of energy may increase significantly from current levels. An increase in energy prices for which the Company is not hedged could materially adversely affect its operations results and financial condition.

New Gold's production costs are also affected by the prices of commodities it consumes or uses in its operations, such as lime, sodium cyanide 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. Increases in the price for materials consumed in New Gold's mining and production activities could materially adversely affect its operations results and financial condition.

Environmental Risks

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.

New Gold may also acquire properties with known or undiscovered environmental risks. Any indemnification from the entity from whom the Company acquires such properties may not be adequate to pay all the fines, penalties and costs (such as clean-up and restoration costs) incurred related to such properties. Production at New Gold's mines involves the use of various chemicals, including certain chemicals that are designated as hazardous substances, including sodium cyanide. Some of New Gold's properties have also been used for mining and related operations for many years before New Gold acquired them and were acquired as is or with assumed environmental liabilities from previous owners or operators. The Company has been required to address contamination at its properties in the past and may need to continue to do so in the future, either for existing environmental conditions or for leaks or discharges that may arise from its ongoing operations or other contingencies. Contamination from hazardous substances, either at the Company's own properties or other locations for which it may be responsible, may subject it to liability for the investigation or remediation of contamination, as well as for claims seeking to recover for related property damage, personal injury or damage to natural resources. The occurrence of any of these adverse events could have a material adverse effect on the Company's future growth, results of operations and financial position.

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 against which it may not be insured.

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.

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.

Labour and Employment Matters

Approximately 300 employees belong to a union at the Cerro San Pedro Mine. 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. Negotiations for a new collective agreement at the Cerro San Pedro Mine were successfully completed in January 2012. Adverse changes in the schemes of labour relations in different jurisdictions 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.

Aboriginal title

Governments in many jurisdictions must consult with Aboriginal peoples with respect to grants of mineral rights and the issuance or amendment of project authorizations. Consultation and other rights of Aboriginal people may require accommodations, including undertakings regarding employment, royalty payments and other matters. This may affect the Company's ability to acquire within a reasonable time frame effective mineral titles in these jurisdictions, including in some parts of Canada, the United States and Australia, in which Aboriginal title is claimed, and may affect the timetable and costs of development of mineral properties in these jurisdictions. The risk of unforeseen Aboriginal title claims also could affect existing operations as well as development projects. These legal requirements may also affect the Company's ability to expand or transfer existing operations or to develop new projects.

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.

Retention of Key Personnel

The Company's business is dependent on retaining the services of a 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. The Company does not maintain any key man insurance with respect to any of its officers or directors.

In addition, the conduct of the Company's operations is dependent upon access to skilled labor. Access to skilled labor may prove particularly challenging where the Company's mining operations are conducted in remote locations. Shortages of suitably qualified personnel could have a material adverse effect on the Company's business, cash flows and results of operations.

Conflicts of Interest

Certain of New Gold's directors and officers 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 have interests that conflict with the Company's interests. Situations may arise in connection with potential investments where the other interests of the Company's directors conflict with its interests. As such, conflicts of interest may arise that may influence these persons in evaluating possible acquisitions or in generally acting on the Company's behalf, as they may pursue opportunities that would then be unavailable to New Gold. In the event that New Gold's directors are subject to conflicts of interest, there may be a material adverse effect on its business.

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 at 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. As at December 31, 2011 the redemption price was 105%.

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 note holders. 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 did 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 Company may elect to redeem Debentures due June 28, 2014, on or after January 1, 2012 on not less than 40 days' and no more than 60 days', prior written notice, provided that the Current Market Price of New Gold's shares on the TSX at the date of the redemption notice is at least 125% of the conversion price of C$9.35 (i.e. C$11.69). The "Current Market Price" at any date is defined as the weighted average trading price per common share for the 30 consecutive trading days ending five trading days before such date.

If the Company elects to pay by issuing new shares, the number of new shares would be determined by dividing the principal amount of the Debentures being redeemed by 95% of the Current Market Price of New Gold's common shares on the redemption date. In lieu of fractional shares, the cash equivalent would be paid and determined on the basis of the Current Market Price on the redemption date. Accrued interest on the Debentures would also be paid in cash.

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 461,429,165 common shares were issued and outstanding at March 21, 2012. 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.

The Company also has options, warrants, notes and debentures outstanding. See the notes to the Company's audited consolidated financial statements for the year ended December 31, 2011 for additional information regarding the Company's convertible securities.

On March 23, 2012 New Gold adopted a shareholder rights plan ("Plan") to provide the Board of directors with more time to consider alternatives in the event of a takeover bid for the common shares of New Gold. A copy of the Plan is available under the Company's profile on SEDAR at www.sedar.com. The record date for the distribution of the rights to shareholders is April 2, 2012. The Plan is effective, but it is subject to ratification by shareholders within six months of its implementation.

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MARKET FOR SECURITIES

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.

2011	High (C$)	Low (C$)	Volume
January	9.53	7.35	46,023,692
February	9.66	8.02	28,271,153
March	11.59	9.17	43,789,686
April	11.42	9.82	36,251,605
May	10.64	8.72	33,885,208
June	10.09	8.52	34,913,327
July	10.96	9.66	31,900,340
August	13.48	9.18	93,928,581
September	14.12	10.56	59,013,088
October	12.71	10.12	40,958,052
November	12.97	9.98	34,038,223
December	11.54	9.66	38,070,485

The price of the common shares as quoted by the TSX at the close of business on December 30, 2011, the last trading day prior to year end was C$10.28 and on March 21, 2011 was C$9.38.

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. As at March 21, 2012 there were 27,849,865 Series A Warrants outstanding. 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.

2011	High (C$)	Low (C$)	Volume
January	2.76	1.65	1,431,527
February	2.88	1.90	1,729,400
March	3.59	2.30	2,161,950
April	3.54	2.75	1,254,768
May	3.27	2.32	976,571
June	2.90	2.15	746,471
July	3.32	2.63	715,044
August	4.78	2.54	1,663,637
September	5.18	3.19	1,811,459
October	4.55	2.95	1,089,212
November	4.55	3.51	610,275
December	4.14	2.79	945,380

The price of the Series A Warrants as quoted by the TSX at the close of business on December 30, 2011, the last trading day prior to year end was C$3.26 and on March 21, 2012 was C$3.30.

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. As at March 21, 2012 there were 217,499,999 Series B Warrants outstanding. 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.

2011	High (C$)	Low (C$)	Volume
January	0.085	0.050	22,541,598
February	0.070	0.060	9,675,230
March	0.075	0.055	14,116,827
April	0.075	0.060	5,718,350
May	0.070	0.045	5,577,161
June	0.055	0.040	16,858,132
July	0.055	0.045	4,657,506
August	0.100	0.040	66,437,066
September	0.120	0.060	25,418,807
October	0.075	0.050	6,550,271
November	0.070	0.025	12,157,300
December	0.035	0.010	8,074,970

The price of the Series B Warrants as quoted by the TSX at the close of business on December 30, 2011, the last trading day prior to year end was C$0.015 and on March 19, 2012, the last trading day prior to March 21, 2012, was C$0.005.

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. As at March 21, 2012 there were 73,811,666 Series C Warrants outstanding. 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.

2011	High (C$)	Low (C$)	Volume
January	0.360	0.260	1,747,630
February	0.370	0.310	569,600
March	0.420	0.225	1,560,150
April	0.430	0.265	684,800
May	0.425	0.300	321,250
June	0.420	0.270	2,691,959
July	0.490	0.390	873,811
August	0.640	0.440	281,500
September	0.680	0.440	791,801
October	0.680	0.450	3,060,508
November	0.710	0.520	179,500
December	0.720	0.450	599,250

The price of the Series C Warrants as quoted by the TSX at the close of business on December 30, 2011, the last trading day prior to year end was C$0.690 and on March 20, 2012, the last trading day prior to March 21, 2012, was C$0.75.

Notes

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

2011	High ($)	Low ($)	Volume
January	108.00	107.00	77,710
February	107.85	106.90	99,730
March	107.40	106.45	59,430
April	106.75	105.60	66,250
May	106.15	105.60	18,970
June	106.15	105.55	2,090
July	106.15	105.45	22,230
August	106.50	105.00	47,070
September	106.75	106.75	1,440
October	106.50	105.00	20,100
November	106.50	106.00	36,030
December	106.50	106.10	2,730

The price of the Notes as quoted by the TSX at the close of business on December 30, 2011, the last trading day prior to year end was C$106.50 and on March 21, 2012 was C$106.24.

Debentures

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

2011	High ($)	Low ($)	Volume
January	111.25	111.10	270
February	120.50	111.00	1,230
March	131.00	125.00	780
April	130.00	125.00	940
May	123.00	119.00	710
June	120.00	111.01	2,200
July	131.00	120.00	1,500
August	146.50	123.00	3,620
September	150.24	122.00	1,630
October	122.00	118.50	490
November	132.21	122.89	1,550
December	127.80	121.13	3,610

The price of the Debentures as quoted by the TSX at the close of business on December 30, 2011, the last trading day prior to year end was C$122.50 and on March 15, 2012, the last trading day prior to March 21, 2012, was C$119.00.

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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 26, 2012 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 at March 22, 2012, directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 13,382,905 common shares of the Company, representing approximately 2.90% 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 over 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 Range Royalty Management Ltd. and Gibson Energy Inc. 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 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 from August 2000 to December 2007 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. Mr. Kololian started his career in investment banking in 1980 with Burns Fry Limited (now BMO Nesbitt Burns). From 1990 to 2000, he was co-founder and President of Polar Capital Corporation and from 2002 to 2011, he was Chairman of KK Precision Inc., a private engineering and manufacturing company. 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 and promote dialogue among Canadians of differing ethnicities whose homelands are in conflict with one another. 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 over 29 years' experience in investment banking and the commodity markets as well as extensive experience in the natural resource sector. Mr. Konig was Executive Chairman and President of European Goldfields Limited until its acquisition by Eldorado Gold Corp. in February 2012 and was Chief Executive Officer of the Blackfish Capital Group from 2005 until August 2009. 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 Corporate Director.

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.

Mr. Nelsen will not stand for re-election at the Company's Annual General and Special Meeting to be held on May 2, 2012.

RANDALL OLIPHANT

Ontario, Canada

Director since:
June 1, 2009
Non-Independent

Randall Oliphant's principal occupation is Executive Chairman of New Gold. Until the spring of 2011 he was also President and Chief Executive Officer of Silver Bear Resources Inc. of which he remains a director and Chairman. 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.

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. From 2005 to spring 2011, Mr. Penny was also the Chief Financial Officer of Silver Bear Resources Inc. From 2004, Mr. Penny was a Director of and chaired the Audit Committee of Equinox Minerals Limited until the acquisition of the company by Barrick in 2011. 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.
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.

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 Corporate Social Responsibility ("HSE") Committee. The following table identifies the members of each of these Committees:

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

Notes:

[(1)] Craig Nelsen, 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 2, 2012.

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, 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, 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. 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 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. 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 26, 2012:

James Estey - Chair	Independent (1)	Financially literate (2)
Vahan Kololian	Independent (1)	Financially literate (2)
Martyn Konig	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 over 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 Range Royalty Management Ltd. and Gibson Energy Inc. 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.

Martyn Konig has over 29 years of experience in investment banking and the commodity markets as well as extensive experience in the natural resource sector. Mr. Konig was Executive Chairman and President of European Goldfields Limited until its acquisition by Eldorado Gold Corp. in February 2012 and was Chief Executive Officer of the Blackfish Capital Group from 2005 until August 2009. 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. Mr. Kololian started his career in investment banking in 1980 with Burns Fry Limited (now BMO Nesbitt Burns). From 1990 to 2000, he was co-founder and President of Polar Capital Corporation and from 2002 to 2011, he was Chairman of KK Precision Inc., a private engineering and manufacturing company. 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 and promote dialogue between Canadians of differing ethnicities whose homelands are in conflict with one another.

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 $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 Years Ending December 31	Audit Fees	Audit Related Fees [1]	Tax Fees [2]	All Other Fees [3]
2011	$ C1,782,600	$ C386,450	$ C118,151	nil
2010	$ C1,675,500	$ C134,500	$ C87,400	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.

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

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 its 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. The Cerro San Pedro Mine has a history of ongoing legal challenges. MSX was issued an environmental authorization ("EIS") for the Cerro San Pedro Mine by SEMARNAT, the Mexican environmental regulatory agency, in February 1999 for exploration, construction and production stages. The EIS was the primary federal permit required for the approval of the proposed Mine. The 1999 EIS was nullified and a new one was issued in 2006 following an action brought by a group opposing the Cerro San Pedro Mine. In 2006, a group opposing the Mine filed a lawsuit against SEMARNAT alleging that the 2006 EIS did not comply with a Mexican Federal Court order. After protracted litigation, the Collegiate Appeals Court in Mexico City ruled unanimously in favour of MSX's position in its appeal against the nullification of the 2006 EIS and the Federal Court of Fiscal and Administrative Justice issued a new resolution in July 2011 requiring SEMARNAT to reanalyze the challenge to the 2006 EIS. In March 2011, the municipality of Cerro De San Pedro approved a new municipal land use plan ("New Municipal Plan"), after public consultation. The New Municipal Plan clearly designates the area of the Cerro San Pedro Mine for mining, and New Gold believes that this resolves any ambiguity regarding land use in the area in which the Cerro San Pedro Mine is located. In April 2011, MSX filed a request for a new EIS based on the New Municipal Plan and on August 5, 2011 a new EIS was granted by SEMARNAT. The 2011 EIS contains a number of conditions with which MSX must comply and the work to fulfill these conditions is in progress. In particular, MSX must present a proposal for the remediation of contaminated soils at the conclusion of the Mine's productive life and build and operate additional subsurface monitoring wells. The duration of MSX's recent municipal land usage permit is open-ended and its other operating permits remain in full effect.

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, 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 Project. New Gold believes the claim is without merit and is defending this action using all available legal avenues. The trial commenced in June 2011 and the closing arguments are now complete, with a decision expected by the end of the second quarter 2012.

INTEREST OF MANAGEMENT & OTHERS IN MATERIAL TRANSACTIONS

Other than as described in this Annual Information Form, since January 1, 2009 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 recently completed financial year or prior financial year 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".

- Arrangement Agreement dated April 3, 2011 between New Gold and Richfield and associated Disclosure Letter.

- Amendment to Arrangement Agreement dated April 3, 2011 between New Gold and Richfield.

- Letter Agreement dated October 16, 2011 with respect to the proposed business combination of Silver Quest and New Gold.

- Arrangement Agreement between New Gold Inc., Silver Quest and Independence Gold Corp. dated November 4, 2011 and associated Disclosure Letter, described under the heading "Acquisition of Silver Quest Resources Ltd."

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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 mines and development projects on a property material to the Company set out opposite their name(s).

Each of the technical reports listed below are available under the Company's profile 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".

Mineral Property and Title of Technical Report	Qualified Person(s)
Mesquite Mine Technical Report on the Mesquite Mine, Brawley, California dated February 26, 2010	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. and Principal 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 Technical Report on the Cerro San Pedro Mine, San Luis Potosí, Mexico dated February 16, 2010 and amended March 22, 2010	Mr. Holger Krutzelmann, P. Eng. and Principal 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 Technical Report on Peak Gold Mines, New South Wales, Australia, dated January 1, 2009, as amended and restated on June 12, 2009	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 Mining Manager for New Gold Inc.
New Afton Project Technical Report on the New Afton Project, British Columbia, Canada, dated December 31, 2009	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, formerly Principal Metallurgist for Roscoe Postle Associates, Inc. (formerly Scott Wilson Roscoe Postle Associates, Inc.)
Blackwater Project Technical Report, Blackwater Gold Project, Omineca Mining Division, British Columbia, Canada, dated March 23, 2012	Mr. Ronald G. Simpson, P. Geo., of GeoSim Services, Inc.

Mineral Property and Title of Technical Report	Qualified Person(s)
El Morro Project	Mr. Richard J. Lambert, P.E., and Principal Mining Consultant for Roscoe Postle Associates, Inc.
Technical Report on the El Morro Project, Region III, Chile, dated March 26, 2012	Neil N. Gow, P. Geo, and an Associate Consulting Geologist for Roscoe Postle Associates, Inc. A. Paul Hampton, P. Eng. and an Associate Consulting Geologist for Roscoe Postle Associates, Inc. Lee P. Gochnour, MMSA QP, and an Associate Consulting Geologist for Roscoe Postle Associates, Inc.

Mark Petersen, Vice President, Exploration, New Gold Inc., who is a Qualified Person as defined by NI 43-101, has reviewed and approved the technical disclosure contained in this Annual Information Form, including New Gold's Mineral Reserve and Mineral Resource Estimates as at December 31, 2011 and the Mineral Resource Estimate for New Gold's Blackwater Project as at March 7, 2012.

Other than Mark Petersen, Peter Lloyd, Eric Strom, Sean Pearce, and Rex Berthelsen, who are or were employees of the Company, none of the Qualified Persons 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 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 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.

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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 auditor's 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, the Committee shall maintain an open communication between the Company's external 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 external 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, 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 or her 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 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 external auditor at the completion of the annual examination:

   i. the Company's audited financial statements and related notes;

   ii. the external auditor's audit of the financial statements and their report;

   iii. any significant changes required in the external 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 International Financial Reporting Standards.

b. Review and discuss with management and the external 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's 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 external 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 external auditor, the audit scope and plan of the external auditor.

c. Approve the external 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 external auditor and receive written confirmation at least once per year as to the external auditor's internal processes and quality control and disclosure of any investigations or government enquiries, reviews or investigations of the external auditor.

e. Take reasonable steps to confirm at least annually the independence of the external auditor, which shall include:

   i. ensuring receipt from the external auditor of a formal written statement delineating all relationships between the external auditor and the Company, consistent with International Financial Reporting Standards, 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 external auditor any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the external 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 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 Company'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 external 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 external 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 external legal counsel or external 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 out 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 Charter will be reviewed annually to reassess its adequacy and any recommended changes will be submitted to the Board for approval.

Last reviewed and approved by the Board on March 1, 2012.

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 subdivided, 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 parameters, 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 parameters, 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 subdivided 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
AA	Atomic Absorption
Ag	Silver
Au	Gold
°C	degree Celsius
°F	degree Fahrenheit
Doré	Semi-pure alloy of gold and silver, usually created at a mine site, which is transported to a precious metals refinery for further purification.
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
ICP	Induction Coupled Plasmaspectrometry
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

SCHEDULE "D"

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

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, 2011, 2010 and 2009, as quoted by the Bank of Canada, were as follows:

	2011	2010	2009
High	1.0604	1.0778	1.3000
Low	0.9449	0.9946	1.0292
Average [(1)]	0.9891	1.0299	1.1420
Closing	1.0170	0.9946	1.0466

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

On March 21, 2012, 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$0.9931 and C$1= US$1.0069.

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, 2011, 2010 and 2009, as quoted by the London Bullion Market Association, were as follows:

	2011 ($)	2010 ($)	2009 ($)
High	1,895	1,421	1,213
Low	1,319	1,058	810
Average	1,572	1,225	972
Closing	1,531	1,406	1,088

On March 21, 2012, the closing afternoon fixing gold price per troy ounce, as quoted on the London Bullion Market Association, was $1,649.25.

Silver Prices

The high, low, average and closing silver prices per troy ounce for each of the three years ended December 31, 2011, 2010 and 2009, as quoted by the London Bullion Market Association, were as follows:

	2011 ($)	2010 ($)	2009 ($)
High	48.70	30.70	19.18
Low	26.16	15.14	10.51
Average	35.12	20.16	14.65
Closing	28.18	30.63	16.99

On March 21, 2012, the closing silver price per troy ounce, as quoted on the London Bullion Market Association, was $31.97.

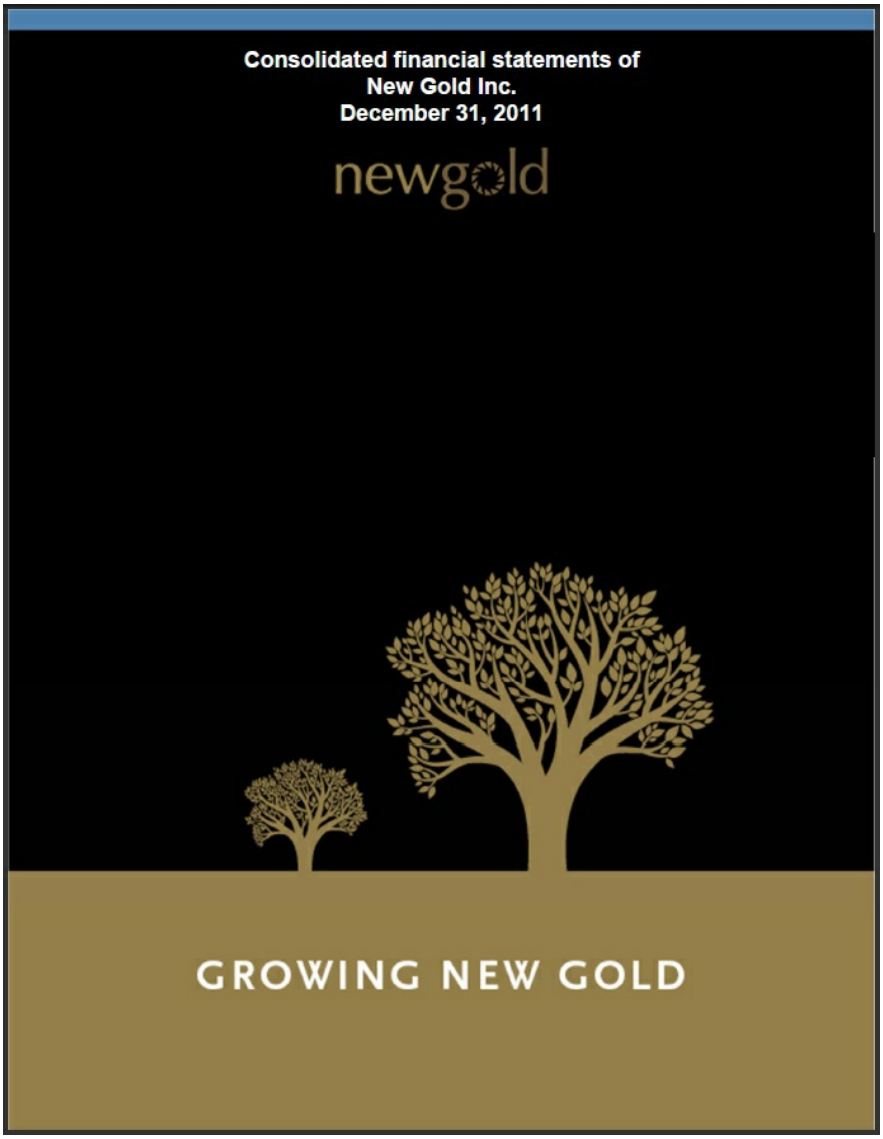
Copper Prices

The high, low, average and closing official cash settlement copper prices per pound for each of the three years ended December 31, 2011, 2010 and 2009, as quoted by the London Metal Exchange, were as follows:

	2011	**2010**	**2009**
	($)	**($)**	**($)**
High	4.62	4.42	3.33
Low	3.05	2.76	1.38
Average	4.00	3.42	2.35
Closing	3.44	4.42	3.33

On March 21, 2012, the closing official cash settlement copper price per pound, as quoted on the London Metal Exchange, was $3.85.

Exhibit 99.2


Consolidated financial statements of
New Gold Inc.
December 31, 2011
newgold
GROWING NEW GOLD

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 International Financial Reporting Standards as issued by the International Accounting Standards Board 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 & Touche LLP, the Company's 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 1, 2012

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, under the supervision of the Chief Executive Officer and the Chief Financial Officer, 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, 2011, 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, 2011 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, 2011 and 2010.

(Signed) Robert Gallagher

Robert Gallagher
Chief Executive Officer

(Signed) Brian Penny

Brian Penny
Executive Vice-President and
Chief Financial Officer

Toronto, Ontario
March 1, 2012

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, 2011, based on the criteria established in *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, 2011, 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, 2011 of the Company and our report dated March 1, 2012, expressed an unqualified opinion on those financial statements.

"Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Licensed Public Accountants

March 1, 2012
Toronto, Canada

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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years ended December 31, 2011 and 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 the Company as at December 31, 2011, December 31, 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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, 2011, 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 1, 2012 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 1, 2012
Toronto, Canada

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New Gold Inc.

Consolidated income statements
Years ended December 31
(Expressed in thousands of United States dollars, except per share amounts)

	Note	2011	2010
		$	$
			Note 26
Revenues		**695,939**	530,450
Operating expenses	5(a)	**303,778**	247,773
Depreciation and depletion		**76,935**	78,374
Earnings from mine operations		**315,226**	204,303
Corporate administration expenses		**26,272**	24,134
Share-based payment expenses		**11,140**	6,877
Exploration expenses		**10,021**	12,834
Impairment of exploration assets	11	**-**	15,728
Income from operations		**267,793**	144,730
Finance income	5(b)	**3,589**	3,258
Finance costs	5(b)	**(5,142)**	(2,371)
Other gains (losses)	5(c)	**(7,854)**	(70,261)
Earnings before taxes		**258,386**	75,356
Income tax expense	15	**(79,358)**	(18,009)
Net earnings from continuing operations		**179,028**	57,347
Earnings from discontinued operations, net of tax	10	**-**	(9,886)
Net earnings		**179,028**	47,461
Earnings per share from continuing operations	14		
Basic		**0.42**	0.15
Diluted		**0.40**	0.15
Earnings (loss) per share from discontinued operations	14		
Basic		**-**	(0.03)
Diluted		**-**	(0.03)
Earnings per share from continuing and discontinued operations	14		
Basic		**0.42**	0.12
Diluted		**0.40**	0.12
Weighted average number of shares outstanding	14		
Basic		**429,591**	390,883
Diluted		**441,009**	395,233

See accompanying notes to the consolidated financial statements

New Gold Inc.

Consolidated statements of comprehensive income
Years ended December 31
(Expressed in thousands of United States dollars)

	Note	**2011**	2010
		$	$
			Note 26
Net earnings		**179,028**	47,461
Other comprehensive (loss) income			
Unrealized losses on mark-to-market of gold contracts	13	**(32,051)**	(85,849)
Realized losses on settlement of gold contracts	13	**41,651**	20,035
Unrealized losses on mark-to-market of fuel contracts	13	**-**	(366)
Unrealized loss on available-for-sale securities (net of $nil tax expense)		**(1,861)**	-
Foreign exchange translation adjustment		**(38,359)**	14,334
Income tax related to components of other comprehensive (loss) income	13	**(3,834)**	27,572
Total other comprehensive loss		**(34,454)**	(24,274)
Total comprehensive income		**144,574**	23,187

See accompanying notes to the consolidated financial statements

New Gold Inc.

Consolidated statements of financial position
(Expressed in thousands of United States dollars)

	Note	December 31 2011	December 31 2010	January 1 2010
		$	$	$
Assets			Note 26	Note 26
Current assets				
Cash and cash equivalents		**309,406**	490,754	271,526
Trade and other receivables	6	**37,572**	11,929	10,345
Inventories	8	**106,490**	103,055	86,299
Current derivative assets	13	**-**	-	706
Prepaid expenses and other		**7,928**	7,325	6,933
Current assets of operations held for sale	10	**-**	-	10,298
Total current assets		**461,396**	613,063	386,107
Investments	9	**1,823**	7,533	45,890
Non-current inventories	8	**20,253**	-	-
Mining interests	11	**2,695,297**	1,767,240	1,664,563
Deferred tax assets	15	**8,924**	10,058	11,098
Non-current non-hedged derivative asset	13	**18,797**	7,679	-
Reclamation deposits and other		**14,912**	23,616	17,646
Assets of operations held for sale	10	**-**	-	78,989
Total assets		**3,221,402**	2,429,189	2,204,293
Liabilities and equity				
Current liabilities				
Trade and other payables	7	**100,437**	69,245	37,999
Current tax liabilities		**20,495**	31,392	13,711
Current derivative liabilities	13	**49,184**	40,072	19,206
Current non-hedged derivative liabilities	13	**53,288**	-	-
Current portion of long-term debt	12	**-**	-	12,088
Current liabilities of operations held for sale	10	**-**	-	10,414
Total current liabilities		**223,404**	140,709	93,418
Reclamation and closure cost obligations	16	**50,713**	34,173	24,764
Provisions	25	**12,646**	9,227	4,541
Non-current derivative liabilities	13	**92,407**	113,303	76,780
Non-current non-hedged derivative liabilities	13	**114,296**	155,365	37,542
Long-term debt	12	**251,664**	229,884	225,456
Deferred tax liabilities	15	**146,880**	179,180	245,969
Deferred benefit	12	**46,276**	46,276	-
Other		**747**	577	814
Liabilities of operations held for sale	10	**-**	-	19,890
Total liabilities		**939,033**	908,694	729,174
Equity				
Common shares	14	**2,463,968**	1,845,886	1,810,039
Contributed surplus		**80,394**	81,176	82,984
Share purchase warrants		**-**	-	11,850
Other reserves		**(86,367)**	(51,913)	(27,639)
Deficit		**(175,626)**	(354,654)	(402,115)
		(261,993)	(406,567)	(429,754)
Total equity		**2,282,369**	1,520,495	1,475,119
Total liabilities and equity		**3,221,402**	2,429,189	2,204,293

Approved and authorized by the Board on March 1, 2012

"Robert Gallagher"
Robert Gallagher, Director

"James Estey"
James Estey, Director

See accompanying notes to the consolidated financial statements

New Gold Inc.

Consolidated statements of changes in equity
Years ended December 31
(Expressed in thousands of United States dollars)

	Note	2011	2010
		$	$
			Note 26
Common shares			
Balance, beginning of period		**1,845,886**	1,810,039
Shares issued for Richfield	4,14	**487,906**	-
Shares issued for Silver Quest	4,14	**105,761**	-
Shares issued for exercise of options	14	**24,350**	19,394
Shares issued for exercise of warrants	14	**65**	16,453
Balance, end of period		**2,463,968**	1,845,886
Contributed surplus			
Balance, beginning of period		**81,176**	82,984
Exercise of options		**(7,974)**	(9,959)
Equity settled share-based payments		**7,192**	8,151
Balance, end of period		**80,394**	81,176
Share purchase warrants			
Balance, beginning of period		**-**	11,850
Exercise of warrants		**-**	(11,850)
Balance, end of period		**-**	-
Other reserves			
Balance, beginning of period		**(51,913)**	(27,639)
Foreign exchange translation adjustment		**(38,359)**	14,334
Change in fair value investments		**(1,861)**	-
Change in fair value hedging instruments		**5,766**	(38,608)
Balance, end of period		**(86,367)**	(51,913)
Deficit			
Balance, beginning of period		**(354,654)**	(402,115)
Net earnings		**179,028**	47,461
Balance, end of period		**(175,626)**	(354,654)
Total equity		**2,282,369**	1,520,495

See accompanying notes to the consolidated financial statements

New Gold Inc.

Consolidated statements of cash flows
Years ended December 31
(Expressed in thousands of United States dollars)

	Note	2011	2010
		$	$
			Note 26
Operating activities			
Net earnings		**179,028**	47,461
Loss from discontinued operations		**-**	9,886
Adjustments for:			
Realized gain on gold contracts		**(8,793)**	(8,425)
Realized loss on fuel contracts			340
Realized and unrealized foreign exchange (gain) loss	5	**(7,122)**	9,675
Realized and unrealized gain on investments	5	**(1,349)**	(48,838)
Unrealized loss on non-hedged derivatives	5	**7,229**	105,657
Loss on disposal of assets		**509**	1,938
Impairment of exploration asset		**-**	15,728
Depreciation and depletion		**76,243**	78,772
Equity-settled share-based payment expense		**7,192**	6,540
Unrealized loss on cash flow hedging items	5	**6,611**	-
Income tax expense		**79,358**	18,009
Finance income		**(3,589)**	(3,258)
Finance costs		**5,142**	2,371
		340,459	235,856
Change in non-cash operating working capital	17	**(12,538)**	(7,499)
Cash generated from operations		**327,921**	228,357
Income taxes paid		**(98,391)**	(41,855)
Net cash generated from continuing operations		**229,530**	186,502
Cash used in discontinued operations		**-**	(1,696)
Investing activities			
Mining interests		**(413,620)**	(134,089)
Recovery of (contribution to) reclamation deposits		**8,388**	(1,590)
Cash acquired in asset acquisition, net of transaction costs - Richfield		**18,651**	-
Asset acquisition costs, net of cash received - Silver Quest		**(7,979)**	-
Asset acquisition costs, net of cash received - Geo Minerals		**(18,053)**	-
Purchase of available-for-sale securities	9	**(3,684)**	-
Cash received in El Morro transaction, net of transaction costs		**-**	46,276
Investment in El Morro		**-**	(463,000)
Proceeds from sale of investments	9	**8,927**	106,476
Interest received		**3,200**	1,577
Proceeds from disposal of assets		**821**	439
Cash used in investing activities		**(403,349)**	(443,911)
Cash generated from discontinued operations		**-**	34,410
Financing activities			
Exercise of options to purchase common stock		**16,375**	15,649
Exercise of warrants to purchase common stock		**65**	-
Interest paid		**(21,864)**	(20,895)
El Morro loan		**-**	463,000
Revolving credit facility initiation costs		**-**	(4,225)
Repayment of long-term debt		**-**	(27,235)
Cash generated by financing activities		**(5,424)**	426,294
Effect of exchange rate changes on cash and cash equivalents		**(2,105)**	16,803
(Decrease) increase in cash and cash equivalents		**(181,348)**	218,402
Cash and cash equivalents, beginning of year		**490,754**	272,352
Cash and cash equivalents, end of year		**309,406**	490,754
Cash and cash equivalents are comprised of			
Cash		**179,023**	191,844
Short-term money market instruments		**130,383**	298,910
		309,406	490,754

Supplemental cash flow information (Note 17)

1. Description of business and nature of operations

New Gold Inc. (the "Company") and its 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 Gold Mines in Australia. Significant projects include the New Afton copper-gold development project in Canada, the Blackwater exploration project in Canada and a 30% interest in the El Morro copper-gold development project in Chile.

The Company is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company's shares are listed on the Toronto Stock Exchange, and the NYSE AMEX under the symbol NGD.

The Company's registered office is located at 3110 – 666 Burrard Street, Vancouver, British Columbia, V6C 2X8, Canada.

2. Significant accounting policies

(a)Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The disclosure of the transition from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS and the effect on the reported financial position, financial performance and cash flows of the Company is provided in Note 26. The note includes reconciliations of equity, net earnings and total comprehensive income reported under previous Canadian GAAP to those reported under IFRS for the 2010 comparative periods and as at the date of transition.

(b)Basic of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the following, which are measured at fair value:

- Derivative financial instruments;
- Financial instruments at fair value through profit and loss; and
- Available-for-sale securities.

(c)Basis of presentation and principles of consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. Where necessary, adjustments are made to the financial statements of subsidiaries to conform their accounting policies to those used by the other members of the Company.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. The financial statements of subsidiaries are included in the consolidated financial statements. Associates are those entities in which the Company has significant influence over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for using the equity method.

2. Significant accounting policies (continued)

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

The principal subsidiaries and associates of the Company are as follows:

Name of subsidiary/associate	Principal Activity	Method of accounting	Country of incorporation and operation	Interest December 31 2011	Interest December 31 2010	Interest January 1 2010
Metallica Resources Inc.	Holding company	Consolidated	Canada	100%	100%	100%
Minera Metallica Resources Chile Ltd.	Mining	Consolidated	Chile	100%	100%	100%
Minera San Xavier S.A. de C.V.	Mining	Consolidated	Mexico	100%	100%	100%
Peak Gold Mines Pty Ltd	Mining	Consolidated	Australia	100%	100%	100%
Inversiones El Morro Limitada	Holding company	Consolidated	Chile	100%	100%	100%
Sociedad Contractual Minera El Morro	Mining	Equity	Chile	30%	30%	30%
Western Goldfields Inc.	Holding company	Consolidated	Canada	100%	100%	100%
Western Goldfields (USA) Inc.	Holding company	Consolidated	USA	100%	100%	100%
Western Mesquite Mines, Inc.	Mining	Consolidated	USA	100%	100%	100%
Richfield Venture Corp.	Mining	Consolidated	Canada	100%	-	-
Geo Minerals Ltd.	Mining	Consolidated	Canada	100%	-	-
Silver Quest Resources Ltd.	Mining	Consolidated	Canada	100%	-	-

Business combinations

A business combination is defined as an acquisition of assets and liabilities that constitute a business. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return to the Company and its shareholders in the form of improved earnings, lower costs or other economic benefits. A business consists of inputs, including non-current assets, and processes, including operational processes, that when applied to those inputs, have the ability to create outputs that provide a return to the Company and its shareholders. A business also includes those assets and liabilities that do not necessarily have all the inputs and processes required to produce outputs, but can be integrated with the inputs and processes of the Company to create outputs. When acquiring a set of activities or assets in the exploration and development stage, which may not have outputs, the Company considers other factors to determine whether the set of activities or assets is a business. Those factors include, but are not limited to, whether the set of activities or assets:

- has begun planned principal activities;
- has employees, intellectual property and other inputs and processes that could be applied to those inputs;
- is pursuing a plan to produce outputs; and
- will be able to obtain access to customers that will purchase the outputs.

Not all of the above factors need to be present for a particular integrated set of activities or assets in the exploration and development stage to qualify as a business.

Business combinations are accounted for using the acquisition method whereby identifiable assets acquired and liabilities assumed, including contingent liabilities, are recorded at 100% of their acquisition-date fair values. The acquisition date is the date the Company obtains control over the acquiree, which is generally the date that consideration is transferred and the Company acquires the assets and assumes the liabilities of the acquiree. The Company considers all relevant facts and circumstances in determining the acquisition date.

2. Summary of significant accounting policies (continued)

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

Business combinations (continued)

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, the liabilities, including contingent consideration, incurred and payable by the Company to former owners of the acquiree and the equity interests issued by the Company. The measurement date for equity interests issued by the Company is the acquisition date.
Acquisition-related costs, other than costs to issue debt or equity securities, of the acquirer, including investment banking fees, legal fees, accounting fees, valuation fees, and other professional or consulting fees are expensed as incurred. The costs to issue equity securities of the Company as consideration for the acquisition are reduced from share capital as share issue costs.

It generally requires time to obtain the information necessary to identify and measure the following as of the acquisition date:

- The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;
- The consideration transferred in exchange for interest in the acquiree;
- In a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer; and
- The resulting goodwill or gain on a bargain purchase.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Company will also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and shall not exceed one year from the acquisition date.

Asset acquisitions

The Company accounts for the purchase of assets and assumption of liabilities as an acquisition of net assets. The transactions do not qualify as a business combination under IFRS 3R *Business Combinations,* as the significant inputs and processes that constitute a business are not identified. Therefore the transactions were treated as asset acquisitions. The purchase consideration has been allocated to the fair value of the assets acquired and liabilities assumed based on management's best estimates and available information at the time of the acquisition.

2. Summary of significant accounting policies (continued)

(d)Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the date of acquisition to be cash equivalents. These highly liquid investments only comprise short-term Canadian and United States 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 & Poor's and Moody's. In addition, the Company invests in bankers' acceptances and other evidences of indebtedness of certain financial institutions, including Canadian banks.

(e)Inventories

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.

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 the event that the Company determines, based on engineering estimates, that a quantity of gold contained in ore on leach pads is to be recovered over a period exceeding twelve months, that portion is classified as long-term.

Work-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 work-in-process inventories incurred prior to the refining process, plus applicable refining, selling, shipping costs and associated royalties.

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

2. Summary of significant accounting policies (continued)

(f)Mining interests

Mining interests represent capitalized expenditures related to the development of mining properties, related plant and equipment and expenditures related to advanced 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.

Mining properties

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.

Mining properties include costs directly attributable to bringing a mineral asset into the state where it is capable of operating in the manner intended by management. The determination of development costs to be capitalized during the production stage of a mine operation requires the use of judgment and estimates.

The value associated with resources and exploration potential is the value beyond proven and probable reserves assigned through acquisition. 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.

The Company estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons. The estimation of recoverable reserves will be impacted by forecast commodity prices, exchange rates, production costs and recoveries amongst other factors. Changes in the reserve or resource estimates may impact the carrying value of assets and depreciation and impairment charges recorded in the income statement.

A mining property is considered to be capable of operating in a manner intended by management when it commences commercial production. Upon commencement of commercial production, a mining property is depreciated on a unit-of-production method. Unit-of-production depletion rates are determined based on the estimate recoverable Proven and Probable Mineral Reserves at the mine.

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.

2. Summary of significant accounting policies (continued)

(f)Mining interests (continued)

Exploration and evaluation

Exploration and evaluation costs are expensed until the probability that future economic benefits will flow to the entity and the asset cost or value can be measured reliably. Management uses the following criteria to determine the economic recoverability and probability of future economic benefits:

- The Company controls access to the benefit;
- Internal project economics are beneficial to the Company;
- The project is technically feasible; and
- Costs can be reliably measured.

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.

Property, plant and equipment

Plant and equipment consists of buildings and fixtures, surface and underground fixed and mobile equipment.

Depreciation rates of major categories of asset costs

Mining assets are depleted using a unit-of-production method based on the estimated economically recoverable reserves to which they relate.

Plant and equipment is depreciated using the straight-line method over their estimated useful lives, or the remaining life of the mine if shorter.

	Average useful life
Building	15 – 50
Plant and machinery	3 – 20
Office equipment	5 – 10
Vehicles	5 – 7
Computer equipment	3 - 5

2. Summary of significant accounting policies (continued)

(f)Mining interests (continued)

Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized until such time as the assets are substantially ready for their intended use. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of interest rates applicable to relevant general borrowings of the Company during the period, to a maximum of actual borrowing costs incurred. Capitalization of interest is suspended during extended periods in which active development is interrupted.

Commencement of commercial production

There are a number of factors the Company considers when determining if conditions exist for the commencement of commercial production of an operating mine. Management examines the following when making that judgment:

- All major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed;
- The completion of a reasonable period of testing of the mine plant and equipment;
- The mine or mill has reached a pre-determined percentage of design capacity; and
- The ability to sustain ongoing production of ore.

The list is not exhaustive and each specific circumstance is taken into account before making the decision.

Derecognition

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 recognized in net earnings.

(g)Impairment of long-lived assets

The Company reviews and evaluates its mining interests for indicators of impairment at the end of each reporting period. Impairment assessments are conducted at the level of cash-generating units (“CGU”). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, with each operating mine, development and exploration project representing a separate CGU. If an indication of impairment exists, the recoverable amount of the CGU is estimated. An impairment loss is recognized when the carrying amount of the CGU is in excess of its recoverable amount.

2. Summary of significant accounting policies (continued)

(g)Impairment of long-lived assets (continued)

The recoverable amount of a mine site is the greater of its fair value less costs to sell and value in use. In determining the recoverable amounts of the Company's mine sites, the Company uses the fair value less costs to sell as this will generally be greater than or equal to the value in use. When there is no binding sales agreement, fair value less costs to sell is estimated as the discounted future after-tax cash flows expected to be derived from a mine site, less an amount for costs to sell estimated based on similar past transactions. When discounting estimated future cash flows, the Company uses an after-tax discount rate that would approximate what market participants would assign. Estimated cash flows are based on expected future production, metal selling prices, operating costs and capital costs. If the recoverable amount of a mine site is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The carrying amount of each mine site includes the carrying amounts of mining properties, plant and equipment, goodwill and related deferred tax balances. Impairment losses are recognized as other operating expenses in the period they are incurred. The allocation of an impairment loss, if any, for a particular mine site to its mining properties and plant and equipment is based on the relative book values of these assets at the date of impairment. When an impairment loss reverses in a subsequent period, the carrying amount of the related asset is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset previously. Reversals of impairment losses are recognized in net earnings in the period the reversals occur.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for a long-lived asset may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that CGU. A reversal of an impairment loss is recognized up to the lesser of the recoverable amount or the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the CGU in prior years.

(h)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. 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, changes in laws and regulations or changes to market inputs to the decommissioning model.

The present value of estimated costs is recorded in the period in which the asset is installed or the environment is disturbed and a reasonable estimate of future costs and discount rates can be made. The provision is discounted using a risk-free rate and estimates of future cash flows are adjusted to reflect risk.

2. Summary of significant accounting policies (continued)

(h)Reclamation and closure cost obligations (continued)

After the initial measurement, the obligation is adjusted to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized in finance costs, whereas increases and decreases due to changes in the estimated future cash flows are capitalized and depreciated over the life of the related asset unless the amount deducted from the cost exceeds the carrying value of the asset, in which case the excess is recorded in net earnings. Actual costs incurred upon settlement of the site restoration obligation are charged against the provision to the extent the provision was established for those costs. Upon settlement of the liability, a gain or loss may be recorded in net earnings.

(i)Income taxes

The income tax expense or benefit for the period consists of two components: current and deferred.

Current Tax

The tax currently payable is based on taxable earnings for the year. Taxable earnings differs from earnings before taxes due to items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the corresponding tax bases used in the computation of taxable net earnings. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are generally recorded for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable earnings will be available against which those deductible temporary difference can be utilized. The carrying amount of deferred tax assets in reviewed at each balance sheet date and reduced to the extent that it is no longer probable that it sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2. Summary of significant accounting policies (continued)

(i) Income taxes (continued)

Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and where the Company has the legal right and intent to offset.

The Company records foreign exchange gains and losses representing the impacts of movements in foreign exchange rates on the tax bases of non-monetary assets and liabilities which are denominated in foreign currencies. Foreign exchange gains and losses relating to deferred income taxes are included within foreign exchange gains in the Consolidated Statement of Earnings.

Current and deferred tax for the year

Current and deferred tax are recognized in net earnings except when they arise as a result of items recognized in other comprehensive income or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

Government assistance and tax credits

Any federal or provincial tax credits received by the Company, with respect to exploration or development work conducted on any of its properties, are credited as a reduction to the carrying costs of the property to which the credits related. The Company records these tax credits when there is reasonable assurance with regards to collections and assessments as well as reasonable assurance that the Company will comply with the conditions associated to them and that the grants will be received.

(j) Foreign currency translation

The individual financial statements of each Subsidiary or Associate are presented in the currency of the primary economic environment in which that entity operates (its functional currency). The functional currency of the Company and the presentation currency of the consolidated financial statements is the United States Dollar. The Company's Mexican, Australian, and United States operations also have the United States Dollar as their functional currency. The functional currency of the Canadian development project (New Afton), and the exploration project (Blackwater) is the Canadian dollar.

Management determines the functional currency by examining the primary economic environment of each operating mine, development and exploration project. The Company considers the following factors in determining its functional currency:

- The main influences of sales prices for goods and the country whose competitive forces and regulations mainly determine the sales price;
- The currency that mainly influences labour, material and other costs of providing goods;
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

In preparing the functional currency financial statements of the Subsidiaries or Associates, transaction amounts denominated in foreign currencies (currencies other than the functional currency of the respective Subsidiary or Associate) are translated into the Company's functional currency using exchange rates prevailing at the transaction dates.

2. Summary of significant accounting policies (continued)

(j) Foreign currency translation (continued)

For entities with the Canadian dollar as its functional currency, carrying values of foreign currency assets and liabilities are translated at each statement of financial position date using the closing exchange rate on that date. Revenues and expenses are translated at exchange rates at the dates of the transactions or using a rate that approximates the exchange rates at the dates of the transactions. Gains and losses arising from translation of foreign currency assets and liabilities at each reporting period are included in the cumulative translation adjustment account in other comprehensive income.

(k) Earnings per share

Earnings 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 stock 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.

(l) Revenue recognition

Revenue from the sale of metals and metals in concentrate is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

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.

(m) Share-based payments

The Company maintains a Restricted Share Unit (“RSU”) plan and stock option plan for employees.

Cash-settled transactions, RSUs, are initially measured at fair value and recognized as an obligation at the grant date. The liabilities are re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in net earnings. The Company values the liabilities based on the change in the Company’s share price. RSU liabilities are included in provisions on the balance sheet, and changes in the fair value of the liabilities are recorded in the income statement.

2. Summary of significant accounting policies (continued)

(m) Share-based payments (continued)

Equity-settled transactions with employees are measured by reference to the fair value at the grant date. Fair value is determined using a Black-Scholes option pricing model, which relies on estimates of the future risk-free interest rate, future dividend payments, future share price volatility and the expected average life of the options. The Company believes this model adequately captures the substantive features of the option awards and is appropriate to calculate their fair values. The fair value determined at grant date is recognized over the vesting period in accordance with vesting terms and conditions, with a corresponding increase to contributed surplus. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

(n) Non-derivative financial assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following four categories: held-to-maturity, available-for-sale ("AFS"), loans and receivables, or fair value through profit or loss ("FVTPL"). Financial assets held to maturity and loans and receivables 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 FVTPL are measured at fair value with unrealized gains and losses recognized in net earnings.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the statement of financial position. The quoted market price used for financial assets held by the Company is the last bid price of the day.

The Company has classified cash and cash equivalents, trade receivables and reclamation deposits as loans and receivables. Investments are classified as AFS, excluding asset backed notes which are classified as FVTPL.

Transaction costs related to financial assets classified as FVTPL are recognized immediately into net earnings. For financial instruments assets classified as other than as FVTPL, transaction costs are included in the initial carrying value of the instrument.

(o) Non-derivative financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in net earnings. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost.

Trade and other payables, short-term borrowings and long-term debt are classified as other financial liabilities. Provisions related to the RSU plan have been classified as FVTPL.

Transaction costs related to financial liabilities classified as FVTPL are recognized immediately into income. For financial liabilities classified as other than as FVTPL, transaction costs are included in the initial carrying value of the instrument.

2. Summary of significant accounting policies (continued)

(p) Derivative instruments, including hedge accounting

Derivative instruments, including embedded derivatives, are recorded at fair values on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recorded in net earnings.

The Company has entered into arrangements for the sale of gold. The Company has designated this derivative as a cash flow hedge. At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and risk management objective and strategy for understanding the hedge. In addition, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective.

Gains and losses for the effective portion of the hedging instruments are included in other comprehensive income. Gains and losses for any ineffective portion of hedging instruments are included in net earnings. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period when the hedged items is recognized in profit or loss in the same line of the income statement.

The Company's share purchase warrants with Canadian dollar exercise prices are derivative liabilities and accordingly, they are recorded at fair value at each reporting period, with the gains or losses recorded in profit or loss for the period.

As described in Note 12 (a), the Company has Notes (as defined in Note 5(c) (i)) outstanding that contain an embedded derivative.

As described in Note 12 (b), the Company has Debentures (as defined in Note 5(c) (iii)) that can be converted to share capital at the option of the holder. This option is treated as an embedded derivative.

(q) Trade and other receivables

Trade and other receivables are carried at amortized cost less impairment. Trade and other receivables are written off as they are determined to be uncollectible. No receivables were written off during the year ended December 31, 2011 or the year ended December 31, 2010.

(r) Reclamation deposits

The Company maintains cash deposits that are restricted to the funding of reclamation costs. Reclamation deposits are designated as FVTPL, are recorded at fair value, and are classified as a non-current asset.

(s) Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Future changes in accounting policies

Accounting standards effective January 1, 2012

(a) Financial instruments disclosure

In October 2010, the International Accounting Standards Board ("IASB") issued amendments to IFRS 7 - *Financial Instruments: Disclosures* that enhance the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company does not anticipate this amendment to have a material impact on its consolidated financial statements.

(b) Income taxes

In December 2010, the IASB issued an amendment to IAS 12 - *Income Taxes* that provides a solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier application permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Accounting standards effective January 1, 2013

(a) Consolidation

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"), which supersedes Standing Interpretations Committee standards ("SIC") 12 and the requirements relating to consolidated financial statements in IAS 27 - *Consolidated and Separate Financial Statements* ("IAS 27"). IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee. In addition, the IASB issued IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12") which combines and enhances the disclosure requirements for the Company's subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements. Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 - *Investments in Associates* ("IAS 28") were revised and reissued as IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures* to align with the new consolidation guidance. The Company is currently evaluating the impact that the above standards are expected to have on its consolidated financial statements.

3. Future changes in accounting policies (continued)

(b) Joint arrangements

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements* ("IFRS 11"), which supersedes IAS 31 - *Interests in Joint Ventures* and SIC 13 - *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method. The Company is currently evaluating the impact that IFRS 11 is expected to have on its consolidated financial statements.

(c) Fair value measurement

In May 2011, as a result of the convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 - *Fair Value Measurement* ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRS that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. The Company does not anticipate the application of IFRS 13 to have a material impact on its consolidated financial statements.

(d) Financial statement presentation

In June 2011, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements* ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

(e) Stripping costs in the production phase of a mine

In October 2011, the IASB issued IFRIC 20 - *Stripping Costs in the Production Phase of a Mine* ("IFRIC 20"). IFRIC 20 clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted and includes guidance on transition for pre-existing stripping assets. The Company is currently evaluating the impact the new guidance is expected to have on its consolidated financial statements.

3. Future changes in accounting policies (continued)

Accounting standards anticipated to be effective January 1, 2015

Financial instruments

The IASB intends to replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety with IFRS 9 - *Financial Instruments* ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. On July 22, 2011, the IASB agreed to defer the mandatory effective date of IFRS 9 from annual periods beginning on or after January 1, 2013 (with earlier application permitted) to annual periods beginning on or after January 1, 2015 (with earlier application still permitted). The IASB proposed the deferral of IFRS 9 in an exposure draft with a 60 day comment period which ended on October 21, 2011. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

4. Asset Acquisitions

For the purposes of these consolidated financial statements, the three asset acquisitions that occurred in 2011:

- Richfield Venture Corp.;
- Geo Minerals Ltd.; and
- Silver Quest Resources Ltd.

Have been accounted for as a purchase of assets and assumption of liabilities by the Company. The transactions do not qualify as a business combination under IFRS 3R *Business Combinations*, as the significant inputs and processes that constitute a business were not identified. Therefore the transactions were treated as asset acquisitions. The purchase consideration has been allocated to the fair value of the assets acquired and liabilities assumed based on management's best estimate and available information at the time of acquisition.

(a) Richfield Venture Corp.

On April 4, 2011, the Company announced that it had entered into a definitive agreement whereby the Company would acquire, through a plan of arrangement ("Arrangement"), all of the outstanding common shares of Richfield Ventures Corp. ("Richfield"). Under the terms of the Arrangement, each Richfield shareholder would receive 0.9217 of a New Gold share and a nominal cash payment of Cdn$0.0001 for each Richfield share held. The acquisition was granted final court approval on May 31, 2011. The effective date of the Arrangement was June 1, 2011.

The Company issued 48,611,979 common shares to Richfield shareholders and were valued at Cdn$9.75 per share. The value per share was determined using the June 1, 2011 opening share price of New Gold.

4. Asset Acquisitions (continued)

(a) Richfield Venture Corp. (continued)

The allocation of the purchase price based on the consideration paid and on Richfield net assets acquired as of June 1, 2011 is as follows:

	$
Issuance of New Gold shares (48,611,979 common shares)	487,906
Acquisition costs	5,764
Purchase consideration	493,670
Net assets acquired	
Net working capital (including cash of $24,415)	21,235
Plant and equipment	2,604
Blackwater project	465,290
Deferred tax asset	4,221
Other assets	320
	493,670

(b) Geo Minerals Ltd.

On October 17, 2011, the Company announced that it had entered into a definitive agreement whereby the Company would acquire, through a plan of arrangement, all of the outstanding common shares of Geo Minerals Ltd. ("Geo Minerals"). Under the terms of the Arrangement, each Geo Mineral shareholder would receive Cdn$0.16 for each share held. The Arrangement was granted final court approval on December 16, 2011. The effective date of the Arrangement was December 21, 2011. The purchase of Geo Minerals was to consolidate land ownership in the Blackwater project.

The allocation of the purchase price based on the consideration paid and on Geo Minerals net assets acquired as of December 21, 2011 is as follows:

	$
Cash consideration	21,158
Acquisition costs	387
Purchase consideration	21,545
Net assets acquired	
Net working capital (including cash of $3,492)	3,342
Mineral interest	18,087
Other assets	116
	21,545

4. Asset Acquisitions (continued)

(c) Silver Quest Resources Ltd.

On November 23, 2011, the Company announced that it had entered into a definitive agreement whereby the Company would acquire, through a plan of arrangement, all of the outstanding common shares of Silver Quest Resources Ltd. ("Silver Quest"). Under the terms of the Arrangement, each Silver Quest shareholder would receive 0.09 of a New Gold share and a nominal cash payment of Cdn$0.0001 for each Silver Quest share held. The Company further agreed to additional cash consideration of $5.6 million to fund the spun out entity Independence Gold Corp. The Arrangement was granted final court approval on December 16, 2011. The effective date of the Arrangement was December 23, 2011. The purchase of Silver Quest was to consolidate land ownership in the Blackwater project.

The Company issued 10,512,496 common shares to Silver Quest shareholders and were valued at Cdn$10.27 per share. The value per share was determined using the December 23, 2011 opening share price of New Gold.

The allocation of the purchase price based on the consideration paid and on Silver Quest net assets acquired as of December 23, 2011 is as follows:

	$
Issuance of New Gold shares (10,512,496 common shares)	105,761
Cash consideration	5,297
Acquisition costs	2,682
Purchase consideration	113,740
Net assets acquired	
Net working capital (including cash of $nil)	249
Mining interest	114,353
Other net liabilities	(862
	113,740

5. Expenses

(a) Operating expenses by nature

Operating expenses by nature for the years ended December 31, are as follows:

	2011	2010
	$	$
Raw materials and consumables	**132,971**	106,665
Salaries and employee benefits	**72,481**	60,860
Repairs and maintenance	**19,889**	19,589
Contractors	**24,058**	17,129
Royalties	**15,703**	12,124
Shipping costs	**603**	391
Change in inventories and work in progress	**(14,466)**	(10,737)
Operating leases	**32,377**	25,350
General and administrative	**17,856**	14,540
Other	**2,306**	1,862
	303,778	247,773

5. Expenses (continued)

(b) Finance costs and income

The following table summarizes finance costs and income for the years ended December 31.

	2011	2010
	$	$
Finance costs:		
Interest on convertible debentures	**5,937**	5,813
Interest on senior notes	**19,727**	20,077
Other interest	**1,232**	799
Unwinding of the discount on decommissioning obligations	**1,551**	1,424
Other finance costs	**2,359**	148
	30,806	28,261
Less: amounts included in cost of qualifying assets	**(25,664)**	(25,890)
	5,142	2,371
Finance income:		
Interest income	**3,589**	3,258

(c) Other gains and losses

The following table summarizes other gains and (losses) for the years ended December 31.

		2011		2010	
		$		$	
Fair value change of embedded derivative in Notes	i	**11,118**		7,679	
Gains on FVTPL financial assets		**1,349**		48,838	
Ineffectiveness on hedging instruments	ii	**(6,611**	**)**	-	
Fair value change of non-hedged derivatives	iii	**(18,347**	**)**	(113,336	)
Gain (loss) on foreign exchange		**7,122**		(9,675	)
Other		**(2,485**	**)**	(3,767	)
		(7,854	**)**	(70,261	)

(i) Fair value change of embedded derivative in Notes

The Company has the right to redeem the senior secured notes ("Notes"), as described in Note 12 (a) 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, 2011, the redemption price was 105% and is scheduled to decrease to 104% on June 28, 2012. The early redemption feature in the Notes qualifies as an embedded derivative that must be bifurcated for reporting purposes. At December 31, 2011, the fair value of the non-hedged derivative asset was $18.8 million (2010 - $7.7 million).

5. Expenses (continued)

(c) Other gains and losses

(ii) Ineffectiveness of hedging instruments

The Company has gold forward sales contracts that commenced in July 2008 representing a commitment of 5,500 ounces per month ending in December 2014 (as described in Note 13 (a)). The effective portion of gold contracts is recorded in other comprehensive income until the forecasted gold sale impacts earnings. The ineffective portion is recorded in other gains and losses in the current period. The ineffective portion has resulted in a loss of $6.6 million for the year ended December 31, 2011 (2010 - $nil).

(iii) Fair value change of non-hedged derivatives

Conversion option on Debentures

The Company issued 55,000 convertible debentures ("Debentures") in 2007, as described in Note 12 (b). The Debentures are classified as compound financial instruments for accounting purposes because of the holder conversion option. The conversion option is treated as a derivative liability measured at fair value on initial recognition, and is subsequently re-measured at fair value at the end of each reporting period. Unrealized gains or losses are recognized in net earnings. At December 31, 2011, the fair value of the derivative liability was $24.0 million (Cdn$24.3 million) (2010 - $29.4 million (Cdn$29.3 million)). The change in the fair value resulted in a gain of $5.1 million recorded in earnings for the year ended December 31, 2011 (2010 – $20.8 million loss). The debt component is measured at amortized cost and is accreted over the expected term to maturity using the effective interest method.

Warrants

The Company has outstanding share purchase warrants ("Warrants"), as described in Note 13 (b). The Warrants have an exercise price denominated in a currency other than the Company's functional currency and are classified as a derivative liability. The Warrants are measured at fair value on initial recognition, and subsequently re-measured at fair value through profit or loss at the end of each period and is recorded in non-hedged derivatives. At December 31, 2011, the fair value of the current and non-current portion of the derivative liability was $142.6 million (Cdn$145.0 million) (2010 - $125.9 million (Cdn$125.3 million)). At December 31, 2011 the fair value of the current portion was $53.3 million (Cdn$54.2 million) (2010 - $nil). The change in the fair value resulted in a loss of $23.5 million and a foreign exchange gain of $6.8 million recorded in net earnings for the year ended December 31, 2011 (2010 – loss of $92.6 million).

The Company assumed $1.0 million (Cdn$1.0 million) of warrants in the Silver Quest asset acquisition transaction (Note 4 (c)) on December 23, 2011. The warrants have an exercise price denominated in a currency other than the Company's functional current and are classified as a derivative liability. The change in the fair value was $nil for the year ended December 31, 2011.

6. Trade and other receivables

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Trade receivables	**6,684**	3,700	4,145
Sales tax receivable	**29,161**	7,723	5,424
Other receivables	**1,727**	506	776
	37,572	11,929	10,345

7. Trade and other payables

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Trade payables	**26,974**	19,542	13,452
Accruals	**69,137**	48,388	23,933
Current portion of decommissioning obligations	**4,326**	1,315	614
	100,437	69,245	37,999

8. Inventories

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Heap leach ore	**87,838**	61,738	58,169
Work-in-process	**13,710**	21,623	13,907
Finished goods	**4,611**	5,506	4,819
Stockpiled ore	**79**	79	55
Supplies	**20,505**	14,109	9,349
	126,743	103,055	86,299
Less: non-current inventories	**20,253**	-	-
	106,490	103,055	86,299

The amount of inventories recognized in operating expenses for the year ended December 31, 2011 was $285.4 million (2010 - $238.0 million). There were no write-downs or reversals of write-downs during the period. Heap leach Inventories of $20.3 million (2010- $nil) are expected to be recovered after one year.

9. Investments

(a) Available for sale securities

The Company acquired 1.4 million common shares of GeoNovus Minerals Corp. ("GeoNovus"). GeoNovus is a publicly traded junior exploration company listed on the TSX Venture Exchange. The common shares were acquired pursuant to the Geo Minerals transaction. The fair value of the GeoNovus shares received on the transaction date of December 21, 2011 was $0.2 million. The shares were initially valued as part of the asset acquisition, with subsequent revaluations based on the bid price. The Company designated the investment in GeoNovus as an available-for-sale financial asset with the changes in the fair value being included in other comprehensive income. At December 31, 2011 the fair value of the shares were $0.1 million with a loss of $0.1 million recorded in other comprehensive income.

9. Investments (continued)

(a) Available for sale securities (continued)

The Company acquired 4.3 million common shares of Independence Gold Corp. ("Independence"). Independence is a publicly traded junior exploration company listed on the TSX Venture Exchange. The common shares were acquired pursuant to the Silver Quest transaction. The fair value of the Independence shares received on the transaction date of December 23, 2011 was $3.4 million. The shares were initially valued as part of the asset acquisition, with subsequent revaluations based on the bid price. The Company designated the investment in Independence as an available-for-sale financial asset with the changes in the fair value being included in other comprehensive income (loss). At December 31, 2011 the fair value of the shares were $1.7 million with a loss of $1.7 million recorded in other comprehensive income.

The Company acquired 115 million shares of Beadell Resources Limited ("Beadell") as partial consideration for the sale of our interest in Amapari on April 13, 2010 (Note 10). 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 designated the investment in Beadell as an available-for-sale financial asset with the changes in the 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, with subsequent revaluations based on the bid price. 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 was included in net earnings for the year ended December 31, 2010.

(b) Asset backed notes

At December 31, 2010 the Company owned $21 million (Cdn$20.9 million) of face value 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 designated the investments as FVTPL 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 realized 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. At December 31, 2010 an unrealized gain of $6.6 million was recorded in net earnings of the remaining AB Notes.

In February 2011, the Company disposed of its remaining $21 million face value AB Notes, which had a fair value of $7.5 million at December 31, 2010, for proceeds of $8.9 million. The realized gain of $1.3 million was recorded in other gains and losses. At December 31, 2011, the Company no longer had a position in AB Notes.

10. Operations held for sale

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. 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 9 (a)). The Company recorded an after tax loss of $9.9 million on disposition of its interest in Amapari, net of pre-tax transaction costs of $1.5 million.

11. Mining interests

	Mining Properties					
	Depletable	Non depletable	Plant and equipment	Construction in Progress	Exploration and evaluation	Total
	$	$	$	$		$
Cost						
As at January 1, 2010	528,155	865,448	69,980	19	25,388	1,788,990
Additions	13,665	93,959	5,219	1,787	-	184,630
Disposals	-	-	(5,362)	-	-	(5,362)
Impairment	-	-	-	-	(15,728)	(15,728)
Transfers	16,250	(16,250)	-	-	-	-
Foreign exchange translation	-	20,965	4,622	-	-	25,587
As at December 31, 2010	558,070	964,122	444,459	1,806	9,660	1,978,117
Additions	29,484	190,398	207,252	13,547	623,942	1,064,623
Disposals	-	-	(4,323)	-	-	(4,323)
Transfers	25,140	(26,998)	7,629	(5,771)	-	-
Foreign exchange translation	-	(3,518)	(14,227)	-	(28,925)	(46,670)
As at December 31, 2011	**612,694**	**1,124,004**	**640,790**	**9,582**	**604,677**	**2,991,747**
Accumulated depreciation						
As at January 1, 2010	54,744	-	69,683	-	-	124,427
Depreciation for the period	58,732	-	31,149	-	-	89,881
Disposals	-	-	(3,431)	-	-	(3,431)
As at December 31, 2010	113,476	-	97,401	-	-	210,877
Depreciation for the period	48,610	-	40,697	-	-	89,307
Disposals	-	-	(2,993)	-	-	(2,993)
Foreign exchange translation	-	-	(741)	-	-	(741)
As at December 31, 2011	**162,086**	**-**	**134,364**	**-**	**-**	**296,450**
Carrying amount						
As at January 1, 2010	473,411	865,448	300,297	19	25,388	1,664,563
As at December 31, 2010	444,594	964,122	347,058	1,806	9,660	1,767,240
As at December 31, 2011	**450,608**	**1,124,004**	**506,426**	**9,582**	**604,677**	**2,695,297**

11. Mining interests (continued)

The Company capitalized $25.7 million of interest for the years ended December 31, 2011 (2010 - $25.9 million) related to the New Afton project.

A summary of carrying amount by property is as follows:

	Mining properties				
	Depletable	Non-depletable	Total	Plant and equipment	**December 31 2011**
	$	$	$	$	**$**
Mesquite Mine	172,209	30,913	203,122	101,117	**304,239**
Cerro San Pedro Mine	187,584	77,910	265,494	76,700	**342,194**
Peak Mine	90,815	47,855	138,670	85,935	**224,605**
New Afton Project	-	586,634	586,634	217,304	**803,938**
El Morro Project	-	390,274	390,274	-	**390,274**
Blackwater Project	-	595,017	595,017	23,620	**618,637**
Other projects	-	9,660	9,660	-	**9,660**
Corporate	-	-	-	1,750	**1,750**
	450,608	1,738,263	2,188,871	506,426	**2,695,297**

	Mining properties				
	Depletable	Non-depletable	Total	Plant and equipment	December 31 2010
	$	$	$	$	$
Mesquite Mine	168,068	46,485	214,553	98,826	313,379
Cerro San Pedro Mine	204,144	82,927	287,071	73,203	360,274
Peak Mine	72,382	46,671	119,053	68,934	187,987
New Afton Project	-	420,912	420,912	104,934	525,846
El Morro Project	-	368,933	368,933	-	368,933
Other projects	-	9,660	9,660	-	9,660
Corporate	-	-	-	1,161	1,161
	444,594	975,588	1,420,182	347,058	1,767,240

	Mining properties				
	Depletable	Non-depletable	Total	Plant and equipment	January 1 2010
	$	$	$	$	$
Mesquite Mine	182,231	44,566	226,797	97,235	324,032
Cerro San Pedro Mine	233,696	84,779	318,475	66,208	384,683
Peak Mine	57,484	61,506	118,990	57,251	176,241
New Afton Project	-	310,079	310,079	78,581	388,660
El Morro Project	-	364,537	364,537	-	364,537
Other projects	-	25,388	25,388	-	25,388
Corporate	-	-	-	1,022	1,022
	473,411	890,855	1,364,266	300,297	1,664,563

During the year ended December 31, 2011 the Company reviewed external and internal indicators for impairment and concluded that no indicators of impairment existed. In 2010, the Company determined that the carrying value of the Liberty Bell project in central Alaska could no longer be supported. Drilling results in 2010 did not warrant further exploration at Liberty Bell. The drilling was discontinued and therefore an impairment charge of $15.7 million was recorded in net earnings to reduce the carrying value of the Liberty Bell project to $nil.

12. Long-term debt

Long-term debt consists of the following:

		December 31 2011	December 31 2010	January 1 2010
		$	$	$
Senior secured notes	a	**176,560**	179,197	169,044
Subordinated convertible debentures	b	**44,923**	42,635	37,609
Term loan facility	c	**-**	-	27,235
El Morro project funding loan	d	**30,181**	8,052	3,656
Revolving credit facility	e	**-**	-	-
		251,664	229,884	237,544
Less: current portion of long-term debt		**-**	-	(12,088)
		251,664	229,884	225,456

(a) Senior secured notes

The face value of the Notes at December 31, 2011 was $183.9 million (Cdn$187.0 million) (2010 - $184.1 million (Cdn$187.0 million)). The Notes are denominated in Canadian dollars, 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 Project. The senior secured note agreement requires the Company to comply with certain reporting and other non-financial covenants.

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, 2011, the redemption price was 105% and is scheduled to decrease to 104% on June 28, 2012. The early redemption feature in the Notes qualifies as an embedded derivative that must be bifurcated for reporting purposes. At December 31, 2011, the fair value of the derivative asset was determined to be $18.8 million (2010 - $7.7 million). The change in the fair value has resulted in a gain of $11.1 million recorded in earnings for the year ended December 31, 2011 (2010 - $7.7 million gain).

(b) Subordinated convertible debentures

The face value of the Debentures at December 31, 2011 was $54.1 million (Cdn$55.0 million) (2010 - $54.2 million (Cdn$55.0 million)).

In 2007, the Company issued 55,000 Debentures for an aggregate principal amount of Cdn$55.0 million. The Debentures are denominated in Canadian dollars, 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.

12. Long-term debt (continued)

(b) Subordinated convertible debentures (continued)

From January 1, 2012, if the Current Market Price of the Company's shares is at least 125% of the conversion price (Cdn$11.69 per share), the Company may give notice that it will redeem the Debentures. Redemption would take place 40-60 days following the issue of notice. The Current Market Price is defined as the volume weighted average price on the Toronto Stock Exchange, for the 30 trading days ending 5 days before the relevant date. The terms of the Company's Senior Secured Notes do not allow redemption of the Debentures for cash, and therefore in the event that the current market price reaches the required level and the company elects to redeem the Debentures, payment would take place in the form of shares.

The Debentures are classified as compound financial instruments for accounting purposes because of the holder conversion option. The conversion option is treated as a derivative liability and was measured at fair value on initial recognition, and is subsequently re-measured at fair value through profit or loss at the end of each period and is recorded in non-hedged derivative liabilities. At December 31, 2011, the fair value of the derivative liability was $24.0 million (2010 - $29.4 million). The change in the fair value has resulted in a gain of $5.1 million recorded in earnings for the year ended December 31, 2011 (2010 – $20.8 million loss). The debt component is measured at amortized cost and is accreted over the expected term to maturity using the effective interest method.

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.

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.

(c) Term loan facility

As part of the business combination with Western Goldfields Inc. ("Western Goldfields") in 2009, the Company acquired 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.

12. Long-term debt (continued)

(c) Term loan facility (continued)

On February 26, 2010 the Company retired the term loan facility by paying the total outstanding principal of $27.2 million. 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 12 (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 monetized or delivered until the end of 2014 at 5,500 ounces per month at $801 per ounce. The total commitment at December 31, 2011 is 198,000 ounces.

(d) El Morro Project funding loan

The Company owns a 30% interest (held through its wholly owned subsidiary Datawave Sciences Inc.) in the El Morro Project which is a development copper-gold project located in the Atacama region of north-central Chile.

On January 7, 2010, New Gold's wholly owned subsidiary Datawave Sciences Inc. ("Datawave") provided notice to Xstrata Copper Chile S.A. ("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. Datawave held a right of first refusal over Xstrata's 70% interest, which came into effect when an agreement between Barrick Gold Corporation ("Barrick") and Xstrata was announced October 12, 2009. 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 the Datawave subsidiary, Datawave sold that subsidiary to a subsidiary of Goldcorp.

Concurrent with this sale, Datawave received a $50.0 million payment and the parties amended the terms of the existing shareholders' agreement. Under the revised shareholders agreement, Goldcorp (through its subsidiary) agreed to fund 100% of Datawave's share of the development and construction capital for the El Morro Project which is currently estimated at $3.9 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 affiliated subsidiaries as defendants. The claim relates to Datawave's exercise of its right of first refusal with respect to the El Morro Project. New Gold believes the claim is without merit and is defending this action using all available legal avenues.

As at December 31, 2011 the interest rate was locked in at 4.58%. 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.

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 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.

12. Long-term debt (continued)

(d) El Morro Project funding loan (continued)

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 El Morro funding commitments 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, 2011 the interest rate on the Company's share of the capital funded by Goldcorp was locked in at 4.58% (and is compounded monthly). Goldcorp assumed this loan at the new, lower interest rate from February 16, 2010. As at December 31, 2011, the outstanding loan balance was $30.2 million including accrued interest. For the year ended December 31, 2011, non-cash investing activities were $21.3 million (2010 - $4.3 million) excluding accrued interest, and represent the Company's share of contributions to the El Morro project funded by the operator. The loan is secured against all rights and interests of the Company's El Morro subsidiaries, including a pledge of the El Morro shares, which means recourse is limited to the Company's investment in El Morro.

(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 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's 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 December 31, 2011 + 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, 2011.

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. 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.

12. Long-term debt (continued)

(e) Revolving credit facility (continued)

As at December 31, 2011, 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 February 2011.

13. Derivative instruments

The following tables summarize derivative assets and liabilities designated as hedging instruments:

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Asset			
Fuel contracts	**-**	-	706
Less: current derivative assets	**-**	-	(706)
	-	-	**-**
Liability			
Gold contracts	**141,591**	153,375	95,986
Less: current derivative liabilities	**(49,184)**	(40,072)	(19,206)
	92,407	113,303	76,780

The following table summarizes realized derivative losses for the years ended December 31.

	2011	2010
	$	$
Derivatives designated as hedging instruments		
Gold hedging contracts	**(41,651)**	(20,035)
Fuel contracts	**-**	(5)
	(41,651)	(20,040)

Realized gains (losses) on derivatives not in a hedging relationship are recorded in other income. Realized gains (losses) on derivatives in a qualifying hedge relationship are classified as revenue for gold hedging contracts and operating expenses for fuel hedging contracts.

13. Derivative instruments (continued)

The following table summarizes unrealized derivative (losses) gains for the years ended December 31.

	2011	2010
	$	$
Derivatives not classified as hedging instruments for accounting purposes		
Share purchase warrants	**(23,496)**	(92,551)
Conversion option on convertible debentures	**5,149**	(20,785)
Prepayment option embedded derivative	**11,118**	7,679
	(7,229)	(105,657)

For the years ended December 31, 2011 and 2010 there were no unrealized derivative gains (losses) recorded in earnings for derivatives classified as hedging instruments for accounting purposes.

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

	2011	2010
	$	$
Effective portion of change in fair value of hedging instruments		
Gold hedging contracts - unrealized	**(32,051)**	(85,849)
Gold hedging contracts - realized	**41,651**	20,035
Fuel contracts	**-**	(366)
Deferred income tax	**(3,834)**	27,572
	5,766	(38,608)

For the year ended December 31, 2011 there were no unrealized derivative gains or losses recorded in net earnings for derivatives classified as hedging instruments for accounting purposes. An unrealized derivative loss of $6.6 million (2010 - $nil) relating to the ineffective portion of the change in fair value of hedging instruments was recorded in other gains and losses at December 31, 2011, as described in Note 5 (c)(ii).

The net amount of existing gains (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, 2011, 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 $39.3 million for gold hedging contracts.

13. Derivative instruments (continued)

(a) Gold hedging contracts

Under the terms of the term loan facility (Note 12(c)), WMMI 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, 2011, the Company had remaining gold forward sales contracts for 198,000 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 36 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 changes in gold spot and forward prices each period on the changes in 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) Share purchase warrants

The following table summarizes information about outstanding share purchase warrants at December 31, 2011.

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	73,812	7,381	9.00	November 28, 2012
Series A	27,850	27,850	15.00	June 28, 2017
	319,162	56,981		

The warrants are classified as a non-hedged derivative liability recorded as a FVTPL liability due to the currency of the warrants. The warrants are priced in Canadian dollars, which is not the functional currency of the Company. Therefore the warrants are fair valued using the market price with gains or losses recorded in net earnings.

13. Derivative instruments (continued)

(c) Non-current non-hedged derivative asset and liabilities classified as FVTPL assets and liabilities

The following table summarizes FVTPL assets and liabilities.

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Non-current non-hedged derivative asset			
Prepayment option on Notes	**18,797**	7,679	-
	18,797	7,679	-
Non-current non-hedged derivative liabilities			
Equity conversion option on Debentures	**23,957**	29,429	7,701
Warrants	**143,627**	125,936	29,841
Less: current non-hedged derivative liabilities	**(53,288)**	-	-
	114,296	155,365	37,542

14. Share capital

At December 31, 2011, the Company had unlimited authorized common shares and 461.4 million common shares outstanding.

(a) No par value common shares issued

		Number of shares (000's)	$
Balance, January 1, 2010		**388,815**	**1,810,039**
Exercise of options		4,171	19,394
Exercise of warrants		6,056	16,453
Balance, December 31, 2010		**399,042**	**1,845,886**
Acquisition of Richfield	i	48,612	487,906
Acquisition of Silver Quest	ii	10,512	105,761
Exercise of options	iii	3,187	24,350
Exercise of warrants		5	65
Balance, December 31, 2011		**461,358**	**2,463,968**

(i) On June 1, 2011, the Company issued 48.6 million common shares to effect the acquisition of Richfield Venture Corp., as described in Note 4 (a). The shares were issued at the opening share price of the Company on June 1, 2011, the transaction completion date, of Cdn$9.75 for a total consideration of $487.9 million.

(ii) On December 23, 2011, the Company issued 10.5 million common shares to effect the acquisition of Silver Quest Resources Inc., as described in Note 4 (c). The shares were issued at the opening share price of the Company on December 23, 2011, the transaction completion date, of Cdn$10.27 for a total consideration of $105.8 million.

(iii) During the year ended December 31, 2011, 3.2 million common shares were issued pursuant to the exercise of stock options. The Company received proceeds of $16.4 million from these exercises and transferred $8.0 million from contributed surplus.

(b) Stock options

In March 2011, New Gold adopted the New Gold Inc. Stock Option Plan 2011 (“Plan”). Under the Plan, the maximum number of shares reserved for exercise of all options granted by the Company may not exceed 5% of the Company’s shares issued and outstanding at the time the options are granted. The exercise price of each option granted under the Plan may not be less than the market price of the Company’s’ shares at the date of grant. Options granted under the Plan expire no later than the 5th anniversary of the date the options were granted and vesting provisions for issued options are determined at the discretion of the Board, although the Company has a practice of not having options vest earlier than 12 months. Options granted under the Plan can be settled for cash or equity. The Company has incorporated an estimated forfeiture rate for stock options that will not vest.

14. Share capital (continued)

(b) Stock options (continued)

The following table presents the changes in the stock option plan for the year ended December 31, 2011.

	Number of options	Weighted average exercise price
	(000's)	Cdn$
Balance, January 1, 2010	15,324	4.34
Granted	2,704	4.80
Exercised	(4,171)	2.74
Forfeited	(1,609)	8.00
Balance, December 31, 2010	12,248	4.50
Granted	**1,815**	**8.03**
Exercised	**(3,187)**	**5.01**
Expired	**(183)**	**11.00**
Forfeited	**(413)**	**5.17**
Balance, December 31, 2011	**10,280**	**4.83**

At December 31, 2011 the Company had 5.8 million stock options that were exercisable with a weighted average exercise price of Cdn$4.32 (2010 – 6.1 million with a weighted average exercise price of Cdn$5.07).

The following table summarizes information about the stock options outstanding at December 31, 2011.

		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	2.12	560	0.86	560	0.86
1.00 - 1.99	1.91	275	1.75	275	1.75
2.00 - 2.99	3.73	1,164	2.57	758	2.50
3.00 - 3.99	4.09	3,099	3.23	2,024	3.23
4.00 - 4.99	5.08	1,350	4.39	351	4.39
5.00 - 5.99	2.94	391	5.73	193	5.61
6.00 - 6.99	1.06	389	6.35	389	6.35
7.00 - 7.99	4.39	2,285	7.73	843	7.83
8.00 - 8.99	5.86	150	8.84	50	8.84
9.00 - 9.99	1.19	507	9.36	395	9.30
10.00 - 10.99	5.83	35	10.43	-	-
11.00 - 11.99	-	-	-	-	-
12.00 - 12.22	4.86	75	12.22	-	-
0.34 - 12.22	3.82	10,280	4.83	5,838	4.32

14. Share capital (continued)

(b) Stock options (continued)

The weighted average fair value of the stock options granted during the year ended December 31, 2011 was Cdn$8.03 (2010 – Cdn$4.80). Options were priced using a Black-Scholes pricing model. Volatility is measured as the annualized standard deviation of stock price returns, based on historical movements of the Company's share price and those of a number of peer companies. The grant date fair value will be amortized as part of compensation expense over the vesting period.

The Company had the following stock option grant dates in 2011.

Grant 1	January 26, 2011
Grant 2	March 7, 2011
Grant 3	June 8, 2011
Grant 4	November 9, 2011
Grant 5	December 16, 2011

The following table illustrates the valuation assumptions used for the options granted in 2011.

		Grant 1	Grant 2	Grant 3	Grant 4	Grant 5
Granted	(000)'s	1,593	25	112	75	10
Grant date share price	Cdn	7.67	10.46	9.59	12.19	10.35
Expected volatility		70%	70%	60%	60%	60%
Option life		4.17	3.67	4.67	3.67	3.67
Dividend yield		0%	0%	0%	0%	0%
Risk-free interest rate		1.61%	1.54%	1.38%	0.54%	0.99%
Forfeiture rate		3.0%	3.0%	3.0%	3.0%	3.0%

At December 31, 2011, the intrinsic value of the stock options outstanding was $55.1 million (December 31, 2010 - $63.7 million) and the intrinsic value of the stock options that were exercisable was $34.1 million (December 31, 2010 - $28.5 million). For the year ended December 31, 2011, the intrinsic value of the stock options exercised was $17.8 million (2010 - $17.2 million).

For the year ended December 31, 2011 the Company recorded $7.2 million (2010 - $6.5 million) as stock-based compensation expense and recorded this amount in contributed surplus. At December 31, 2011, the total value of the non-vested stock options that remain to be expensed is $4.6 million (2010 - $6.1 million). It is expected that this amount shall be included in the determination of net earnings over the next 1.4 years.

14. Share capital (continued)

(c) Share award units

The following table presents the changes to the share award unit plan for the year ended December 31, 2011.

	Number of units
	(000)
Balance, January 1, 2010	560
Units granted	724
Units settled in cash	(361)
Units cancelled	(165)
Balance, December 31, 2010	758
Units granted	**1,049**
Units settled in cash	**(652)**
Units cancelled	**(127)**
Balance, December 31, 2011	**1,028**

In 2009, the Company established a share award unit plan 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 volume weighted average share price on the TSX for the five days prior to the anniversary date. One-third of the share awards units vest annually on the anniversary of the grant date. As the Company is required to settle this award 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 volume weighted average price of the Company's common shares. The changes in fair value will be included in the compensation expense for that period.

The Company issued 1.0 million share award units in 2011. At December 31, 2011, there were 1.0 million non-vested share awards outstanding (December 2010 – 0.8 million). Including the fair value adjustment for the share award units previously issued, the Company recorded $8.6 million as compensation expense for the year ended December 31, 2011 (2010 - $6.1 million). For the year ended December 31, 2011 the Company capitalized $1.5 million (2010 - $1.4 million) 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 $10.2 million (2010 - $3.8 million). It is expected that this amount will be included in the determination of net income over the next 1.9 years.

14. Share capital (continued)

(d) Earnings per share

The following table sets forth the computation of diluted earnings per share for the years ended December 31.

	2011	2010
	$	$
Earnings (loss)		
Continuing operations	**179,028**	57,347
Discontinued operations, net of tax	**-**	(9,886)
Net earnings	**179,028**	47,461
Dilution of net earnings (gain) loss:		
Debentures (net of tax)	**(3,862)**	-
Net diluted earnings	**175,166**	47,461
Basic weighted average number of shares outstanding	**429,591**	390,883
Effective of diluted securities		
Stock options	**5,536**	4,350
Debentures	**5,882**	-
Warrants	**-**	-
Diluted weighted average number of shares outstanding	**441,009**	395,233
Earnings per share from continuing operations		
Basic	**0.42**	0.15
Diluted	**0.40**	0.15
Earnings (loss) per share from discontinued operations		
Basic	**-**	(0.03)
Diluted	**-**	(0.03)
Earnings per share from continuing and discontinued operations		
Basic	**0.42**	0.12
Diluted	**0.40**	0.12

The following lists the equity securities excluded from the computation of diluted earnings per share. The securities were excluded as the exercise prices relating to the particular security exceed the average market price of the common shares of the Company of Cdn$10.50 the year ended December 31, 2011 (2010 - Cdn$6.26), or the inclusion of the equity securities had an anti-dilutive effect on net earnings.

	2011	2010
	(000's)	(000's)
Stock options	**185**	2,881
Warrants	**49,600**	56,986
Debentures	**-**	5,882

15. Income and mining taxes

	2011	2010
	$	$
Current income and mining tax expense (recovery)		
Canada	**4,587**	2,137
Australia	**12,797**	12,383
Mexico	**58,879**	36,257
United States	**14,814**	7,530
Total current tax	**91,077**	58,307
Deferred income and mining tax expense (recovery)		
Canada	**2,549**	(36,278)
Australia	**1,778**	220
Mexico	**(15,385)**	(21,171)
United States	**(661)**	16,931
Total deferred tax	**(11,719)**	(40,298)
Income tax expense	**79,358**	18,009

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:

	2011	2010
	$	$
Earnings before income taxes	**258,386**	75,356
Canadian federal and provincial income tax rates	**26.50%**	28.50%
Income tax recovery based on above rates	**68,472**	21,476
Increase (decrease) due to		
Non-taxable income	**(15,294)**	(12,851)
Non-deductible expenditures	**13,510**	9,218
Different statutory tax rates on earnings of foreign subsidiaries	**19,942**	9,291
Adjustment of prior year provision to statutory tax returns	**(3,523)**	1,645
Non-taxable gain	**-**	(15,993)
Benefit of losses not recognized in period	**-**	595
Deferred tax assets not recognized and other	**(3,749)**	4,628
	79,358	18,009

Effective January 1, 2011, the Canadian Federal corporate tax rate decreased from 18% to 16.5% and the British Columbia provincial tax decreased from 10.5% to 10%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 28.5% to 26.5%.

15. Income and mining taxes (continued)

The following is the analysis of the deferred tax assets and liabilities presented in the consolidated statements of financial position.

	December 31 2011	December 31 2010	January 1 2010
	$	$	**$**
Deferred tax assets			
Unused non-capital losses	**33,838**	23,286	28,243
Capital losses	**-**	12,241	3,006
Investment tax credits / Government assistance	**28,680**	11,256	-
Alternative minimum tax credits and state taxes	**15,537**	6,939	2,008
Derivative instruments / Hedging	**57,706**	62,500	49,588
Decommissioning obligations	**6,507**	2,810	2,567
Property, plant and equipment	**-**	-	6,771
Accrued liabilities and provisions	**11,130**	7,466	6,549
Other	**2,945**	-	11,844
	156,343	126,498	110,576
Deferred tax liabilities			
Mining interest	**(272,994)**	(277,189)	(338,417)
Property, plant and equipment	**(17,233)**	(13,315)	-
Other	**(4,072)**	(5,116)	(7,030)
	(294,299)	(295,620)	(345,447)
Deferred income tax liabilities, net	**(137,956)**	(169,122)	(234,871)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

The movement in the net deferred tax liabilities as at December 31 was:

	2011	2010
Balance at the beginning of the year	**(169,122)**	(234,871)
Recognized in net earnings	**11,719**	40,298
Recognized in other comprehensive income	**(3,700)**	27,570
Recognized as reduction in mineral properties	**23,699**	11,230
Recognized in equity	**-**	-
Other	**(552)**	(13,349)
	(137,956)	(169,122)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The group did not recognize deferred tax assets on the following losses by country:

- Canadian income tax losses of $4.8 million expire between 2014 to 2031;
- Canadian capital loss carry forwards of $6.5 million with no expiry date;
- United States loss carry forwards of $5.8 million expire between 2021 to 2028; and
- Other loss carry forwards of $0.6 million with varying expiry dates.

In addition to the above, the group did not recognize deferred tax assets of $1.8 million (2010 - $nil) on other temporary differences.

The Company has $295.0 million (2010 - $141.0 million) of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized.

16. Reclamation and closure cost obligations

Reclamation and closure cost obligations 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 reclamation obligations ("Obligations") consist of reclamation and closure costs for the Mesquite Mine, Cerro San Pedro Mine, Peak Mine, the New Afton Project and the Blackwater Project. Significant reclamation and closure activities include land rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs.

	Mesquite Mine $	Cerro San Pedro Mine $	Peak Mine $	New Afton Project $	Blackwater Project $	Total $
Balance, January 1, 2010	7,301	5,764	9,201	3,112	-	25,378
Reclamation expenditures	(23)	-	(19)	-	-	(42)
Unwinding of discount	246	308	571	121	-	1,246
Revisions to expected cash flows	964	2,597	3,189	238	-	6,988
Foreign exchange movement	-	242	1,492	184	-	1,918
Balance, December 31, 2010	8,488	8,911	14,434	3,655	-	35,488
Reclamation expenditures	(85)	-	(477)	-	-	**(562)**
Unwinding of discount	364	244	842	116	-	**1,566**
Revisions to expected cash flows	1,727	8,622	2,669	6,227	251	**19,496**
Foreign exchange movement	-	(999)	130	(80)	-	**(949)**
Balance, December 31, 2011	**10,494**	**16,778**	**17,598**	**9,918**	**251**	**55,039**
Less: current portion	**1,566**	**958**	**518**	**1,284**	**-**	**4,326**
	8,928	**15,820**	**17,080**	**8,634**	**251**	**50,713**

Each period the Company reviews cost estimates and other assumptions used in the valuation of the obligations 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 obligation. The fair values of the obligations 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 obligation 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 obligation is recorded. The fair value of an obligation is recorded when it is incurred.

16. Reclamation and closure cost obligations (continued)

(a) Mesquite Mine

In December 2011, the Company updated the obligation related to the Mesquite Mine. The impact of the assessment was an increase of $1.7 million relating to changes in future reclamation activities and current discount factors. The undiscounted value of this liability is $12.4 million (2010 - $11.8 million). The liability has been estimated using an inflation rate of 3% and a discount rate of 1.9%. The Company expects to incur obligation expenditures between 2012 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.

In the second half of 2011 the Company entered into an agreement with HCC Surety Group with the intention of replacing the existing AIG bonding program. The Company expects that the original bonds will be released and returned by the obligees in 2012, which should result in the release to the Company of $9.0 million in reimbursement account funds at AIG.

(b) Cerro San Pedro

In December 2011, the Company updated the obligation related to the Cerro San Pedro Mine. The impact of the assessment was an increase of $8.6 million relating to changes in timing of future reclamation activities. The undiscounted value of this liability is $19.4 million (2010 - $13.7 million). The liability has been estimated using an inflation rate of 4.3% and a discount rate of 1.95%. The Company expects to incur obligation expenditures between 2012 and 2024.

(c) Peak Mine

In December 2011, the Company updated the obligation related to the Peak Mine. The impact of the assessment was an increase of $2.7 million relating to changes in future reclamation activities and current discount factors. The undiscounted value of this liability is $26.1 million (2010 - $26.5 million). The liability has been estimated using an inflation rate of 3.5% and a discount rate of 3.6%. The Company expects to incur obligation expenditures between 2012 and 2021.

The Company is required to have a performance bond to satisfy asset retirement obligations for the Peak Mine. The Company has provided letters of credit to satisfy the performance bond requirement. The letters of credit are backed by the revolving credit facility (Note 12 (e)). The total amount of the letters of credit outstanding is $10.5 million (AUD$10.2 million). A fee is charged for outstanding letters of credit, at a rate of 2.35% for the first three quarters of 2011, and 2.05% thereafter as determined by the Company's credit ratios under the existing credit facility.

16. Reclamation and closure cost obligations (continued)

(d) New Afton Project

The Company is continuing to develop the New Afton mine. During the year ended December 31, 2011, the Company updated the obligation related to the New Afton mine. The impact of the assessment was an increase of $6.2 million relating changes in future reclamation activities and current discount factors. The undiscounted value of this liability is $13.1 million (2010 - $6.4 million). The liability has been estimated using an inflation rate of 2.0% and a discount rate of 2.5%. The Company expects to incur obligation expenditures between 2012 and 2029.

In connection with this plan, the Company has a letter of credit with the British Columbia Ministry of Energy and Mines for $7.9 million (Cdn$8.0 million). The letter of credit issued in 2011 is secured by the revolving credit facility (Note 12 (e)).

17. Supplemental cash flow information

	2011	December 31 2010
	$	$
Operating activities:		
Change in non-cash working capital		
Trade and other receivables	**(6,711)**	1,536
Inventories	**(16,620)**	(10,247)
Trade and other payables	**11,920**	4,987
Prepaid expenses and other	**(1,127)**	(3,775)
	(12,538)	(7,499)

18. Segmented information

(a) Segment revenues and results

The Company manages its operations by operating mine, development project and exploration project. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. The results from operations for these reportable operating segments are summarized in the table below:

						December 31, 2011	
	Mesquite	CSP	Peak	New Afton	Corporate	Other [1]	Total
	$	$	$	$	$	$	$
Revenues [2]	209,070	294,271	192,598	-	-	-	695,939
Operating expenses	103,266	89,119	111,393	-	-	-	303,778
Depreciation and depletion	26,148	32,429	18,358	-	-	-	76,935
Earnings from mine operations	79,656	172,723	62,847	-	-	-	315,226
Corporate admin. expenses	-	-	-	-	25,512	760	26,272
Share-based payment expenses	-	-	-	-	11,140	-	11,140
Exploration expenses	-	3,681	4,224		119	1,997	10,021
Earnings (loss) from operations	79,656	169,042	58,623	-	(36,771)	(2,757)	267,793
Finance income	90	77	290	189	2,791	152	3,589
Finance costs	(391)	(255)	(1,213)	(116)	(2,377)	(790)	(5,142)
Other (losses) gains	(10,267)	1,405	2,181	17,311	(17,476)	(1,008)	(7,854)
Earnings (loss) before taxes	69,088	170,269	59,881	17,384	(53,833)	(4,403)	258,386
Income tax (expense) recovery	(14,044)	(43,275)	(14,575)	(278)	(5,740)	(1,446)	(79,358)
Net earnings (loss) from continuing operations	55,044	126,994	45,306	17,106	(59,573)	(5,849)	179,028

(1) Other includes balances relating to the exploration properties that have no revenues or operating costs.
(2) Segmented revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year.

							December 31, 2010
	Mesquite	CSP	Peak	New Afton	Corporate	Other [1]	Total
	$	$	$	$	$	$	$
Revenues	189,361	190,459	150,630	-	-	-	530,450
Operating expenses	100,235	73,423	74,115	-	-	-	247,773
Depreciation and depletion	27,993	33,477	16,904	-	-	-	78,374
Earnings from mine operations	61,133	83,559	59,611	-	-	-	204,303
Corporate admin. expenses	-	-	-	(19)	23,208	945	24,134
Share-based payment expenses	-	-	-	-	6,877	-	6,877
Exploration expenses	2,912	1,971	5,109	-	-	2,842	12,834
Exploration expenses	-	-	-	-	-	15,728	15,728
Earnings (loss) from operations	58,221	81,588	54,502	19	(30,085)	(19,515)	144,730
Finance income	227	524	300	115	2,086	6	3,258
Finance costs	(537)	(667)	(885)	(119)	(163)	-	(2,371)
Other (losses) gains	(736)	(15,588)	(9,557)	(4,486)	(35,858)	(4,036)	(70,261)
Earnings (loss) before taxes	57,175	65,857	44,360	(4,471)	(64,020)	(23,545)	75,356
Income tax (expense) recovery	(18,508)	(19,447)	(4,668)	(4,330)	14,848	14,096	(18,009)
Net earnings (loss) from continuing operations	38,667	46,410	39,692	(8,801)	(49,172)	(9,449)	57,347

(1) Other includes balances relating to the exploration properties that have no revenues or operating costs.
(2) Segmented revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year.

18. Segmented information (continued)

(b) Segment assets and liabilities

The following tables present the segmented assets and liabilities:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Total assets	**Total liabilities**	Total assets	Total liabilities	Total assets	Total liabilities
	$	$	$	$	$	$
Mesquite Mine	**466,943**	**260,708**	424,361	212,142	414,882	186,929
Cerro San Pedro Mine	**492,628**	**163,311**	455,367	175,971	452,994	135,056
Peak Mine	**285,287**	**70,722**	256,247	67,714	226,458	54,987
New Afton Project	**846,068**	**261,409**	567,074	265,709	467,505	221,740
El Morro Project	**390,274**	**96,527**	368,932	70,758	364,537	61,647
Blackwater Project	**626,702**	**5,695**	-	-	-	-
Other [1]	**113,500**	**80,661**	357,208	116,400	188,630	38,511
Operations held for sale	**-**	**-**	-	-	89,287	30,304
	3,221,402	**939,033**	2,429,189	908,694	2,204,293	729,174

[1] Other includes corporate balances and exploration properties.

The Company accounts for its investment in the El Morro Project using equity method accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss after the date of acquisition. The amount recorded in net earnings for the year ended December 31, 2011 related to the El Morro Project is $nil (2010- $nil).

(c) Geographical information

The Company operates in five principal geographical areas - Canada (country of domicile), the United States, Mexico, Australia and Chile. The Company had operations in Brazil from the Amapari Mine, which the company sold in 2010. All related assets and liabilities were presented as a discontinued operation in the year 2010.

The Company's revenue from continuing operations by location of operations and information about the Company's non-current assets by location of assets are detailed below.

	Revenues [1]		Non-current assets [2]		
	2011	2010	**December 31 2011**	December 31 2010	January 1 2010
	$	$	**$**	$	$
United States	**209,070**	189,361	**324,493**	313,379	339,760
Mexico	**294,271**	190,459	**342,194**	360,274	368,955
Australia	**192,598**	150,630	**224,605**	187,987	176,241
Canada	**-**	-	**1,424,324**	527,007	389,682
Chile	**-**	-	**399,934**	378,593	389,925
Brazil	**-**	-	**-**	-	78,989
	695,939	**530,450**	**2,715,550**	1,767,240	1,743,552

[1] Presented based on the location in which the sale originated.
[2] Non-current assets exclude financial instruments (investments, reclamation deposits and other) and deferred tax assets.

18. Segmented information (continued)

(d) Information about major customers

The following table presents sales to individual customers exceeding 10% of annual sales for the following periods. The following four customers (2010 – four customers) represent 84% (2010 – 91%) of the Company's concentrate and doré sales revenue as at December 31, 2011.

Customer	Reporting segment	**2011**	2010
			$
1	Mesquite[1]	**118,779**	142,026
	Cerro San Pedro[1]	**248,135**	4,010
2	Peak	**97,573**	186,450
3	Peak	**74,753**	87,620
4	Cerro San Pedro	**46,136**	62,873
Total		**585,376**	482,979
% of total metal sales		**84%**	91%

[1] Mesquite and Cerro San Pedro both sell to the same customer.

The Company is not economically dependent on a limited number of customers for the sale of its product because gold can be sold through numerous commodity market traders worldwide. Refer to Note 20 (a) for further discussion on the Company's exposure to Credit Risk.

19. 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 equity, long-term debt, net of cash and cash equivalents, and investments.

Capital, as defined above is summarized in the following table.

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Equity	**2,282,369**	1,520,495	1,475,119
Long-term debt	**251,664**	229,884	225,456
	2,534,033	1,750,379	1,700,575
Cash and cash equivalents	**(309,406)**	(490,754)	(271,526)
Investments	**(1,823)**	(7,533)	(45,890)
	2,222,804	1,252,092	1,383,159

19. Capital risk management (continued)

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, restructure or 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 & Poor's 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 12) 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.

20. Financial risk management

The Company 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 trade and other receivables. Credit risk is primarily associated with trade and other receivables; 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 four customers.

20. Financial risk management (continued)

(a) Credit risk (continued)

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, 2011 is not considered to be high.

The Company's maximum exposure to credit risk is as follows:

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Cash and cash equivalents	**309,406**	490,754	271,526
Trade receivables	**37,572**	11,929	10,345
Reclamation deposits and other	**14,912**	23,616	17,646
	361,890	526,299	299,517

The aging of trade receivables was as follows:

	0-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	**December 31 2011 Total**	December 31 2010 Total	January 1 2010 Total
	$	$	$	$	$	**$**		
Mesquite Mine	360	-	-	-	-	**360**	442	273
Cerro San Pedro Mine	3,756	(48)	267	(59)	787	**4,703**	3,798	5,348
Peak Mine	2,464	1,883	-	1,228	25	**5,600**	3,176	3,922
New Afton	10,107	-	-	6,071	-	**16,178**	3,581	632
Blackwater	6,831					**6,831**	-	-
Corporate	3,900	-	-	-	-	**3,900**	932	170
	27,418	1,835	267	7,240	812	**37,572**	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 employs a restrictive investment policy as detailed in the capital risk management section (Note 19).

The Company has a bonding and insurance program, primarily with Chartis, formerly AIG Insurance, in respect of the operations and closure liabilities of the Mesquite Mine. At December 31, 2011, the Company had $8.9 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 United States Department of the Treasury. The United States 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 United States.

20. Financial risk management (continued)

(a) Credit risk (continued)

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 financial position, financial performance 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.

Sales to individual customers exceeding 10% of annual sales for the years ended December 31, 2011 and 2010 are presented in Note 18 (d).

(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 19.

The following are the maturities of contractual obligations. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying amounts on the consolidated statement of financial position.

	Less than 1 year	1-3 years	4-5 years	After 5 years	**December 31 2011 aTotal**	December 31 2010 Total	January 1 2010 Total
	$	$	$	$	**$**		
Trade and other payables	100,437	-	-	-	**100,437**	69,245	37,999
Long-term debt	-	-	54,082	183,877	**237,959**	243,307	258,467
Interest payable on long-term debt	21,092	40,806	36,775	9,194	**107,867**	131,857	147,352
Gold contracts	49,184	92,407	-	-	**141,591**	153,375	95,986
	170,713	133,213	90,857	193,071	**587,854**	597,784	539,804

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.

20. Financial risk management (continued)

(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 United States 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.

(ii) Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the United States dollar: cash and cash equivalents, investments, trade and other receivables, reclamation deposits, trade and other payables, 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, 2011	
	Canadian dollar	**Australian dollar**	**Mexican peso**	**Chilean peso**
Cash and cash equivalents	**75,342**	**20,794**	**2,349**	**8**
Trade and other receivables	**26,957**	**1,226**	**4,675**	**-**
Prepayment option	**18,797**	**-**	**-**	**-**
Trade and other payables	**(46,482)**	**(22,306)**	**(33,862)**	**-**
Reclamation and closure cost obligations	**(8,634)**	**(17,080)**	**(15,820)**	**-**
Warrants	**(143,627)**	**-**	**-**	**-**
Conversion option on convertible debt	**(23,957)**	**-**	**-**	**-**
Share award units	**(5,334)**	**-**	**-**	**-**
Long-term debt	**(221,483)**	**-**	**-**	**-**
Gross balance sheet exposure	**(328,421)**	**(17,366)**	**(42,658)**	**8**

			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	-	-	-
Trade and other receivables	4,556	3,176	3,063	39
Reclamation deposit	8,043	-	-	-
Prepayment option	7,679	-	-	-
Trade and other payables	(24,458)	(24,415)	(34,003)	-
Reclamation and closure cost obligations	(3,655)	(13,618)	(8,421)	-
Warrants	(125,936)	-	-	-
Conversion option on convertible debt	(29,429)	-	-	-
Share award units	(3,294)	-	-	-
Long-term debt	(221,832)	-	-	-
Gross balance sheet exposure	(48,845)	6,397	(34,137)	50

20. Financial risk management (continued)

(c) Currency risk (continued)

				January 1, 2010
	Canadian dollar	Australian dollar	Mexican peso	Chilean peso
Cash and cash equivalents	165,147	32,008	2,670	18
Investments	45,890	-	-	-
Trade and other receivables	549	3,922	5,674	-
Reclamation deposit	6,211	-	-	-
Trade and other payables	(6,529)	(11,566)	(8,806)	(94)
Reclamation and closure cost obligations	(1,849)	(8,330)	(4,314)	-
Warrants	(29,841)	-	-	-
Conversion option on convertible debt	(7,701)	-	-	-
Share award units	(99)	-	-	-
Long-term debt	(206,653)	-	-	-
Gross balance sheet exposure	(34,875)	16,034	(4,776)	(76)

(iii) Translation exposure

A 10% strengthening (weakening) of the United States 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 20 (c) (ii) by the amounts shown below.

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Canadian dollar	**(32,842)**	(4,885)	(3,488)
Australian dollar	**(1,737)**	640	1,603
Mexican peso	**(4,266)**	(3,414)	(478)
Chilean peso	**1**	5	(8)
	(38,844)	(7,654)	(2,371)

(d) Interest 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. All of the Company's outstanding debt obligations are fixed; therefore, there is no exposure to changes in market interest rates. The Facility is variable, however the Facility is undrawn at December 31, 2011.

The Company is exposed to interest rate risk on its 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.

20. Financial risk management (continued)

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

The Company 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 13 (a). At December 31, 2011 the Company had remaining gold forward sales contracts for 198,000 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 36 months.

For the year ended December 31, 2011, the Company's revenues and cash flows were impacted by copper prices primarily in the range of $3.08 and $4.60 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, 2011, working capital includes copper concentrate receivables totaling 1.0 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. The company has no fuel hedge contracts at this time.

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.

20. Financial risk management (continued)

(e) Price risk (continued)

An increase in gold, copper and silver prices would increase the Company's net earnings whereas an increase in fuel or share unit award prices would decrease the Company's net earnings. A 10% change in prices would impact the Company's net earnings before taxes from continuing operations and other comprehensive income before taxes as follows:

			Year ended December 31	
	2011 Net Earnings	**2011 Other Comprehensive Income**	2010 Net Earnings	2010 Other Comprehensive Income
	$	$	$	$
Gold price	**57,228**	**28,400**	44,076	33,201
Copper price	**5,794**	**-**	4,889	-
Silver price	**7,058**	**-**	4,588	-
Fuel price	**4,927**	**-**	3,624	-
Warrants	**14,363**	**-**	12,594	-
Conversion option on debentures	**4,414**	**-**	4,464	-
Share award unit	**470**	**-**	329	-

21. 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.

The Company's financial assets and liabilities are classified and measured as follows:

				December 31, 2011	
	Loans and receivables at amortized cost	**Designated as Fair value through profit/loss**	**Available for sale at fair value**	**Financial liabilities at amortized cost**	**Total**
	$	$		$	**$**
Financial Assets					
Cash and cash equivalents	**309,406**	**-**	**-**	**-**	**309,406**
Trade and other receivables	**37,572**	**-**	**-**	**-**	**37,572**
Investments	**-**	**-**	**1,823**	**-**	**1,823**
Prepayment option	**-**	**18,797**	**-**	**-**	**18,797**
Reclamation deposits	**10,004**	**-**	**-**	**-**	**10,004**
Financial Liabilities					
Trade and other payables	**-**	**-**	**-**	**100,437**	**100,437**
Long-term debt	**-**	**-**	**-**	**251,664**	**251,664**
Gold contracts	**-**	**141,591**	**-**	**-**	**141,591**
Warrants	**-**	**143,627**	**-**	**-**	**143,627**
Conversion option	**-**	**23,957**	**-**	**-**	**23,957**
Share award units	**-**	**5,334**	**-**	**-**	**5,334**

21. Fair value measurement (continued)

			December 31, 2010	
	Loans and receivables at amortized cost	Designated as Fair value through profit/loss	Financial Liabilities at amortized cost	Total
	$	$	$	$
Financial Assets				
Cash and cash equivalents	490,754	-	-	490,754
Trade and other receivables	11,929	-	-	11,929
Prepayment option	-	7,679	-	7,679
Investments	-	7,533	-	7,533
Reclamation deposits	17,955	-	-	17,955
Financial Liabilities				
Trade and other payables	-	-	69,245	69,245
Long-term debt	-	-	229,884	229,884
Gold contracts	-	153,375	-	153,375
Warrants	-	125,936	-	125,936
Conversion option	-	29,429	-	29,429
Share award units	-	3,295	-	3,295

			January 1, 2010	
	Loans and receivables at amortized cost	Designated as Fair value through profit/loss	Financial Liabilities at amortized cost	Total
	$	$	$	$
Financial Assets				
Cash and cash equivalents	271,526	-	-	271,526
Trade and other receivables	10,345	-	-	10,345
Investments	-	45,890	-	45,890
Reclamation deposits	16,047	-	-	16,047
Financial Liabilities				
Trade and other payables	-	-	37,999	37,999
Long-term debt	-	-	225,456	225,456
Gold contracts	-	95,986	-	95,986
Warrants	-	29,841	-	29,841
Conversion option	-	7,701	-	7,701
Share award units	-	99	-	99

21. Fair value measurement (continued)

The carrying values and the fair values of the Company's financial instruments are shown in the following table.

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
	$	$	$	$	$	$
Financial Assets						
Cash and cash equivalents	**309,406**	**309,406**	490,754	490,7	262,325	262,325
Trade and other receivables	**37,572**	**37,572**	11,929	11,929	10,345	10,345
Prepayment option	**18,797**	**18,797**	7,679	7,679	-	-
Investments	**1,823**	**1,823**	7,533	7,533	45,890	45,890
Reclamation deposits	**10,004**	**10,004**	17,955	17,955	16,047	16,047
Financial Liabilities						
Trade and other payables	**100,437**	**100,437**	69,245	69,245	35,816	69,245
Long-term debt	**251,664**	**292,260**	229,884	229,884	225,456	265,696
Gold contracts	**141,591**	**141,591**	153,375	153,375	95,986	95,986
Warrants	**143,627**	**143,627**	125,936	125,936	29,841	29,841
Conversion option	**23,957**	**23,957**	29,429	29,429	7,701	7,701
Share award units	**5,334**	**5,334**	3,295	3,295	99	99

The Company has certain financial assets and liabilities that are held at fair value. The 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), 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 following table summarizes information relating to the fair value determination of the Company's financial instruments which are measured at fair value on a recurring basis:

			December 31, 2011
Asset (Liability)	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**
Investments	**1,823**	**-**	**-**
Warrants	**(143,627)**	**-**	**-**
Share award units	**(5,334)**	**-**	**-**
Gold contracts	**-**	**(141,591)**	**-**
Prepayment option on Notes	**-**	**18,797**	**-**
Conversion option on Debentures	**-**	**-**	**(23,957)**

21. Fair value measurement (continued)

			December 31, 2010
Asset (Liability)	Level 1	Level 2	Level 3
	$	$	$
Investments	-	7,533	-
Warrants	(125,936)	-	-
Share award units	(3,295)	-	-
Gold contracts	-	(153,375	-
Prepayment option on Notes	-	7,679	-
Conversion option on Debentures	-	-	(29,429)

			January 1, 2010
Asset (Liability)	Level 1	Level 2	Level 3
	$	$	$
Investments	-	45,890	-
Warrants	(29,841)	-	-
Share award units	(99)	-	-
Gold contracts	-	(95,986	-
Conversion option on Debentures	-	-	(7,701)

There were no transfers between Level 1, 2 and 3 during the years ended December 31, 2011 and 2010.

Valuation methodologies for Level 2 financial assets and liabilities

(a) Prepayment option on Notes

The fair value of the prepayment option is calculated using a swaption model which utilizes market derived inputs. The prepayment feature is set up as an option on an interest rate swap, which is effectively what the Company considers when determining whether to exercise the option. By exercising, the Company can refinance by exchanging fixed payments of 10% per annum for floating payments based on the market risk-free yield curve plus the Company's appropriate interest rate spread.

(b) Gold contracts

The Company's current derivative liabilities include commodity forward contracts for a portion of the Company's gold sales. The fair value of the forward contracts is calculated using discounted contractual cash flows based on quoted forward curves and discount rates incorporating LIBOR and the Company's appropriate interest rate spread.

21. Fair value measurement (continued)

The following table reconciles the fair value of the conversion option on the Debentures. The conversion option is classified as a non-current non-hedged derivative liability as described in Note 5 (c)(iii) with changes in fair value recorded in other gains and losses. The fair value of the financial instrument is measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market activity in the same instrument and are not based on observable market data and are thus classified as Level 3.

	Conversion option
Balance, January 1, 2010	**7,701**
Non-hedged derivative loss	20,785
Foreign exchange loss	943
Balance, December 31, 2010	**29,429**
Non-hedged derivative gain	(5,149)
Foreign exchange gain	(323)
Balance, December 31, 2011	**23,957**

The conversion option was calculated using a Black-Scholes pricing model. The principal assumption in the valuation of the conversion option of the Debentures relate to the value attributed to the volatility input used in the Black-Scholes pricing model. The volatility is measured as the annualized standard deviation of stock price returns, based on the average historical movements of the Company's share price and those of a number of peer companies. The following table presents a change of 10% in the principal assumption of these fair values to identify an alternative assumption in net earnings for the year ended December 31.

	2011		2010	
	Favourable	Unfavourable	Favourable	Unfavourable
Conversion option	3,185	(3,075)	3,357	(3,161)

22. Operating leases

Non-cancellable operating lease rentals are payable for the years ended December 31, as follows:

	2011	2010
Less than 1 year	**15,020**	15,415
Between 1 and 5 years	**43,922**	58,570
More than 5 years	**26**	-
	58,968	73,985

The Company leases a number of offices and mobile equipment fleet at CSP. The leases typically run for a period of 1 to 5 years, with an option to review the lease after that date. Some leases provide for increases to rent payments that are based on changes in the local price index.

For the year ended December 31, 2011, an amount of $32.4 million was recognized as an expense in profit or loss in respect of operating leases (2010 - $25.4 million). There was no contingent rent or sublease revenue recognized during the period ended December 31, 2011, or for the comparative period in 2010.

23. Compensation of directors and other key management personnel

The remuneration of the Company's directors and other key management personnel during the years ended December 31 was as follows:

	2011	2010
Short –term benefits	**4,901**	4,899
Post –Employment Benefits	**76**	32
Other long term benefits	**8,034**	3,667
Share based payments	**1,981**	-
Termination benefits	**1,344**	-
	16,336	8,598

Short-term benefits include salaries, bonuses payable within twelve months of the balance sheet date and other annual employee benefits.

The remuneration of key executives is determined by the compensation committee having regard to the performance of individuals and market trends.

24. 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) Capital commitments

The Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment for its operations. At December 31, 2011, these commitments totaled $135.5 million, of which all are expected to fall due over the next 12 months.

Capital expenditure contracted for at the statement of financial position date but not yet incurred is as follows:

(US$ in millions)	**2011 $**	**2010 $**
Property, plant and equipment	**135,486**	69,244
Other assets	**-**	13,573

24. Commitments and contingencies (continued)

(b) On January 13, 2010, the Company received a Statement of Claim filed by Barrick in the Ontario Superior Course 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 Project. New Gold believes the claim is without merit and is defending this action using all available legal avenues. The closing arguments related to the litigation are now complete and it's anticipated that a decision will be rendered by the end of the second quarter 2012. No amounts have been accrued for any potential loss under this claim.

(c) The Company 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 related primarily to a land use dispute. In September 2009, a Federal Court of Fiscal and Administrative Justice ordered SEMARNAT, the Mexican environmental regulatory agency, to nullify the authorization of MSX's 2006 Environmental Impact Statement ("EIS") for the Cerro San Pedro mine.

This decision was appealed at several levels and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of the Company's position against the nullification of the EIS. In March 2011, the municipality of Cerro de San Pedro approved a new municipal land use plan ("Plan"), after public consultation. The Plan clearly designates the area of the Cerro San Pedro Mine for mining, resolving any ambiguity regarding land use in that area. On August 5, 2011 a new EIS was granted for the Cerro San Pedro Mine. The 2011 EIS contains a number of conditions with which the Company must comply and the work to fulfill these conditions is in progress. MSX's land usage permit and its other operating permits remain in effect.

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

25. Provisions

In addition to the environmental rehabilitation provision in Note 16, the following table presents changes in provisions relating to share award units and employee benefits for the year ended December 31, 2011.

	Share award units	Employee Benefits	Total
			$
Balance, January 1, 2010	**99**	**4,442**	**4,541**
Additional provisions recognized	6,097	3,906	10,003
Used during the year	(3,126)	(3,080)	(6,206)
Foreign exchange	225	664	889
Balance, December 31, 2010	**3,295**	**5,932**	**9,227**
Additional provisions recognized	8,566	4,726	13,292
Used during the year	(6,442)	(3,365)	(9,807)
Foreign exchange	(85)	19	(66)
	5,334	**7,312**	**12,646**

26. First time adoption of IFRS

The Company adopted IFRS as issued by the IASB effective January 1, 2010 ("transition date") and has prepared its opening statement of financial position in accordance with International Financial Reporting Standards. The date of the first annual financial statements in compliance with IFRS will be for the year ending December 31, 2011.

IFRS 1 *First-time adoption of International Financial Reporting Standards ("IFRS 1")* , which governs the first time adoption of IFRS requires that the same policies are applied for all periods presented and that these policies are based on IFRS effective at the end of the first IFRS reporting year, December 31, 2011.

The IFRS accounting policies as presented in Note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information and the opening statement of financial position at the date of transition.

(a) Elected exemptions from full retrospective application

IFRS 1 requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Company's transition date of January 1, 2010, and allows certain exemptions on the transition to IFRS. The optional exemptions applied are as follows:

(i) Business combinations

Under IFRS 1, the Company can elect to not restate in accordance with IFRS 3R *Business Combinations*, all business combinations that occurred prior to the transition date or to only restate all business combinations that occurred after a designated date prior to the transition date. The Company has applied this exemption to all business combinations that occurred prior to January 1, 2010.

(ii) 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) and use that fair value as its deemed cost. This elective exemption can be applied on an individual asset basis. The Company applied this exemption and used fair value as deemed cost in its opening statement of financial position to establish carrying values for $375.4 million of New Afton mining interests at the transition date.

(iii) Share-based payment transactions

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 has elected this exemption and as a result, has applied IFRS 2 retrospectively only for share-based payments that were granted after November 7, 2002, and had not vested at the date of transition.

26. First time adoption of IFRS (continued)

(iv) Cumulative translation differences

IFRS 1 allows cumulative translation differences for all foreign operations to be reset to 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 prior to the date of transition to IFRS. The Company has elected this exemption and accordingly, has reset all cumulative translation differences to zero on transition to IFRS.

(v) Decommissioning liabilities included in the cost of property, plant and equipment

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 would determine its decommissioning liabilities at the transition date, discount the liabilities back to the dates when they first arose using management's best estimate of the historical risk-adjusted discount rates, and depreciate these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets. The
Company has elected this exemption and in doing so, is required to apply it to all its decommissioning liabilities.

(vi) Borrowing costs

IFRS 1 permits an entity to apply the transitional provisions of IAS 23 *Borrowing Costs* 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 has 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 for projects with a commencement date of January 1, 2010 or later.

(vii) Assets and liabilities of subsidiaries, associates and joint ventures

IFRS 1 requires that when a parent company becomes a first-time adopter later than its subsidiary the parent shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation adjustments and for the effects of the business combination in which the parent acquired the subsidiary.

The Company applied this exemption to its Australian subsidiaries that are already reporting under IFRS.

(b) Mandatory exceptions to retrospective application

IFRS 1 outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

26. First time adoption of IFRS (continued)

(i) Hedge accounting

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39 *Financial Instruments: Recognition and Measurement ("IAS 39")* criteria for hedge accounting were recorded as non-hedged derivative instruments.

(ii) Estimates

Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under previous Canadian GAAP are consistent with their application under IFRS.

(c) Reconciliations from previous Canadian GAAP to IFRS

The Company's transition from previous Canadian GAAP to IFRS has resulted in a number of adjustments to its consolidated statement of income, statement of comprehensive income, statement of financial position and statement of cash flows for the year ended December 31, 2011, the year ended December 31, 2010 and to the statement of financial position for January 1, 2010. Further details of the adjustments are provided in the following reconciliations and the notes that accompany the reconciliations. The adoption of IFRS has not changed the Company's actual cash flows.

26. First time adoption of IFRS (continued)

The following previous Canadian GAAP to IFRS adjustments are identified as:

	Note
Deferred taxes	a
Fair value deemed cost	b
Convertible debentures	c
Foreign Currency translation	d
Decommisioning liabilities	e
Property, plant & equipment	f
Reversal of impairment loss	g
Share purchase warrants	h
Share-based payments	i
Other	j
Cash flow reclassification	k

The January 1, 2010 previous Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Assets			Liabilities			Equity			Total
	Current	Non-current	Total	Current	Non-current	Total	Components of equity	Deficit	Total	Liabilities and equity
Previous CGAAP	**394,955**	**2,093,304**	**2,488,259**	**93,418**	**663,796**	**757,214**	**2,036,904**	**(305,859)**	**1,731,045**	**2,488,259**
IFRS adjustments										
a	(8,848)	8,848	**-**	-	13,653	**13,653**	-	(13,653)	(13,653)	**-**
b	-	(327,606)	**(327,606)**	-	(81,245)	**(81,245)**	-	(246,361)	(246,361)	**(327,606)**
c	-	-	**-**	-	10,301	**10,301**	(21,604)	11,303	(10,301)	**-**
d	-	8,743	**8,743**	-	2,186	**2,186**	1,566	4,991	6,557	**8,743**
e	-	4,311	**4,311**	-	4,875	**4,875**	-	(564)	(564)	**4,311**
f	-	(2,513)	**(2,513)**	-	(754)	**(754)**	-	(1,759)	(1,759)	**(2,513)**
g	-	51,909	**51,909**	-	-	**-**	-	51,909	51,909	**51,909**
h	-	-	**-**	-	41,754	**41,754**	(139,632)	97,878	(41,754)	**-**
i	-	-	**-**	-	-	**-**	-	-	-	**-**
j	-	(18,810)	**(18,810)**	-	(18,810)	**(18,810)**	-	-	-	**(18,810)**
IFRS	**386,107**	**1,818,186**	**2,204,293**	**93,418**	**635,756**	**729,174**	**1,877,234**	**(402,115)**	**1,475,119**	**2,204,293**

The previous Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

	Assets			Liabilities			Equity			Total
	Current	Non-current	Total	Current	Non-current	Total	Components of equity	Deficit	Total	Liabilities and equity
Previous CGAAP	**625,460**	**2,113,454**	**2,738,914**	**140,709**	**705,014**	**845,723**	**2,022,096**	**(128,905)**	**1,893,191**	**2,738,914**
IFRS adjustments										
a	(9,127)	9,127	**-**	-	4,491	**4,491**	-	(4,491)	(4,491)	**-**
b	-	(327,606)	**(327,606)**	-	(85,522)	**(85,522)**	-	(242,084)	(242,084)	**(327,606)**
c	-	-	**-**	-	29,429	**29,429**	(21,604)	(7,825)	(29,429)	**-**
d	-	33,052	**33,052**	-	2,186	**2,186**	15,900	14,966	30,866	**33,052**
e	347	5,637	**5,984**		8,452	**8,452**	-	(2,468)	(2,468)	**5,984**
f	(3,617)	1,272	**(2,345)**	-	(448)	**(448)**	-	(1,897)	(1,897)	**(2,345)**
g	-	-	**-**	-	-	**-**	-	-	-	**-**
h	-	-	**-**	-	125,962	**125,962**	(139,632)	13,670	(125,962)	**-**
i	-	-	**-**	-	-	**-**	(1,611)	1,611	-	**-**
j	-	(18,810)	**(18,810)**	-	(21,579)	**(21,579)**	-	2,769	2,769	**(18,810)**
IFRS	**613,063**	**1,816,126**	**2,429,189**	**140,709**	**767,985**	**908,694**	**1,875,149**	**(354,654)**	**1,520,495**	**2,429,189**

26. First time adoption of IFRS (continued)

The previous Canadian GAAP consolidated income statement and statement of comprehensive income for the year ended December 31, 2010 have been reconciled to IFRS as follows:

	Notes	Previous CGAAP	Effect of IFRS transition	IFRS
Revenues		530,450	-	530,450
Operating expenses	e	250,338	962	247,773
	f		(3,527)	
Depreciation and depletion	e	77,016	(1,117)	78,374
	f		2,475	
Earnings from mine operations		203,096	(1,207)	204,303
Corporation administration expenses		24,134	-	24,134
Share-based payments	i	8,488	(1,611)	6,877
Exploration		12,834	-	12,834
Impairment charge of exploration assets		15,728	-	15,728
Earnings from operations		141,912	(2,818)	144,730
Finance income		3,258		3,258
Finance costs	e	(947)	(1,424)	(2,371)
Realized and unrealized gain on investments		9,128	-	9,128
Unrealized gain on prepayment option		7,679	-	7,679
Gain on sale of investment		39,710	-	39,710
Other expense	f	(2,883)	(884)	(3,767)
Loss on foreign exchange	c	(21,816)	(941)	(9,675)
	d		13,857	
	h		(3,544)	
	j		2,769	
Unrealized loss on non-hedged derivatives	c	-	(20,785)	(113,336)
	h		(92,551)	
Earnings (loss) before taxes		176,041	(100,685)	75,356
Income tax expense	a	(41,110)	8,920	(18,009)
	c		2,600	
	f		(306)	
	h		11,887	
Net earnings (loss) from continuing operations		134,931	(77,584)	57,347
Earnings (loss) from discontinued operations, net of taxes	g	42,023	(51,909)	(9,886)
Net earnings		176,954	(129,493)	47,461

	Notes	Previous CGAAP	Effect of IFRS transition	IFRS
Net earnings		176,954	(129,493)	47,461
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 gains on mark-to-market of fuel contracts		(366)	-	(366)
Currency translation adjustment	d	-	14,334	14,334
Deferred income tax		27,572	-	27,572
Total other comprehensive loss		(38,608)	14,334	(24,274)
Total comprehensive income		138,346	(115,159)	23,187

26. First time adoption of IFRS (continued)

The reconciliation of the consolidated statement of cash flows for the year ended December 31, 2010:

	Operating		Investing		Financing	Cash and cash equivalents			
	Continuing	Discontinued	Continuing	Discontinued	Continuing	Impact of exchange rate changes	Increase (decrease)	Beginning of year	End of year
Previous CGAAP	**182,260**	**(1,696)**	**(451,363)**	**34,410**	**447,189**	**16,803**	**227,603**	**263,151**	**490,754**
IFRS adjustments									
Per income statement	(129,493)	-	-	-	-	-	(129,493)	-	-
a	(8,920)	-	-	-	-	-	(8,920)	-	-
b	-	-	-	-	-	-	-	-	-
c	19,128	-	-	-	-	-	19,128	-	-
d	(17,262)	-	-	-	-	-	(17,262)	-	-
e	634	-	-	-	-	-	634	-	-
f	3,972	-	15,076	-	-	-	19,048	-	-
g	51,909	-	-	-	-	-	51,909	-	-
h	84,208	-	-	-	-	-	84,208	-	-
i	(1,611)	-	-	-	-	-	(1,611)	-	-
j	-	-	-	-	-	-	-	-	-
k	1,677	-	(7,624)	-	(20,895)	-	(26,842)	9,201	-
IFRS	**186,502**	**(1,696)**	**(443,911)**	**34,410**	**426,294**	**16,803**	**218,402**	**272,352**	**490,754**

Notes to the IFRS reconciliations above:

(a) Deferred tax

IFRS does not permit deferred tax to be classified as current. Reclassification from current to non-current is therefore required.

Under previous 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 26 (h)), a deferred tax asset is required to be recognized on disposition of the notes.

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 previous Canadian GAAP, a deferred tax asset or liability was 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.

Under IFRS, the Company was required to recognize a deferred tax liability on the prepayment option embedded derivative.

(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 above 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 previous Canadian GAAP, the estimates of future cash flows used to test the recoverability were on an undiscounted basis.

26. First time adoption of IFRS (continued)

(c) Convertible debentures

Under IFRS, the conversion option of the Company's convertible debentures does not meet the criteria for equity classification and accordingly, is treated as a derivative liability that is measured at fair value on initial recognition. Under previous Canadian GAAP, the conversion option was classified as equity on the Company's balance sheet. Under IFRS, the conversion option derivative is re-measured at fair value at each statement of financial position date, while under previous Canadian GAAP the equity portion was not re-measured.

Due to the Company's election of the IFRS 1 exemption for business combinations (see above), the initial recognition and subsequent measurement of the debt component of the convertible debentures was unchanged on transition to IFRS.

(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 previous Canadian GAAP, all the Company's entities had 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 previous Canadian GAAP.

(e) Decommissioning liabilities (Reclamation and closure cost obligations)

IFRS requires provisions to be updated at each statement of financial position 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 required 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 (refer to IFRS 1 above).

Under previous Canadian GAAP, the unwinding of the discount was presented as an operating expense. Under IFRS, the unwinding of the discount is presented as a finance cost. Adjustments were required in the Company's 2010 income statements to reclassify these amounts to finance costs and to adjust the Canadian GAAP amounts to the IFRS amounts.

(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.

26. First time adoption of IFRS (continued)

(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 were not permitted under previous Canadian GAAP.

The Company increased the carrying value of the Amapari property to reverse an impairment charge of $51.9 million 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.

(h) 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 value being included in the consolidated income statement. Under previous Canadian GAAP, all the Company's outstanding share purchase warrants were classified and accounted for as equity.

(i) Share-based payments

Under previous Canadian GAAP, the Company recognized 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 existed under previous Canadian GAAP.

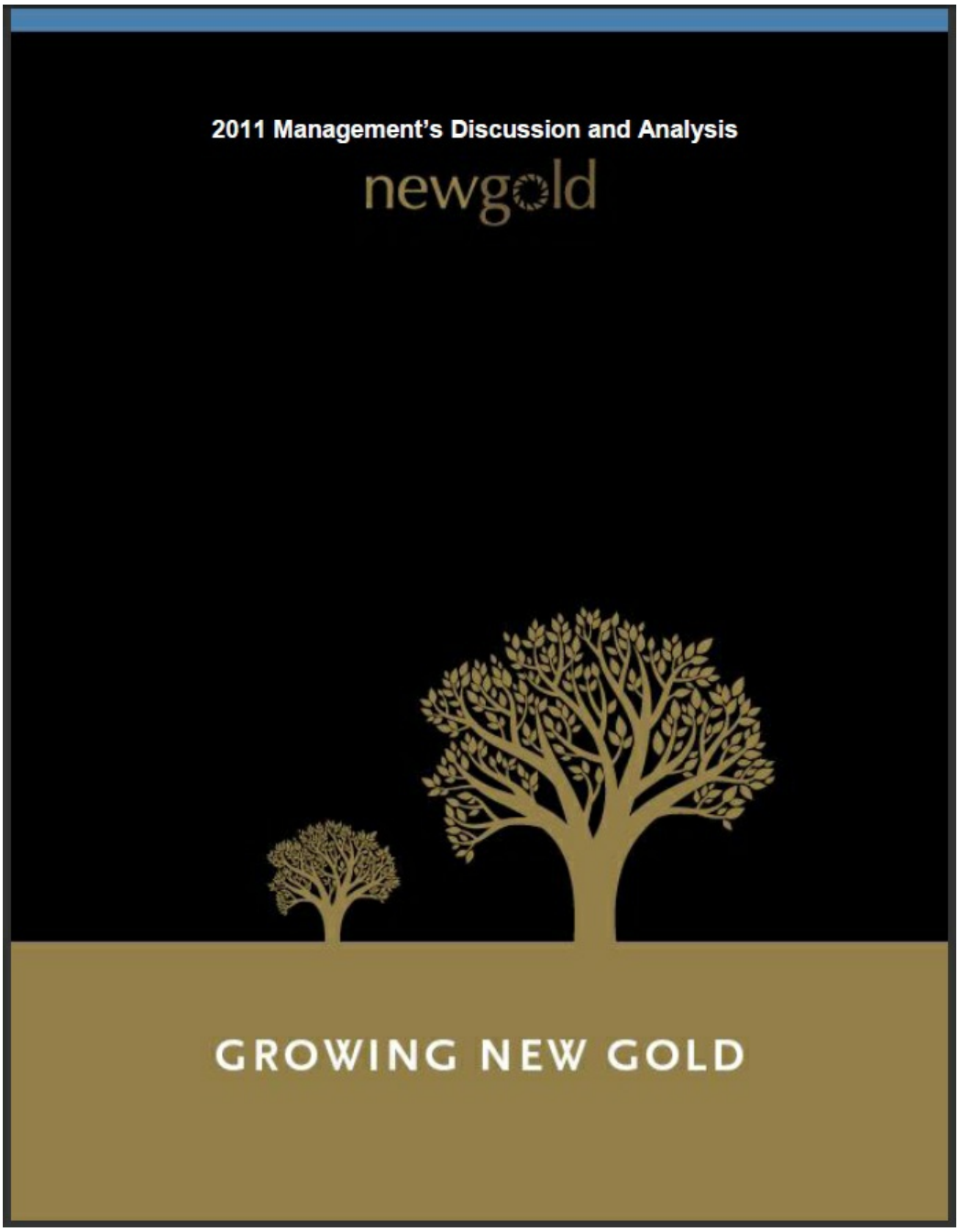
(j) Other

On transition to IFRS, certain non-material adjustments totaling $18.8 million related to deferred tax liabilities have been made to the amounts previously reported under previous Canadian GAAP.

(k) Consolidated statement of cash flows

Reclassification adjustments were required in the consolidated statement of cash flows to conform to the presentation required under IFRS. Interest paid and income taxes paid are presented as separate line items in the consolidated statement of cash flows, whereas they were previously disclosed as changes in non-cash working capital under previous Canadian GAAP. Borrowing costs capitalized in relation to qualifying assets are presented as interest paid in operating activities, whereas they were previously included in investing activities. Restricted cash has been included in the cash and cash equivalents balance for IFRS purposes, but was separately reported as restricted cash under previous Canadian GAAP.

Exhibit 99.3


2011 Management's Discussion and Analysis
newgold
GROWING NEW GOLD

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newgold

Management's Discussion and Analysis

FOR THE YEAR ENDED DECEMBER 31, 2011
(IN UNITED STATES DOLLARS, EXCEPT WHERE NOTED)

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. and its subsidiaries ("New Gold" or the "Company") 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, 2011 and 2010 and related notes which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains forward-looking statements that are subject to risk factors set out in a cautionary note contained in this MD&A. 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 MD&A has been prepared as of March 1, 2012. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

EXECUTIVE SUMMARY

New Gold is an intermediate gold producer with operating mines in the United States, Mexico and Australia and development projects in Canada and Chile. With a strong financial position and an experienced management and Board of Directors, the Company has a solid platform to continue to execute New Gold's growth strategy. The Mesquite Mine in the United States, the Cerro San Pedro Mine in Mexico and Peak Gold Mines in Australia once again achieved targeted production levels with 387,155 ounces of gold production in 2011. The fully-funded New Afton project in Canada is scheduled to add further growth in 2012. In addition, New Gold owns 30% of the world-class El Morro project located in Chile and, in 2011, New Gold acquired the exciting Blackwater project in Canada.

New Gold's production costs are very competitive when compared to the broader gold mining industry and provide the Company with strong margins. In 2011, New Gold achieved total cash costs[1] of $446 per ounce of gold sold and an average realized gold price [1] of $1,460 per ounce, resulting in a margin [1] per ounc of $1,014 . New Gold has been able to maintain its costs well below the industry average as the Company also produces silver and copper as by-product metals, which have historically moved in line with some of the input cost pressures faced by the mining industry.

New Gold continues to build on its successful portfolio which now consists of three operating mines and three development projects, all located in jurisdictions that are generally considered favourable to mining activities. New Gold's newest asset is the Blackwater project located in British Columbia, Canada. The Company looks forward to building upon the established gold resource at Blackwater and further exploring its 670km² land package. Over time , it is expected that Blackwater will become a flagship asset.

[1] We use certain non-GAAP financial performance measures throughout our MD&A. For a detailed description of each of the non-GAAP measures used in this MD&A, please see the discussion under "Non-GAAP financial performance measures" of this MD&A.

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS

(in thousands of US dollars, except where noted)

	For the three months ended December 31			*For the years ended December 31*	
	2011	2010	2011	2010	2009
Operating Information:					
Gold (ounces):					
Produced	100,671	124,445	387,155	382,911	301,773
Sold	99,612	116,964	391,890	369,077	292,407
Silver (ounces):					
Produced	453,024	700,988	1,989,333	2,188,235	1,496,958
Sold	440,024	696,161	2,007,801	2,143,721	1,475,317
Copper (thousands of pounds):					
Produced	3,297	4,236	12,715	15,340	15,613
Sold	2,917	4,709	15,316	14,050	13,901
Average realized price (1):					
Gold ($/ounce)	1,549	1,316	1,460	1,194	987
Silver ($/ounce)	31.26	26.91	35.15	21.40	14.48
Copper ($/pound)	3.56	3.89	3.78	3.48	2.54
Total cash costs per gold ounce sold (1)(2)(3)	553	343	446	418	465
Average realized margin (1) ($/ounce)	996	973	1,014	776	522
Measured and Indicated Resources, inclusive of Reserves (4)					
Gold (thousand ounces)	18,797	13,060	18,797	13,060	13,536
Silver (thousand ounces)	115,268	83,514	115,268	83,514	84,597
Copper (million pounds)	3,946	3,538	3,946	3,538	3,680
Financial Information (5)**:**					
Revenues	177,590	189,355	695,939	530,450	323,780
Earnings from mine operations	75,208	83,932	315,226	204,303	88,621
Net earnings from continuing operations	34,998	25,557	179,028	57,347	(183,434)
Net earnings	34,998	25,557	179,028	47,461	(194,316)
Adjusted net earnings (1)	42,199	57,011	187,782	115,723	35,531
Cash generated from operations	87,161	102,412	327,921	228,357	87,271
Net cash generated from continuing operations	65,886	88,663	229,530	186,502	78,981
Capital expenditures	158,526	51,468	413,620	134,089	111,522
Total assets	3,221,402	2,429,189	3,221,402	2,429,189	2,488,259
Cash and cash equivalents	309,406	490,754	309,406	490,754	262,325
Long-term debt	251,664	229,884	251,664	229,884	225,456
Share Data:					
Earnings per share from continuing operations:					
Basic	0.08	0.07	0.42	0.15	(0.60)
Diluted	0.07	0.06	0.40	0.15	(0.60)
Adjusted net earnings per basic share (1)	0.09	0.15	0.44	0.30	0.12
Share price as at December 31 (TSX - Canadian dollars)	10.28	9.68	10.28	9.68	3.80
Outstanding shares (basic) at December 31 (millions)	461	399	461	399	389

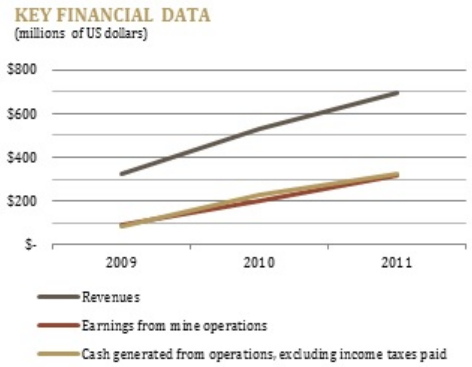
1. We use certain non-GAAP financial performance measures throughout our MD&A. Total cash costs pergold ounce sold, average realized price, average realized margin, operating margin, adjusted net earnings and adjusted net earnings per share are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the 'Non-GAAP Performance Measures' section of this MD&A.
2. The calculation of total cash costs per gold ounce sold is net of by-product silver and copper revenues. If silver and copper revenues were treated as co-products, co-product total cash costs for the year ended December 31, 2011 would be $618 per ounce of gold (2010 - $541), $14.85 per ounce of silver (2010 - $9.67); and $2.19 per pound of copper (2010 - $2.11). For the three months ended December 31, 2011, co-product total cash costs would be $676 per ounce of gold (2010 - $518), $13.71 per ounce of silver (2010 - $10.56); and $2.19 per pound of copper (2010 - $2.11).
3. The 2010 comparative cash costs per ounce have been adjusted to be consistent with the 2011 methodology which capitalizes significant property, plant and equipment components in accordance with IFRS.
4. Calculated in accordance with National Instrument 43-101 as required by Canadian securities regulatory authorities. For a breakdown of Reserves and Resources by category and additional information relating to Reserves and Resources and related key assumptions and parameters, see our Mineral Reserve and Resource Statement in our news release *New Gold Announces Record Gold Production in 2011, 25% Increase in Gold Resources per Share and 2012 Guidance with Production Growth at Lower Costs*, filed on and dated February 2, 2012 on *www.sedar.com*. The scientific and technical information in this MD&A has been prepared under the supervision of Mark Petersen, a Qualified Person under National Instrument 43-101 and an employee of the Company.
5. The 2011 and 2010 figures have been prepared in accordance with IFRS, while the 2009 figures have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). Results for 2010 have been restated to comply with IFRS which was adopted January 1, 2010. The 2010 comparatives include results for the Amapari Mine which was presented as a discontinued operation for financial reporting purposes. The 2009 and 2010 figures are presented for comparative purposes only.

FINANCIAL HIGHLIGHTS

§ ***Revenues were $695.9 million for the full year of 2011, up 31% from $530.5 million for 2010.*** The increase in revenues in the year was a result of the increase in the average realized price of gold sold from $1,194 to $1,460 per ounce, as well as increased gold ounces and copper pounds sold. Revenues were $177.6 million for the fourth quarter of 2011 compared to $189.4 million in the same period in 2010.

§ ***Earnings from mine operations were up 54% from $204.3 million to $315.2 million for the full year 2011.*** The increase in earnings from mine operations is attributed primarily to higher realized commodity prices and increased gold production and related sales. This was partly offset by higher operating costs which were impacted by both input cost pressures and foreign exchange, particularly the strengthening of the Australian dollar. Earnings from mine operations were $75.2 million in the fourth quarter of 2011 relative to $83.9 million in the same prior year period.

▪ ***Net earnings from continuing operations for the year were $179.0 million or $0.42 per basic share, compared to $57.3 million or $0.15 per basic share in 2010.*** In addition to the increased earnings from mine operations, the Company recognized other non-operating losses of $7.9 million in 2011 relative to $70.3 million in 2010. A key contributor to this was the fair value change of share purchase warrants and convertible debt which generated a loss of $18.3 million in 2011 compared to $113.3 million in the prior year. Additionally, income tax expense has increased in the current year, in line with higher earnings before tax. For the fourth quarter of 2011, net earnings from continuing operations were $35.0 million or $0.08 per basic share compared to $25.6 million or $0.07 per basic share in the prior year period.



§ ***Adjusted net earnings from continuing operations for the full year 2011 of $187.8 million or $0.44 per basic share, which increased from $115.7 million or $0.30 basic share in the prior year period.*** When adjusted for other gains and losses, net earnings increased from the prior year, reflecting increased earnings from mine operations. During the fourth quarter of 2011, adjusted net earnings were $42.2 million or $0.09 per basic share compared to $57.0 million or $0.15 per basic share in the same period in 2010.

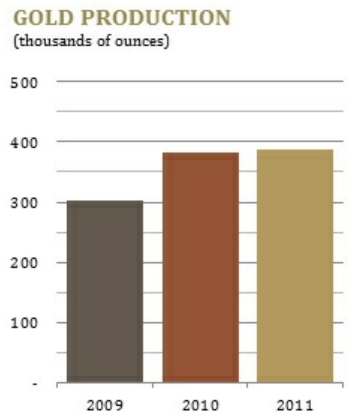
§ ***Cash generated from operations, excluding income taxes paid, increased in the year by 44% to $327.9 million from $228.4 million in 2010.*** The significant increase in cash flow is a direct result of strong operating performance during the year in combination with higher realized commodity prices. For the fourth quarter of 2011, cash flow was $87.2 million relative to $102.4 million in the same period in 2010.

§ ***Net cash generated from operations, including income taxes paid, was $229.5 million compared to $186.5 million in 2010.*** Income taxes paid in 2011 were $98.4 million relative to $41.9 million in the same period in 2010. A key factor contributing to this increase is that final payments relating to the 2010 tax year of $20.0 million were made in the second quarter of 2011. Additionally, higher tax installment payments are being made during 2011 reflecting increased earnings. For the fourth quarter of 2011, income taxes paid were $21.3 million compared to $13.7 million for the same period in 2010.

§ ***Cash and cash equivalents totaled $309.4 million at December 31, 2011 compared to $490.8 million at December 31, 2010.***

OPERATIONAL HIGHLIGHTS





- ***Gold production increased by 4,244 ounces to 387,155 in 2011, representing the Company's highest ever annual production.*** The annual production was within the guidance range of 380,000 to 400,000 ounces. Production for the quarter was 100,671 ounces compared to 124,445 ounces in the same period in 2010. Consistent with mine schedule, the Mesquite Mine was in a particularly high grade cycle in the fourth quarter of 2010 causing the higher consolidated production compared to the same period in 2011.

- ***Gold sales were 391,890 ounces during the year 2011, up 6% compared to 369,077 ounces in the same prior year period.*** Fourth quarter sales were 99,612 ounces, down 15% from 116,964 ounces in the same period in 2010, resulting from the decreased production from the Mesquite Mine.

- ***Total cash costs per ounce sold, net of by-product sales, were $446 per ounce for the year 2011 relative to $418 per ounce in 2010.*** The cash costs were positively impacted by price and volume of by-product revenues. However, a strengthening of the Australian dollar, in combination with inflationary pressures on cost inputs caused the cash costs per ounce sold to increase slightly. At $446 per ounce, New Gold has been able to maintain its costs below the industry averages. For the fourth quarter of 2011, total cash costs per ounce sold were $553 per ounce relative to $343 per ounce in the same period in 2010.

- ***Average realized margin for the year 2011 was $1,014 per ounce, up 30% from the prior period average realized margin of $776 per ounce.*** The average realized margin was $996 per ounce for the fourth quarter of 2011, up from $973 in the same prior year period.

- ***Measured and Indicated Resources (inclusive of Reserves) increased by 44% when compared to 2010.***

- ***In August 2011, the Mexican environmental agency approved a new Environmental Impact Statement ("EIS") for the Cerro San Pedro Mine ("Cerro San Pedro").*** The EIS included the land use regulation which officially designated Cerro San Pedro as a mining area which was approved by the local municipality earlier in 2011.

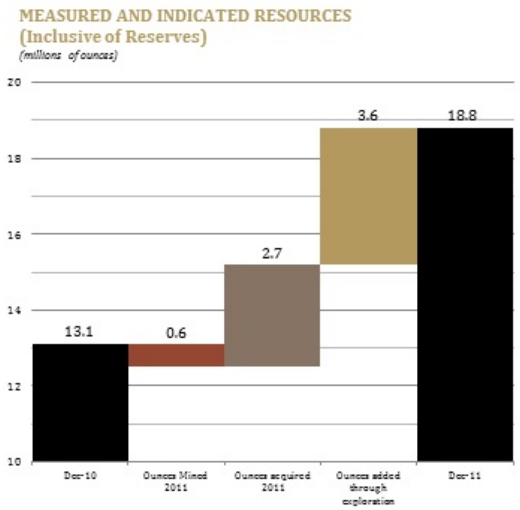
DEVELOPMENT AND EXPLORATION HIGHLIGHTS

§ ***New Gold closed its acquisition of Richfield Ventures Corp. ("Richfield") on June 1, 2011. Since then, significant exploration and development advances have been made at the Blackwater project ("Blackwater").*** The construction of a 150 person camp at site has been completed in conjunction with the installation of an all season drill water supply system. Additionally, the number of drills on site has increased from four in June 2011 to nine at the end of 2011. A tenth drill has been added following year-end. As of the date of this MD&A, New Gold also completed exploration participation agreements with the two local First Nations bands.

§ ***New Gold closed its acquisitions of Geo Minerals Ltd. ("Geo Minerals") and Silver Quest Resources Ltd. ("Silver Quest") on December 21 st and 23rd, 2011, respectively.*** These acquisitions consolidated New Gold's ownership to 100% of the Blackwater project and added to New Gold's already significant landholdings in the area surrounding the current Blackwater mineral resource.

§ ***Updated NI 43-101 compliant resource estimate for the Blackwater project reflecting increased indicated and inferred gold resources.*** The indicated gold resource is now 164 million tonnes at an average grade of 1.03 grams per tonne containing 5.42 million ounces. The inferred gold resource is 69 million tonnes at an average grade of 0.84 grams per tonne containing 1.86 million ounces. The resource has grown substantially since New Gold's initial June acquisition through a combination of additional drilling and the Silver Quest acquisition.

- ***New Gold has increased its consolidated Measured and Indicated Resources (inclusive of Reserves) to 18.8 million ounces at December 31, 2011, relative to 13.1 million ounces at December 31, 2010.*** The increase was driven primarily by ounces added through exploration and updated resource estimates, as well as ounces acquired through the Richfield and Silverquest acquisitions.
- ***At the New Afton project ("New Afton"), eight drawbells were completed with caving progressing as anticipated.*** With drawbells being added at a targeted rate of three to four per month and the underground conveyor system now bringing ore to surface, the ore stockpile is expected to steadily grow to approximately 900,000 tonnes, or the equivalent of three months' production, at the time of the mill start-up in June 2012.



§ ***New Afton is on schedule for a June 2012 production start with commercial production beginning in August 2012.*** Once in full production, the 11,000 tonne per day underground block cave mine and concentrator is expected to produce an annual estimated average of 85,000 ounces of gold and 75 million pounds of copper at low operating costs.

§ ***Subsequent to year-end, in January 2012, commencement of construction at the El Morro copper-gold project ("El Morro") was officially approved by Goldcorp's board of directors.*** Pre-construction commenced on February 1, 2012.

CORPORATE DEVELOPMENTS

An important aspect of New Gold's business strategy is the pursuit of disciplined growth through mergers and acquisitions. The Company came together through two accretive business combinations in mid-2008 and mid-2009, respectively. Since the middle of 2009, New Gold has been successful in enhancing the value of its portfolio of assets, while also continuously looking for compelling external growth opportunities. The Company's focus is primarily on adding assets in the jurisdictions where it already has an established presence and where the asset has the potential to provide New Gold shareholders with meaningful gold production, cash flow and exploration potential all while ensuring that any potential acquisition is accretive on key metrics. In short, New Gold strives to pursue corporate development initiatives that will leave the Company and its shareholders in a fundamentally stronger position than it is today.

The mid-2011 acquisition of Richfield met all of New Gold's key criteria. The Blackwater project is located in central British Columbia, Canada, a province that New Gold knows well from the development of its New Afton project, has a significant and growing gold mineral resource and has the potential to become a flagship property for the Company. Importantly, despite all of these positive characteristics, New Gold was able to complete the acquisition at an attractive price by acting before the broader market became fully aware of the opportunity and thus was able to minimize the dilution to New Gold shareholders.

The subsequent acquisitions of Silver Quest and Geo Minerals were completed to further solidify New Gold's presence in the emerging Blackwater area. By owning 100% of the Blackwater project and mineral tenures covering over 670km^2 of land in the area, the Company gained both additional flexibility as it advances the project towards the development stage as well as further exploration ground for New Gold's teams to work on identifying further mineral resources.





Acquisition of Richfield Ventures Corp.

On June 1, 2011, New Gold completed an all share acquisition of Richfield. There were 48.6 million shares issued to Richfield shareholders, representing consideration of approximately $472.4 million, inclusive of transaction costs and net working capital acquired in the transaction. In completing the acquisition, New Gold added the Blackwater project to its development pipeline. New Gold continues to drill the deposit to increase the mineral resource. Blackwater now contains 5.4 million and 1.9 million ounces of gold indicated and inferred mineral resources, respectively.

Acquisition of Silver Quest Resources Ltd.

On December 23, 2011, New Gold completed an all share acquisition of Silver Quest. There were 10.5 million shares issued to Silver Quest shareholders, representing consideration of approximately $113.5 million, inclusive of transaction costs and net working capital in the transaction. In completing the acquisition, New Gold acquired Silver Quest's 25% interest in the Davidson property, which forms the northern half of the Blackwater gold-silver deposit and in which New Gold already held a 75% interest, consolidating a 100% ownership in the Blackwater project. New Gold also acquired a 100% interest in the Capoose property, located adjacent to Blackwater and over 410km^2 of land which has an established gold and silver mineral resource.

Acquisition of Geo Minerals Ltd.

On December 21, 2011, New Gold completed an acquisition of Geo Minerals for a cash consideration of $18.2 million, inclusive of transaction costs and net working capital acquired in the transaction. Through the acquisition of Geo Minerals, New Gold added 15km ^{2} of land immediately to the northwest of the current Blackwater mineral resource.

The Blackwater project

Through the acquisitions of Richfield, Silver Quest and Geo Minerals, New Gold now owns mineral claims covering over 670km ^{2} of land in the area surrounding the Blackwater project which today hosts a gold mineral resource of 5.4 and 1.9 million ounces of Indicated and Inferred Mineral Resources, respectively. Looking forward to 2012, activity at Blackwater should continue rapidly and will include: increased drill programs and additional resource updates, further camp and infrastructure upgrades, the completion of a preliminary economic assessment ("PEA") and the filing of the project description to initiate the environmental assessment process.

For a detailed discussion on the Blackwater project, please see the discussion under the 'Development and Exploration Review' section of this MD&A.

OUTLOOK FOR 2012

New Gold is pleased to provide guidance for 2012 as follows:

2012 PRODUCTION AND COST GUIDANCE

	Gold *(thousand of ounces)*	Silver *(thousand of ounces)*	Copper *(million of pounds)*	Total cash cost per ounce/pound
Mesquite	140-150	-	-	$710 - $730
Cerro San Pedro	140-150	1,900-2,100	-	$250 - $270
Peak Mines	90-100	-	12-14	$640 - $6600
New Afton	35-45	-	30-35	($1,200) - ($1,300)
Total	**405-445**	**1,900-2,100**	**42-49**	**$410 - $430**

Production

New Gold's three operating assets are expected to continue their strong performance with targeted gold production of 400,000 to 445,000 ounces in 2012. In addition, with the anticipated June 2012 production start of New Afton (commercial production targeted for August 2012), the Company expects production to grow by approximately 10% over 2011 to 405,000 to 445,000 ounces of gold. As New Afton is expected to achieve its full name plate capacity towards the end of the year, we believe that 2013 should provide New Gold with another period of growth as New Afton hits full production. New Afton production range includes gold and copper produced between mill start-up and achievement of commercial production in August 2012. The revenue from this pre-commercial production will be offset against capital costs. New Afton gold and copper sales from the point of commercial production forward are expected to be between 20,000 to 30,000 ounces and 20 and 25 million pounds, respectively.

As New Afton's production start is scheduled for June, with commercial production in August, New Gold's quarterly gold production and total cash costs are expected to vary meaningfully on a quarter-over-quarter basis during 2012. Gold production should be fairly consistent in the first two quarters of the year, with an increase from New Afton in the second half of 2012. Total cash costs should decline steadily on a quarter-by-quarter basis through the year as a result of both mine sequencing and the additional copper production from New Afton in the second half of 2012.

New Gold also produces silver and copper as by-product metals at a few of its operations. At Cerro San Pedro, the Company anticipates silver production to remain consistent with 2011 levels, which would help offset a meaningful portion of the mine's operating costs. At the Peak Mines and, starting in mid-2012, at New Afton, the Company produces copper which, similar to silver, provides an effective offset to some of the Company's input costs.

Cash Costs

The Company's cash cost has steadily declined since its 3-way merger in mid-2008. The decrease in costs has been a result of: increased gold production as Mesquite and Cerro San Pedro have hit their stride after starting production in 2008, increased silver and copper production at Cerro San Pedro and the Peak Mines, respectively, as well as increased prices of silver and copper. Looking forward to 2012, the trend of declining costs is expected to continue as the start-up of the low cost New Afton mine should help move the Company's costs lower to the $410 to $430 per ounce range – well below the industry average. Similar to the anticipated increase in gold production from a full year of operations at New Afton in 2013, costs in 2013 are expected to decline further to below $300 per ounce at today's silver and copper prices.

Assumptions used in the 2012 guidance include gold, silver and copper prices of $1,600 per ounce, $30.00 per ounce and $3.50 per pound, respectively, and Canadian dollar, Australian dollar and Mexican peso exchange rates of $1.00, $1.00 and $13.00 to the U.S. dollar, respectively. The diesel price assumed for 2012 is $3.30 per gallon, which reflects recent prices being paid.

Based on the above gold and copper price assumptions and the estimated gold and copper sales at New Afton, the co-product cost ranges for New Afton are forecast to be $630 to $650 per ounce of gold and $1.35 to $1.45 per pound of copper, respectively. Both the by-product and co-product costs at New Afton are expected to reduce significantly in 2013 and beyond as the mine reaches full design capacity.

Depreciation and Depletion

Depreciation and depletion expense is expected to increase by approximately 35% reflecting increased production and commencement of depreciating the New Afton initial capital cost.

Exploration

With the recent acquisition of Blackwater and ongoing exploration projects at Cerro San Pedro, the Peak Mines and New Afton, 2012 should be another active year for New Gold's exploration teams. In total, New Gold has budgeted $110 million for exploration in 2012 with approximately 80% of this allocated to the Blackwater project. The Company looks forward to continuing its evaluation of the Cerro San Pedro sulphide potential, further extending the mine life at the Peak Mines and getting started on drill testing the mineralization at New Afton that lies directly beside and below the current mineral reserve. Of the total exploration spend, $91 million is expected to be capitalized with the remaining $19 million being expensed.

Corporate Administration and Share Based Payment Expense

While share based payments are budgeted to increase in 2012, an offsetting reduction in corporate administration is budgeted. This is expected to keep this group of costs relatively consistent with 2011. The reduction in corporate costs budgeted in 2012 primarily reflects less expenditure on litigation and related legal costs.

Finance Costs

With New Afton going into commercial production, a portion of the interest cost related to the senior secured notes will now be expensed in the income statement, as opposed to being capitalized as it has in the past. This has no impact on the cash expenditures related to servicing the senior secured notes.

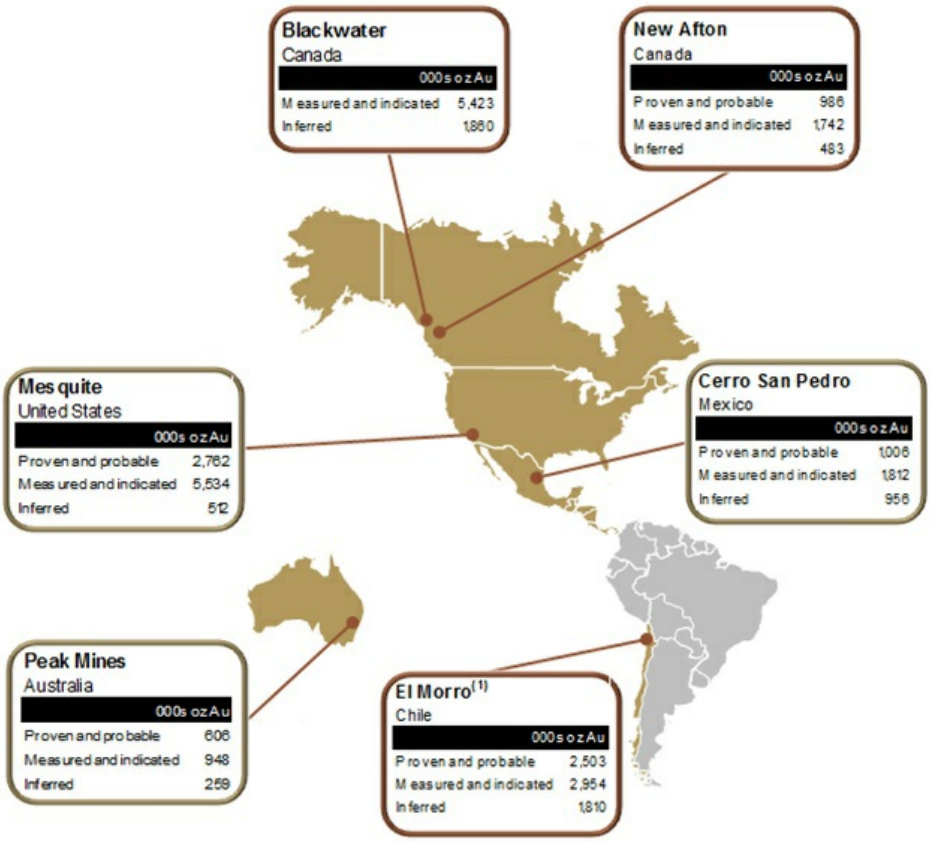
Capital Expenditure

Capital expenditures are budgeted to be approximately $400 million in 2012, of which approximately $150 million relates to the remaining capital to spend in advance of commercial production at New Afton. A further $11 million of interest will be capitalized to the Blackwater project in advance of commercial production. At Blackwater, approximately $91 million of exploration expenditure will be capitalized in addition to another $20 million related to camp and infrastructure development. The remaining $128 million relates to other sustaining capital at the operating sites, including New Afton which will continue to develop drawbells during the commercial production period.

BUSINESS OVERVIEW AND STRATEGY

NEW GOLD'S BUSINESS

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 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 exploration and development projects include the New Afton copper-gold project ("New Afton") in Canada, a 30% interest in the El Morro project in Chile and the Blackwater project in Canada. New Gold has an objective of continuing to grow, both organically and through value-enhancing or accretive acquisitions, to further establish itself as the industry leading intermediate gold producer.

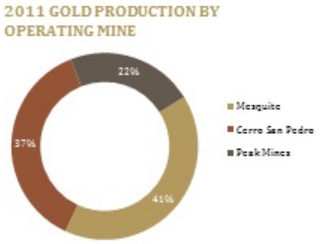


(1) Represents New Gold's attributable share of Reserves and Resources.

(2) Proven and Probable Reserves and Measured, Indicated and Inferred Resources above are calculated in accordance with National Instrument 43-101 as required by Canadian securities regulatory authorities. For a breakdown of Reserves and Resources by category and additional information relating to Reserves and Resources and related key assumptions and parameters, see our Mineral Reserve and Resource Statement in our news release "*New Gold Announces Record Gold Production in 2011, 25% Increase in Gold Resources per Share and 2012 Guidance with Production Growth at Lower Costs*, filed on and dated February 2, 2012 on *www.sedar.com*. The scientific and technical information in this MD&A has been prepared under the supervision of Mark Petersen, a Qualified Person under National Instrument 43-101 and an employee of the Company.

Operating Portfolio

New Gold's operating portfolio is diverse both geographically and in the range of by-products that it produces. The group of assets has demonstrated a history of meeting guidance from a production and cost standpoint. The consolidated cash costs figure is below industry average and the portfolio provides a strong operating cash flow as the foundation for internally funding continuing exploration and development projects.



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. It is an open pit, run-of-mine heap leach operation. 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 business combination with Western Goldfields Inc. on May 27, 2009. The mine resumed production in 2008. Recent exploration has been focused on the areas surrounding the three existing pits: Rainbow, Big Chief and Vista. At the end of 2011, the mine had 2.8 million ounces of Proven and Probable gold Reserves and 5.5 million ounces of Measured and Indicated gold Resources, inclusive of Reserves.

Cerro San Pedro Mine, San Luis Potosí, 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 is a gold-silver, open pit, run-of-mine heap leach operation and consists of 15 mining and exploration concessions 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. At the end of 2011, the mine had 1.0 million ounces of Proven and Probable gold Reserves and 30.4 million ounces of Proven and Probable silver Reserves, with 1.8 million ounces of Measured and Indicated gold Resources, inclusive of Reserves, and 55.9 million ounces of Measured and Indicated silver Resources, inclusive of Reserves.

Peak Mines, New South Wales, Australia

The Company's Peak Mines gold-copper mining operation is an underground mine/mill operation located in the Cobar Mineral Field near Cobar, New South Wales, Australia. Peak Mines was built by Rio Tinto Plc. and commenced production in 1992 and consists of mining and exploration licenses totaling 861 square kilometres of prospective ground covering the mining operation and mineralized extensions. The Company has conducted exploration in the Cobar Gold Field for more than 20 years. Exploration techniques have included geologic mapping, geochemical and geophysical surveys and surface and underground drilling. At the end of 2011, the mine had 0.6 million ounces of Proven and Probable gold Reserves and 66 million pounds of Proven and Probable copper Reserves, with 0.9 million ounces of Measured and Indicated gold Resources, inclusive of Reserve, and 167 million pounds of Measured and Indicated copper Resources, inclusive of Reserves. Peak has continually proven its ability to replace annual depletion with new resources.

Development Portfolio

New Gold's development portfolio consists of assets that are located in favourable mining jurisdictions and have the ability to significantly enhance New Gold's production base and growth profile. The New Afton copper-gold deposit is on track to begin production in mid-2012. At today's commodity prices, New Afton has the potential to significantly contribute to the company's cash flows. The El Morro gold-copper project is planned to begin production in 2017.

New Afton project, British Columbia, Canada

The Company's New Afton copper-gold development project is located in Kamloops, British Columbia, Canada. The project is a large underground copper-gold deposit, which will produce an annual estimated average of 85,000 ounces of gold and 75 million pounds of copper commencing in mid-2012. 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 115 square kilometres of exploration licenses covering multiple mineral prospects within the historic Iron Mask mining district. At the end of 2011, the deposit has 1.0 million ounces of Proven and Probable gold and 1.0 billion pounds of Proven and Probable copper Reserves, with 1.7 million ounces of Measured and Indicated gold Resources, inclusive of Reserves, and 1.6 billion pounds of Measured and Indicated copper Resources, inclusive of Reserves. Production at New Afton is scheduled for June 2012 with the ramp-up to commercial production expected to take approximately two months resulting in an August 2012 commercial production start.

Blackwater project, British Columbia, Canada

In June 2011, New Gold closed the acquisition of Richfield and its flagship Blackwater project. New Gold added to its property holding with the subsequent acquisitions of Silver Quest and Geo Minerals in December, 2011. Blackwater is a bulk-tonnage gold project located approximately 160 kilometres southwest of Prince George, a city of approximately 80,000, in central British Columbia, Canada, where New Gold already has an established presence through the continued development of its New Afton project. The project area covers 670km^2 and is located near infrastructure. Blackwater has a mineral resource estimate of 5.4 million ounces of indicated gold resources and an additional 1.9 million ounces of inferred gold resources. As part of the Silver Quest acquisition, New Gold also acquired a 100% interest in the Capoose Property, located adjacent to Blackwater, with an established gold and silver mineral resource. The Capoose property has an estimated mineral resource separate from the Blackwater deposit. The Capoose indicated mineral resource is 400,000 ounces of gold and 26.6 million ounces of silver. The inferred resource is 400,000 ounces of gold and 29.5 million ounces of silver.

El Morro project, Atacama Region, Chile

El Morro is an advanced stage gold-copper development project located in north-central Chile, Atacama Region, approximately 80 kilometers east of the city of Vallenar. The El Morro project is a world-class project with low expected cash costs and great organic growth potential in what we believe to be one of the most favourable mining jurisdictions in the world. The Environmental Impact Assessment ("EIA") necessary for the project permitting to proceed has been approved and subsequent to year-end, the board of Goldcorp, New Gold's 70% partner, approved commencement of construction of El Morro. Attributable to New Gold's 30% share of the project are Proven and Probable gold Reserves of 2.5 million ounces, Proven and Probable copper Reserves of 1.9 billion pounds, and 3.0 million ounces and 2.2 billion pounds of gold and copper Measured and Indicated Resources, respectively, inclusive of Reserves.

NEW GOLD'S STRATEGY

Disciplined growth

Our primary focus is the exploration, development and operation of our portfolio of gold assets. We currently have an established foundation with our three producing assets providing us with the cash flow that should position us to grow the business organically as we further explore and develop our three large, exciting projects. As we deliver on, what we believe is, an industry leading organic growth profile we intend to remain focused on four key components of the strategy that has helped New Gold become a leading intermediate producer:

Operational execution

For the year ended December 31, 2011 revenue increased by 31% to $695.9 million from $530.5 million in the same period of 2010. Operating margin [1] for the year ended December 31, 2011 increased by 39% to $392.2 million from $282.7 million in the same period in 2010. Net cash generated from continuing operations for the year ended December 31, 2011 increased by 23% to $229.5 million from $186.5 million in the same period in 2010. In addition to the strength of the operating portfolio, our development teams have successfully kept New Afton on target for an August 2012 commercial production start.

Maintaining a strong financial position

Our objective is to maintain a strong balance sheet and sufficient financial flexibility to internally fund our three development projects. As at December 31, 2011, we currently have $309.4 million in cash and cash equivalents. For the year ending December 31, 2011, the Company generated $229.5 million in cash flow from continuing operations. This amount is expected to increase further next year as New Afton is expected to begin commercial production in August 2012. With our current cash balance, the prevailing strength of commodity prices and New Afton adding further cash flow, we believe we are well positioned to fund the exploration and development of our growth pipeline.

Enhancing value

New Gold has an established track record of enhancing the value of its portfolio of assets. This has been a particular focus since mid-2009 when New Gold and Western Goldfields merged to create a fully-funded, growth-oriented Company. Since that time, the research analysts that cover New Gold have steadily increased the net asset values they ascribe to the Company's assets. The average net asset value ascribed to the Company's portfolio of three operating assets has doubled to over $2 billion, while New Afton and our 30% interest in El Morro have increased from a combined $160 million to just under $2 billion.

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[2] We use certain non-GAAP financial performance measures throughout our MD&A. For a detailed description of each of the non-GAAP measures used in this MD&A, please see the discussion under "Non-GAAP financial performance measures" of this MD&A.

Since the middle of 2008, New Gold has grown through the combination of seven, largely single asset companies. Importantly, in each instance, the addition of a new company or asset has further strengthened New Gold. The experience of the management team and Board of Directors has allowed New Gold to be opportunistic in its corporate development initiatives, positioning the Company as an industry leader. The Company's three most recent acquisitions, all related to the Blackwater project, are yet another example of this disciplined approach. The average analyst value for the asset is now over $1 billion, or approximately twice what the Company paid in aggregate for the acquisitions described in 'Corporate Developments' above.

ABILITY TO EXECUTE ON STRATEGY

Our ability to execute on our strategy comes from the strength of: our experienced management team, board of directors and skilled workforce, track record of delivering on expectations, portfolio of assets in favourable jurisdictions, pipeline of world-class development projects, strong financial position and commitment to corporate social responsibility.

Experienced management team with a proven industry track record

We have a seasoned and experienced management team with extensive mining sector knowledge and a successful track record of identifying and developing mines. Our Executive Chairman, Randall Oliphant, Chief Executive Officer, Robert Gallagher, and Chief Financial Officer, Brian Penny all have significant experience in leading successful mining companies. Our Board of Directors provides further stewardship and includes individuals with a breadth of sector knowledge that provides New Gold with a distinct competitive advantage.

Leading mid-tier producer with track record of delivering on expectations

New Gold has a portfolio of mines that have consistently met or exceeded company guidance. In 2011, we produced 387,155 ounces of gold at a cash cost of $446 per ounce. 2012 guidance has been established at 405,000 to 445,000 ounces of gold at total cash costs of $410 to $430 per ounce. New Gold's cash cost continues to be well below the industry average.

Geographically diverse operations in favourable jurisdictions

We have a diverse portfolio of 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 Mines in Australia. Significant development projects include the New Afton project and the recently acquired Blackwater project in Canada and a 30% interest in the El Morro project in Chile. The countries in which we operate have been assigned investment grade sovereign credit ratings by Moody's Investors Service, Inc., Fitch Ratings Inc. and Standard & Poor's Ratings Services. In 2011, approximately 30% of our revenue was generated from the United States, approximately 42% from Mexico and approximately 28% from Australia.

Pipeline of world-class development projects

In addition to our operating mines, we have development opportunities that should significantly enhance our production base and growth profile. The New Afton project is expected to begin commercial production in August 2012 and is expected to produce on average 85 thousand ounces of gold and 75 million pounds of copper annually. At today's commodity prices, New Afton has the potential to generate average annual cash flow equivalent to the three current operating mines combined once full production occurs in 2013. El Morro provides New Gold with 2.5 million ounces of Proven and Probable gold and 1.8 billion pounds of Proven and Probable copper Reserves, and 3.0 million ounces and 2.2 billion pounds of gold and copper Measured and Indicated Resources, respectively, inclusive of Reserves. The capital for this project is fully-funded by our 70% partner, Goldcorp Inc. and the project is expected to produce approximately 90 thousand ounces of gold and 85 million pounds of copper per year (our 30% share). Our most recent acquisitions added the Blackwater project which is expected to add to our development pipeline. Blackwater currently contains indicated gold resources of 5.4 million ounces and inferred gold resources of 1.9 million ounces.

Strong financial performance with a solid balance sheet

For the year ended December 31, 2011, we generated revenue and earnings from mine operations of $695.9 million and $315.2 million, respectively. Revenue of $695.9 million increased by 31% compared to the same period in 2010. Operating margin for the year ended December 31, 2011 increased 39% to $392.2 million from $282.7 million in the same period in 2010. Cash generated from continuing operations for the year ended December 31, 2011 increased by 23% to $229.5 million from $186.5 million in the same period in 2010. Cash and cash equivalents totaled $309.4 million with additional financial flexibility from our $150 million credit facility at December 31, 2011. The Company has long-term debt outstanding of $176.6 million and convertible debenture outstanding of $44.9 million. The debt is inclusive of face value senior notes of C$187 million long dated to 2017. Convertible debentures have a C$55 million face value due in 2014 and are deeply in the money.

Commitment to corporate social responsibility

We understand that our collective success is linked to our ability to operate in a socially responsible manner. New Gold is committed to promoting and protecting the welfare of our employees through safety-first work practices and workplaces, staff training, and equitable hiring and development practices. We understand that sustainable development extends from environmental stewardship to the development of economic prosperity and the support of local communities and their cultural values. We strive to share the benefits of our activities through the entire life cycle of our mines, and long after their eventual closure.

KEY PERFORMANCE DRIVERS

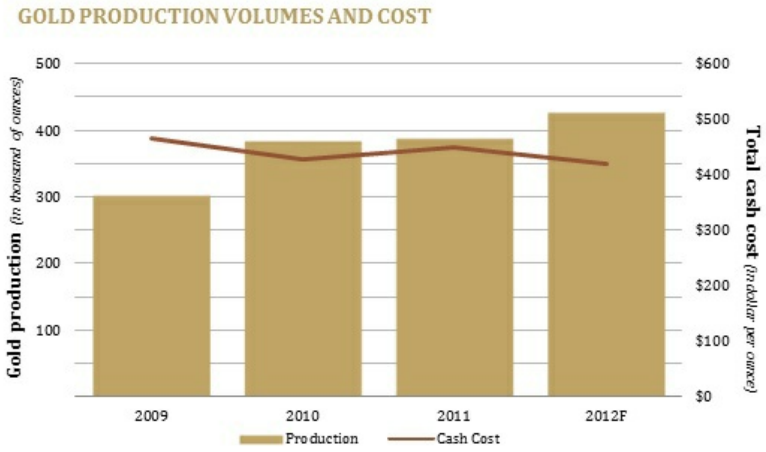
There are a range of key drivers that are critical to the successful implementation of New Gold's strategy and the achievement of its goals. The key internal performance drivers are production volumes and costs. The key external drivers are spot prices of gold, silver and copper, as well as foreign exchange rates.

Production Volumes and Costs

New Gold has demonstrated a history of achieving guidance with respect to production volumes and costs. New Gold's portfolio of operating mines achieved another solid production quarter, with 100,671 ounces of gold production in the fourth quarter driving the Company's full year 2011 gold production to 387,155 ounces – a record for New Gold. The Company once again delivered on its production guidance of 380,000 to 400,000 ounces of gold for the year.

Full year 2011 total cash costs per ounce sold, net of by-product sales, of $446 was in-line with the Company's initial cost guidance for the year of $430 to $450 per ounce and well below the industry average. As a result of the significant appreciation of silver and copper prices in early 2011, the Company lowered its cost guidance to $390 to $410 per ounce in May, based on, among other assumptions, a silver price of $33 per ounce, a copper price of $4.00 per pound, a parity Australian dollar exchange rate and a Brent oil price of $105 per barrel. While the silver price remained at these levels through the majority of the year, the combination of lower copper prices, a stronger Australian dollar and higher oil prices resulted in the Company's total cash costs moving into the original cost guidance range. New Gold delivered a margin of over $1,000 per ounce for its shareholders during 2011.

New Gold's outlook is to increase gold production in 2012 by approximately 10% and total cash costs per ounce sold is forecast to decrease by approximately $30 per ounce relative to the 2011 level.



Commodity Prices



Gold 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 related to the prevailing price of gold. However, copper will also become more important as New Afton achieves commercial production in 2012.

Precious metals gave up some of the gains in the fourth quarter that they had achieved during a volatile year, with the gold price ending the year up 10%. Analyst consensus is broadly positive for precious metals over the coming year, with support expected to continue from investment, central bank and emerging market demand, and recent pronouncements from the Federal Reserve confirming low US interest rates for the next three years are likely to encourage investors.

While gold price increased by 10% through 2011, it experienced some dramatic swings, soaring to a nominal record price of $1,920 per ounce in September, subsequently dropping 20% to close the year at $1,531 per ounce.

For the full year 2011, New Gold had an average realized gold price of $1,460 per ounce (including monthly deliveries of 5,500 ounces of gold hedged at the Mesquite Mine at $801 per ounce) which was 7% below an average market gold price of $1,568 per ounce. During the fourth quarter of 2011, New Gold had an average realized gold price of $1,549 per ounce (including monthly deliveries of 5,500 ounces of gold hedged at the Mesquite Mine at $801 per ounce) which was 8% below an average market gold price of $1,680 per ounce.

Silver and copper prices
Silver decreased to $28.18 at the end of 2011, compared to $30.63 and $30.45 per ounce at December 31, 2010 and September 30, 2011 respectively. The average silver price for 2011 was $35.10 per ounce, compared to 2010 when the price averaged $20.16 per ounce.

Copper ended the year over 20% down compared to December 31, 2010, although this followed a total increase of over 200% during the previous two calendar years, and the price has performed well so far in 2012. Confidence in copper is gradually increasing as the Eurozone starts to show tentative signs of political progress and economic recovery, and industrial demand from emerging markets continues, with China remaining the key focus and the most important long term market. Copper prices increased from $3.23 per pound at September 30, 2011 to $3.43 per pound at December 31, 2011. Copper averaged $4.00 per pound during the year compared to $3.42 per pound in 2010.

New Gold had an average realized copper price of $3.78 for the year. This differs by 6% from the yearly average spot price of $4.00 per pound due to the fact that copper sales were made intermittently throughout 2011, with six shipments during the year. Copper sales at Peak are expected to take place on a more regular and even basis through 2012.

Foreign Exchange Rates

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.

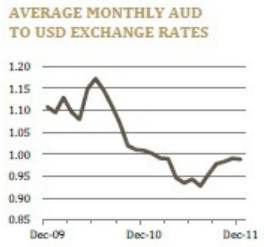
New Gold's operating results and cash flows are influenced by changes in various exchange rates against the US dollar. We have exposure to the Australian dollar through our Peak Mines operations, and to the Mexican peso through the Cerro San Pedro Mine. We also have exposure to the Canadian dollar through our New Afton and Blackwater projects, as well as due to corporate administration costs.

The Australian dollar ended 2011 almost flat from a year earlier, but spent most of the year trading at a premium to the US dollar, significantly impacting the cash costs at the Peak Mines operations. The rise in the average copper price from 2010 through 2011 helped to offset some of this foreign exchange exposure. The correlation between the copper price and the Australian dollar can act as a natural cost hedge over the long term.

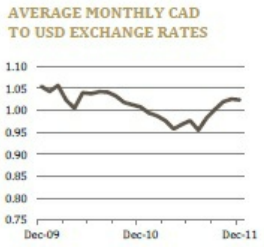
The Canadian dollar finished 2011 weaker than it had started, but was stronger on average through the year than in 2010, and therefore had some impact on Canadian dollar-denominated capital expenditures and corporate costs when translated into U.S. dollars.

Although the Mexican Peso weakened through the latter half of 2011, the average exchange rate was close to that of 2010. In addition, a significant proportion of costs at the Cerro San Pedro mine are incurred in US dollars, and as such movement in the Mexican peso exchange rate was not a primary driver of US dollar denominated costs.

For impact on operating costs, refer to the 'Review of Operating Mines' section for Cerro San Pedro and Peak Mines for details.







ECONOMIC OUTLOOK

2011 was another turbulent year in financial markets, characterized by considerable volatility, economic uncertainty and various government-led efforts to promote growth and deal with excessive levels of debt. European leaders attempted with mixed success to persuade markets that the euro will remain a viable currency, and that discipline and austerity can repair the balance sheets of member countries with particularly high levels of sovereign debt, in particular Greece, but also, more worryingly, far larger debtor nations such as Italy. Meanwhile, the US has wrestled with its own sovereign debt problems, hindered by an intractable and growing political divide that contributed to the loss of its S&P triple-A rating.

Equity markets in the US failed to generate significant returns, with the S&P 500 index virtually flat over the year, while the global MSCI All Country World Index declined by almost 10% in US dollar terms. US interest rates led the global move downward, but lowered rates are failing to spark the economy and are causing investors to question the availability and effectiveness of the remaining tools at the disposal of policy-makers.

Economic events can have significant effects on the gold price, via currency rate fluctuations, the relative strength of the U.S. dollar, supply of and demand for gold and macroeconomic factors such as the level of interest rates and inflation expectations. Management anticipates that the long term economic environment is likely to remain positive with respect to precious metals and for gold in particular, and believes the prospects for the business are favorable. The Company has not hedged foreign exchange rates and metal prices with the exception of the gold hedge mandated by the 2008 Mesquite project financing. New Gold's growth plan is focused on organic and acquisition-led growth, and the Company plans to remain 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.

CORPORATE RESPONSIBILITY

New Gold's commitment to disciplined growth is entrenched in the concept of growing responsibly. We understand that our collective success is inextricably linked to, and that our collective prosperity depends on, the long-term economic, social and environmental sustainability of each of the communities in which we work and live.

New Gold's corporate responsibility objectives are to operate in a responsible manner, minimize the impact the operations may cause to the environment and practice the progressive rehabilitation of areas impacted by its activities. We have a history of operating in a socially responsible and sustainable manner, and of meeting international standards in the three countries where we currently operate. As a partner of the United Nations Global Compact, New Gold's policies and practices are guided by its principles on Human Rights, Labour, Environment and Anti-corruption. As a member of the Mining Association of Canada (MAC), our Canadian projects adhere closely to the principles of MAC's program Towards Sustainable Mining.

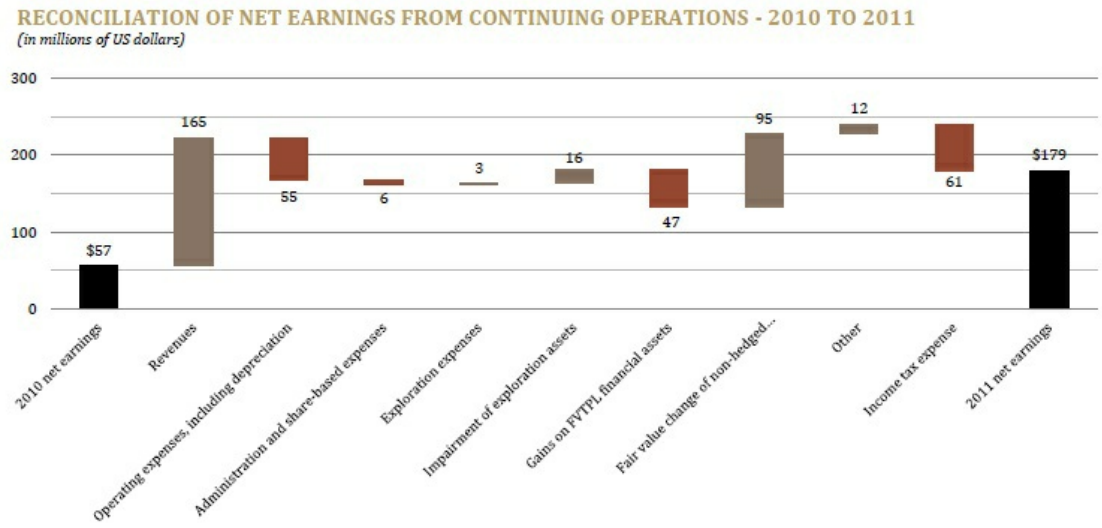
At New Gold, we believe that our people are our most valued assets regardless of gender, race, cultural background, age or religion. We strive to create a culture of inclusiveness that begins at the top and which is reflected in our hiring, promotion and overall human resources practices. We encourage tolerance and acceptance in worker-to-worker relationships. In each of our host communities we are recognized as an employer of choice as a result of our competitive wages, above-average benefits and our policies of recognizing and rewarding employee performance and promoting from within.

Wherever New Gold operates—in all stages of mining activity, from early exploration and planning, to commercial mining operations through to eventual closure—we are committed to excellence in environmental stewardship. We implement progressive reclamation and re-vegetation activities during operations. After mining activities are complete, our objective is to restore the land to a level of productivity equivalent to its pre-mining capacity. We continually seek new strategies for enhancing our environmental performance including programs to improve energy efficiency, reduce our carbon footprint and minimize our use of water and other resources.

We work hard to keep our mine site workers and corporate staff safe, and we support them and their communities with educational and health benefits, environmental protection and contributions to community infrastructure that will provide a legacy of sustainability. We believe that only by thoroughly understanding the people, their histories, and their needs and plans, can we engage in a meaningful development process that will contribute to their cultural and economic health and welfare. We foster open communication with local residents and community leaders and strive to be a full partner in the long-term sustainability of the communities and regions in which we operate.

FINANCIAL AND OPERATING RESULTS

SUMMARY OF ANNUAL FINANCIAL RESULTS



Revenues

Revenues increased by 31% or by $165.4 million to $695.9 million when compared to $530.5 million in the same prior year period. The increase is attributed to an increase in average realized gold prices from $1,194 per ounce during the year 2010 to $1,460 per ounce in 2011. Additionally, sales of gold ounces increased to 391,890 ounces compared to 369,077 ounces in the same prior year period. Sales of copper increased to 15.3 million pounds from 14.1 million pounds in 2010. Sales of silver decreased to 2,007,801 ounces from 2,143,721 ounces in the same prior year period.

Operating expenses

Operating expenses increased from $247.8 million in 2010 to $303.8 million during 2011. This increase is a result of multiple factors. Sales of gold and copper ounces increased by 6% and 8% respectively, causing additional operating expenses to flow from inventory. Additionally, all sites experienced inflationary pressures on input costs, particularly diesel fuel at the Mesquite mine and salary cost at Peak Mines. Peak Mines was also adversely impacted by foreign exchange movements. The Australian dollar strengthened by approximately 11% relative to the U.S. dollar in 2010. This had a significant impact as local costs were translated to U.S. dollar in 2011.

Depreciation and depletion

Depreciation and depletion for the year ended December 31, 2011 was $76.9 million compared to $78.4 million for the same prior year period, reflecting a similar cost year on year based on the units of production depreciation methodology.

Earnings from mine operations

For the year ended December 31, 2011, New Gold had earnings from mine operations of $315.2 million compared with $204.3 million in the same prior year period. Despite inflationary cost pressures and adverse foreign exchange movements, earnings from mine operations increased by 54% as a result of increased commodity sales, higher average realized commodity prices and other general operating efficiencies.

Corporate administration costs

Corporate administration costs of $26.3 million in 2011 relative to $24.1 million incurred in the same prior year period. Corporate administration costs have been impacted by litigation costs primarily related to the El Morro property (refer to the 'Financial Condition Review – Contingencies' section of this MD&A for details). Additionally, corporate salaries have increased reflective of the overall growth of the Company.

Share based compensation costs

Share-based compensation costs were $11.1 million and $6.9 million in 2011 and 2010, respectively. A large component of the increase is due to the mark-to-market of restricted share units as the New Gold share price increased over the year .

Exploration costs

Exploration costs of $10.0 million in 2011 were lower than $12.8 million for the same prior year period. The reduction resulted primarily from lower exploration expenditure at the Mesquite Mine. Additional to the exploration expense, a range of exploration costs related to the Blackwater project have been capitalized.

Impairment of exploration assets

In 2010, the Company recognized a $15.7 million expense in relation to an impairment on its Liberty Bell property. Drilling results in 2010 did not warrant further exploration at Liberty Bell. The drilling was discontinued and therefore an impairment charge was recorded in net earnings to reduce the carrying value of the Liberty Bell project to $nil. There were no impairment charges in 2011.

Hedging

For the year ended December 31, 2011, the Company's Mesquite Mine had realized losses of $41.7 million within revenues for settlement of gold hedge contracts during the year totaling 66,000 ounces. As a result of the increase in the spot price of gold from $1,406 per ounce to $1,531 per ounce between December 31, 2010 and December 31, 2011, the Mesquite Mine recognized $32.1 million of pre-tax unrealized losses in the mark-to-market of remaining contracts within other comprehensive income.

Other gains and losses

The following other gains and losses are all deducted for the purposes of adjusted net earnings:

Non-hedged derivatives
For the year ended December 31, 2011, the Company recorded a fair value change of share purchase warrants and convertible debt generating a loss of $18.3 million relative to a loss of $113.3 million in the same prior year period. As the share purchase warrants and convertible debt are denominated in

Canadian dollars, but the Company's functional currency is the US dollar, it is a requirement to account for them as liabilities. The liability is fair valued each reporting period. As the traded value of the New Gold share purchase warrants increases or decreases, a related loss or gain on the mark to market of the liability is reflected on the financial statements. Generally, movements in the traded value of the share purchase warrants correlate to movements in the Company's share price. So as the Company's share price increases, the liability and expense related to the share purchase warrants increases. This is also the case for the convertible debt which is fair valued using the Company's stock volatility as a key assumption.

Senior secured notes
The Company has a prepay option on the senior secured notes which was fair valued at $18.8 million at December 31, 2011 generating an unrealized gain of $11.1 million in the year 2011. This compares to a fair value gain of $7.7 million recognized in the same prior year period. As prevailing interest rates decline and the Company's credit worthiness improves, there is a deemed benefit to exercising the prepay option on the senior secured notes and refinancing at lower rates.

Gains on fair value through profit and loss ("FVTPL") financial assets
The Company recognized a gain on FVTPL financial assets of $1.3 million in 2011 relative to $48.8 million in the prior year. The gain in 2010 relates to the sale of its shares in Beadell Resources Limited ("Beadell") resulting in a gain of $39.7 million. The remaining $9.1 million gain related to the disposal of the Company's Asset Backed Notes.

Foreign exchange
The Company recognized a foreign exchange gain of $7.1 million for the year ended December 31, 2011 compared to a loss of $9.7 million in the same prior year period. This reflects significant movement in the currencies that New Gold operates in relative to the U.S. dollar in the year 2011. The current year gain was generated on the revaluation of monetary assets and liabilities and deferred income tax liabilities recorded on the business combination between New Gold, Metallica, and Peak Gold. Including deferred income tax liabilities, debt and cash, New Gold carries a net liability in these foreign currencies which have weakened, reducing the US dollar denominated liability and generating a foreign exchange gain in the period.

Ineffectiveness of hedge instruments
For the year ended December 31, 2011, a loss of $6.6 million (2010 - $nil) was recorded reflecting the ineffective portion of the gold hedge.

Income tax

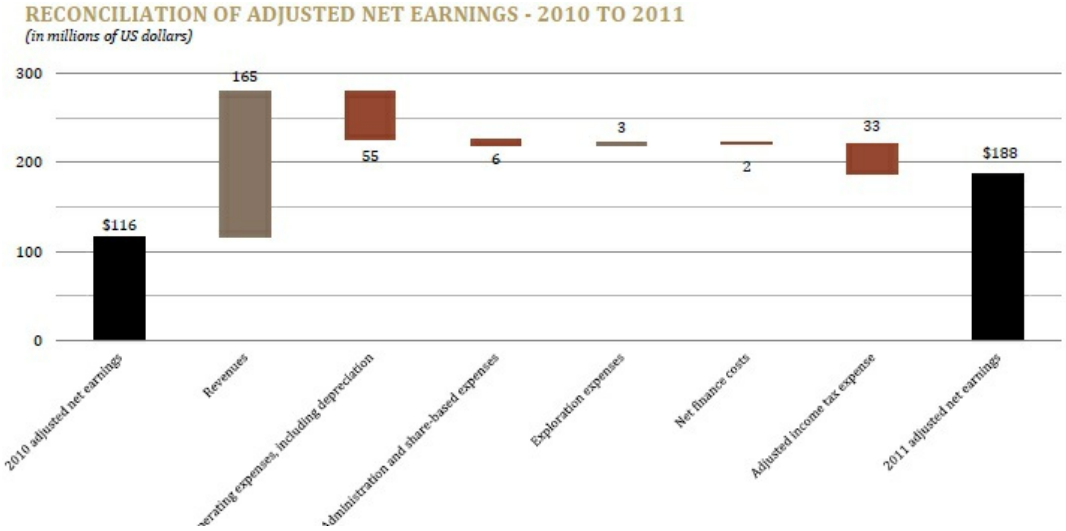
Income and mining tax expense in 2011 was $79.4 million compared to $18.0 million in the same prior year period, reflecting an effective tax rate of 31% for the year 2011 compared to 24% in the prior year period. The most significant items affecting our tax rate are summarized in Note 15 of the audited consolidated financial statements for the year ended December 31, 2011. The variance in effective tax rate is primarily due to the impact of the other gains and losses.

On an adjusted net earnings basis, the adjusted effective tax rates were 29% and 28% for 2011 and 2010 respectively. This reflects the relatively consistent mix of jurisdictions in which we operate where statutory tax rates have not changed materially in the past year. The adjusted effective tax rates exclude the impact of changes in the recognition of deferred tax assets, specifically fair value changes in share purchase warrants, convertible debts and asset backed commercial papers.

Net earnings from continuing operations

For the year ended December 31, 2011, New Gold had net earnings from continuing operations of $179.0 million, or $0.42 per basic share. This compares with net earnings from continuing operations of $57.3 million, or $0.15 per basic share in the same prior year period.

Adjusted net earnings

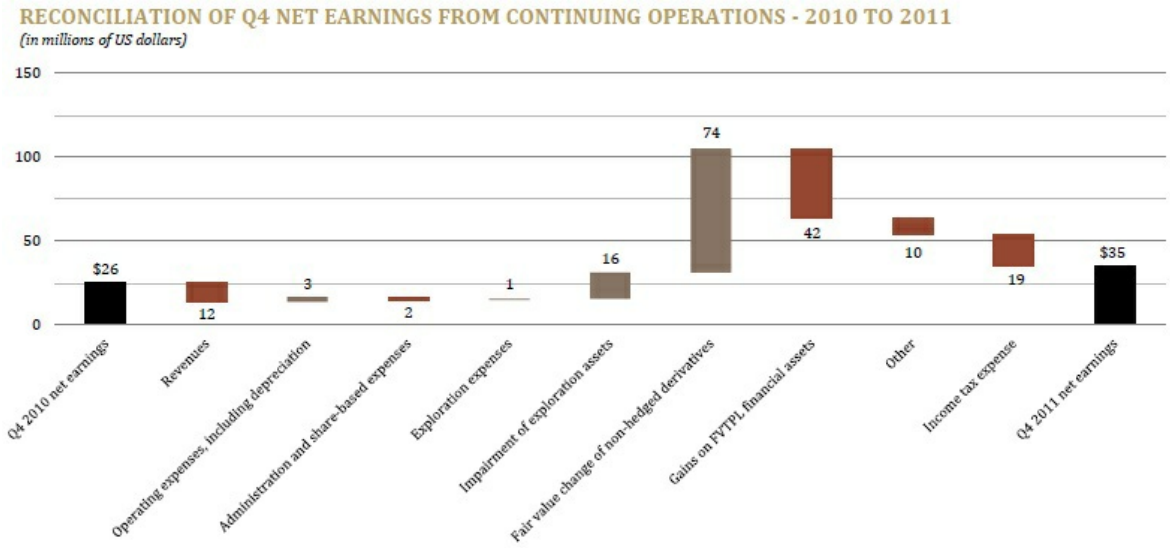


For the year ended December 31, 2011, adjusted net earnings from continuing operations was $187.8 million or $0.44 per basic share, which increased from $115.7 million or $0.30 per basic share in the prior year period.

Net earnings has been adjusted, including the associated tax impact, for the group of costs in "Other gains (losses)" on the condensed consolidated income statement. Key entries in this grouping are the fair value changes for share purchase warrants, convertible debt, asset backed commercial paper and the embedded derivative in the senior secured notes. Additionally, foreign exchange gain or loss and other non-recurring items are adjusted. Particularly related to the fourth quarter of 2010, the loss on impairment of exploration assets has been adjusted. Adjusting for of these items provides an improved measure to internally evaluate the underlying operating performance of the company as a whole for the reporting periods presented. The prior period tax is also adjusted for the foreign exchange impact of deferred tax on non-monetary assets.

See "Non-GAAP Financial Performance Measures" for reconciliation of net earnings to adjusted net earnings.

SUMMARY OF QUARTERLY FINANCIAL RESULTS



Revenue

Revenues decreased by 6% or $11.8 million to $177.6 million when comparing the fourth quarter of 2011 to 2010. The decrease was attributed to a decrease in sales of gold ounces to 99,612 ounces compared to 116,964 ounces in the same prior year period. The gold sales reduction is primarily attributed to the Mesquite Mine being in a lower grade cycle relative to the fourth quarter of 2010, in line with the mine plan. Sales of silver ounces decreased to 440,024 from 696,161 in the same prior year period as mine sequencing at Cerro San Pedro is currently focusing on an area of lower grade than prior year. Sales of copper decreased to 2.9 million pounds from 4.7 million pounds in the same prior year period as a result of lower grade ore being processed. The decrease in sales volume was partly offset by an increase in average realized prices for gold and silver to $1,549 per ounce and $31.26 per ounce, respectively; compared to $1,316 per ounce and $26.91 per ounce in the fourth quarter of 2010, respectively. Copper decreased to $3.56 per pound in the fourth quarter of 2011 relative to $3.89 per pound in the fourth quarter of 2010.

Operating expenses

Operating expenses decreased from $79.8 million in 2010 to $78.6 million in the fourth quarter of 2011. The decrease is attributed to a decrease in gold ounces sold, offset by the reduction of copper concentrate inventory at Peak Mines, an adverse impact of foreign exchange as the U.S. dollar has weakened compared to the Australian dollar and Mexican peso, and higher consumable prices and labour costs. 2010 operating expenses have been adjusted to reflect IFRS policy to capitalize significant component replacements primarily at the Mesquite Mine.

Depreciation and depletion

Depreciation and depletion was $23.8 million for the fourth quarter of 2011 compared to $25.6 million for the fourth quarter of 2010 and is primarily due to lower production during the quarter, offset by a higher depreciable resource base in 2011.

Earnings from mine operations

For the three months ended December 31, 2011, New Gold had earnings from mine operations of $75.2 million compared with $83.9 million in the same prior year period.

Share based compensation costs

Share-based compensation costs were $2.2 million and $1.6 million in fourth quarters of 2011 and 2010, respectively. A component of the change in share-based compensation costs is due to the mark to market of restricted share units as the New Gold share price increased over the period.

Exploration costs

Exploration expense is $2.3 million for the fourth quarter of 2011 relative to $2.9 million in the same prior year period. Spending on expensed exploration costs was approximately the same as the same prior year period as Blackwater exploration activities were capitalized.

Impairment of exploration assets

In the fourth quarter of 2010, the Company recognized a $15.7 million expense in relation to an impairment on its Liberty Bell property. Drilling results in 2010 did not warrant further exploration at Liberty Bell. The drilling was discontinued and therefore an impairment charge was recorded in net earnings to reduce the carrying value of the Liberty Bell project to $nil. There is no comparable figure in 2011.

Hedging

For the three month period ended December 31, 2011, the Company's Mesquite Mine realized losses of $12.0 million within revenues for settlement of three months of gold hedge contracts totaling 16,500 ounces. As a result of the decrease in the spot price of gold from $1,620 per ounce to $1,531 per ounce between September 30, 2011 and December 31, 2011, the Mesquite Mine recognizes $11.3 million of pre-tax unrealized gains in the mark-to-market of remaining contracts within Other Comprehensive Income.

Other gains and losses

The following other gains and losses are all deducted for the purposes of adjusted net earnings:

Non-hedged derivatives
For the three month period ended December 31, 2011, the Company recorded a fair value change with respect to share purchase warrants and convertible debt, which generated a gain of $10.5 million relative to a loss of $63.4 million in the same prior year period. As the share purchase warrants and convertible debt are denominated in Canadian dollar, but the Company's functional currency is the US dollar, it is a requirement to account for them as liabilities. The liability is fair valued each reporting period. As the traded value of the New Gold share purchase warrants increases or decreases, a related loss or gain on the mark to market of the liability is reflected on the financial statements. Generally, movements in the traded value of the share purchase warrants correlate to movements in the Company's share price. So as the Company's share price increases, the liability and expense related to the share purchase warrants increases. This is also the case for the convertible debt which is fair valued using the Company's stock volatility as a key assumption.

Senior secured notes
As the Company's credit worthiness improves, there is a deemed benefit to exercising the prepay option on the senior secured notes and refinancing at lower rates. The prepay option on the senior secured notes was fair valued at $18.8 million at December 31, 2011, generating an unrealized gain of $0.6 million for the quarter. This compares to a fair value loss of $3.9 million recognized in the same prior year period.

Foreign exchange
The Company recognized a foreign exchange gain of $12.9 million in the fourth quarter of 2011 compared to a loss of $0.5 million in the same prior year period. This reflects movement in the currencies that New Gold operates in relative to the US dollar in the fourth quarter of 2011. The current period gain was generated on the revaluation of monetary assets and liabilities and deferred income tax liabilities recorded on the business combination between New Gold, Metallica, and Peak Gold due to their functional currency being difference. Including deferred income tax liabilities, debt and cash, New Gold carries a net liability in these foreign currencies which have weakened, reducing the US dollar denominated liability and generating a foreign exchange gain in the period.

Income tax

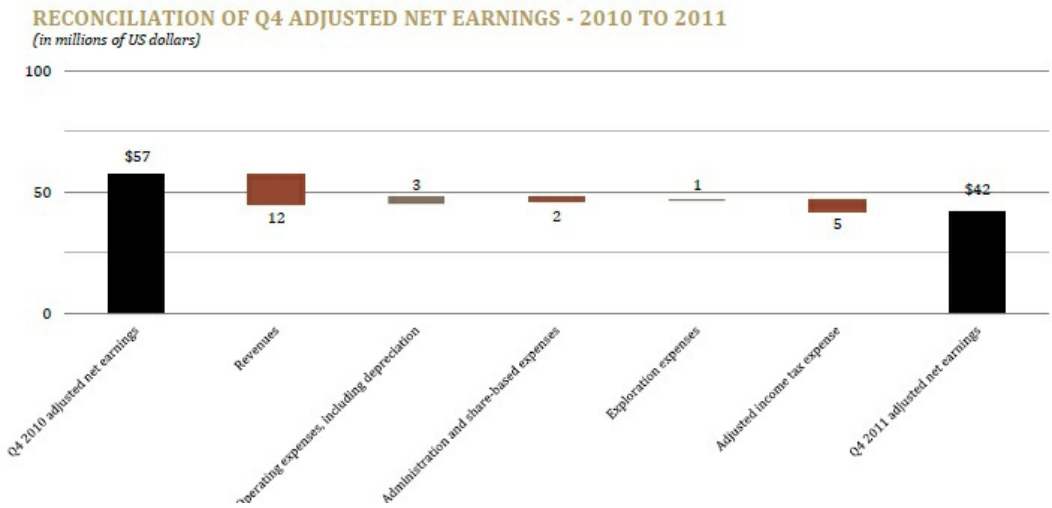
Income and mining tax expense in the fourth quarter of 2011 was $22.1 million compared to $3.5 million in the same prior year period, reflecting an effective tax rate of 39% for the fourth quarter of 2011 compared to 12% for the same period in 2010. The variance in effective tax rate is due primarily to the impact of the other gains and losses.

On an adjusted net earnings basis, the adjusted effective tax rates were 31% and 21% for 2011 and 2010 respectively. The prior period included some year-end tax true-ups which are not adjusted. The adjusted effective tax rates exclude the impact of changes in the recognition of deferred tax assets, specifically fair value changes in share purchase warrants, convertible debts, asset backed commercial papers and the embedded derivatives.

Net earnings from continuing operations

For the three months ended December 31, 2011, New Gold had net earnings from continuing operations of $35.0 million, or $0.08 per basic share. This compares with net earnings from continuing operations of $25.6 million, or $0.07 per basic share in the same prior year period.

Adjusted net earnings



For the three months ended December 31, 2011, adjusted net earnings from continuing operations was $42.2 million or $0.09 per basic share, which decreased from $57.0 million or $0.15 per basic share in the prior year period. The decrease in adjusted net earnings relates primarily to $nil expense related to impairment of exploration assets relative to a loss of $15.7 million in the prior year period. This is offset against decreased revenues on lower volume commodity sales.

Net earnings has been adjusted, including the associated tax impact, for the group of costs in “Other gains (losses)” on the condensed consolidated income statement. Key entries in this grouping are the fair value changes for share purchase warrants, convertible debt, asset backed commercial paper and the embedded derivative in the senior secured notes. Additionally, foreign exchange gain or loss and other non-recurring items are adjusted. Particularly related to the fourth quarter of 2010, the loss on impairment of exploration assets has been adjusted. Adjusting for of these items provides an improved measure to internally evaluate the underlying operating performance of the company as a whole for the reporting periods presented. The prior period tax is also adjusted for the foreign exchange impact of deferred tax on non-monetary assets.

See “Non-GAAP Financial Performance Measures” for reconciliation of net earnings to adjusted net earnings.

Quarterly financial and operating information

Selected financial and operating information for the 2011 and 2010 quarters is as follows:

QUARTERLY FINANCIAL AND OPERATING INFORMATION
(in thousands of US dollars, except per share amounts and where noted)

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Gold sales (ounces)	99,612	93,028	95,039	104,211	116,964	89,692	82,401	80,020
Revenues	177,590	175,501	171,635	171,213	189,355	127,116	112,359	101,620
Net earnings (loss) from continuing operations	34,998	40,709	78,602	24,719	25,557	44,754	(26,006)	13,042
Per share:								
Basic	0.08	0.09	0.19	0.06	0.07	0.11	(0.07)	0.03
Diluted	0.07	0.09	0.16	0.06	0.06	0.11	(0.07)	0.03
Net earnings (loss)	34,998	40,709	78,602	24,719	25,557	44,754	(26,006)	13,042
Per share:								
Basic	0.08	0.09	0.19	0.06	0.15	0.11	(0.07)	0.03
Diluted	0.07	0.09	0.16	0.06	0.15	0.11	(0.07)	0.03
Adjusted net earnings (loss)	42,199	49,465	49,772	47,897	57,011	29,340	96,555	17,890
Per share:								
Basic	0.09	0.11	0.12	0.12	0.15	0.07	0.24	0.05
Diluted	0.09	0.11	0.12	0.12	0.14	0.07	0.24	0.04

REVIEW OF OPERATING MINES

Mesquite Mine, California, USA
A summary of the Mesquite Mine operations results is provided below:

MESQUITE MINE OPERATIONS REVIEW
(in thousands of US dollars, except where noted)

	Three months ended December 31		*Years ended December 31*		
	2011	2010	2011	2010	2009
Operating Information:					
Tonnes of ore mined (000's)	3,870	3,301	11,733	11,327	13,084
Tonnes of waste mined (000's)	5,350	8,052	34,240	35,990	40,857
Ratio of waste to ore	1.38	2.44	2.92	3.18	3.12
Tonnes of ore to leach pad (000's)	3,870	3,301	11,733	11,327	13,084
Average grade:					
Gold (grams/tonne)	0.50	0.94	0.57	0.62	0.51
Gold (ounces):					
Produced [2]	43,630	55,990	158,004	169,023	150,002
Sold	43,717	50,393	161,214	169,571	143,509
Average realized price [3]:					
Gold ($/ounce) [4]	1,398	1,234	1,297	1,117	955
Total cash costs per gold ounce sold [3]	$ 691	$ 518	$ 645	$ 575	$ 596
Financial Information [1]**:**					
Revenues	$ 61,119	$ 62,208	$ 209,070	$ 189,361	$ 136,004
Earnings from mine operations	$ 21,973	$ 26,822	$ 79,656	$ 61,133	$ 29,948
Capital expenditures	$ 9,326	$ 1,238	$ 18,544	$ 9,034	$ 1,341

1. The 2011 and 2010 figures have been prepared in accordance with IFRS, while the 2009 figures have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). The 2010 figures are presented for comparative purposes only, and have been restated to comply with IFRS which was adopted January 1, 2010. The 2010 comparative cash costs per ounce have been adjusted to be consistent with the 2011 methodology which capitalizes significant property, plant and equipment components in accordance with IFRS. The 2009 figures are also presented for comparative purposes only, as New Gold acquired the Mesquite operations on May 27, 2009.
2. Tonnes of ore processed each period does not necessarily correspond to ounces produced during the period, as there is a time delay between placing tonnes on the leach pad and pouring ounces of gold.
3. We use certain non-GAAP financial performance measures throughout our MD&A. Total cash costs per gold ounce sold, average realized price, average realized margin, operating margin, adjusted net earnings and adjusted net earnings per share are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the 'Non-GAAP Performance Measures' section of this MD&A.
4. Average realized price per gold ounce for the Mesquite Mine includes realized gains and losses from gold hedge settlements.

Annual Operating Results

Production
Gold production for the year ended December 31, 2011 was 158,004 ounces compared to 169,023 ounces produced in the same period in 2010. Production was lower in 2011 primarily as a result of lower grade ore being placed on the leach pad, consistent with the mine schedule.

Revenue
Revenue for the year ended December 31, 2011 was $209.1 million compared to $189.4 million in the same period last year mainly due to a higher realized gold price partially offset by lower ounces sold. The average realized gold price during the year 2011 of $1,297 per ounce, including hedged gold ounce settlements at $801 per ounce, was lower than the average London Metals Exchange PM gold fix price of $1,568 per ounce. In the year 2010, the Mesquite Mine recognized an average realized gold price of $1,117 per ounce of gold sold, which compares to the average London Metals Exchange PM gold fix price of $1,225 per ounce.

Total cash costs
Total cash costs per ounce of gold sold for the year ended December 31, 2011 was $645 per ounce compared to $575 per ounce in the same prior year period. The increase is primarily a result of increased input costs, particularly diesel fuel, as well as lower gold production levels. The average Brent oil price, which is the most correlated to the diesel used at Mesquite, increased by 40% relative to 2010.

Earnings from mine operation
As a result of higher realized gold prices, Mesquite generated $79.7 million in earnings from mine operations in 2011 compared to $61.1 million in the same period of the prior year.

Capital expenditures
Capital expenditures totaled $18.5 million and $9.0 million respectively for the year ended December 31, 2011 and 2010 and consisted primarily of major component replacements which are capitalized under IFRS and the purchase of two haul trucks.

Quarterly Operating Results

Production
Gold production for the quarter ended December 31, 2011 was 43,630 ounces compared to 55,990 ounces produced in the same period in 2010. Gold production was lower in the fourth quarter of 2011 compared to fourth quarter of 2010 primarily as a result of lower grade ore being placed on the leach pad, consistent with mine schedule.

Revenue
Revenue for the quarter ended December 31, 2011 remained largely the same at $61.1 million compared to $62.2 million in the same period last year as the decrease in ounces sold to 43,717 ounces in 2011 from 50,393 ounces in 2010 was mostly offset by the increase in average realized gold price. The average realized gold price during the fourth quarter of 2011 of $1,398 per ounce, including hedged gold ounce settlements at $801 per ounce, was lower than the average London Metals Exchange PM gold fix price of $1,680 per ounce. In the fourth quarter of 2010, the Mesquite Mine recognized an average realized gold price of $1,234 per ounce of gold sold, compared to the average London Metals Exchange PM gold fix price of $1,368 per ounce.

Total cash costs
Total cash costs per ounce of gold sold for the quarter ended December 31, 2011 was $691 per ounce compared to $518 per ounce in the same prior year period. The increase is primarily a result of increased input costs, particularly diesel fuel, as well as lower gold production levels. The average Brent oil price, which is the most correlated to the diesel used at Mesquite, increased by 26% relative to the fourth quarter of 2010.

Earnings from mine operations
Mesquite generated $22.0 million in earnings from mine operations in the fourth quarter of 2011 compared to $26.8 million in the same period of the prior year due to lower gold ounces sold, offset partially by an increase in average realized price of gold.

Capital expenditures
Capital expenditures totaled $9.3 million and $1.2 million for the three month periods ended December 31, 2011 and 2010, respectively and consisted primarily of major component replacements which are capitalized under IFRS.

Outlook

The Mesquite mine is forecast to produce 140,000 to 150,000 ounces of gold in 2012 at total cash costs per ounce sold of $710 to $730 per ounce. The targeted increase in ore tonnes processed in 2012 is expected to be more than offset by the scheduled mining of ore below reserve grade in 2012 when compared to mining of reserve grade in 2011. The increase in forecasted total cash costs in 2012 when compared to 2011 is driven primarily by lower gold production as well as certain increased input costs. 2012 capital expenditures at Mesquite are forecast to be approximately $14.0 million with approximately 50% of this total allocated to major truck and shovel components.

Cerro San Pedro Mine, Mexico
A summary of the Cerro San Pedro Mine operations results is provided below:

CERRO SAN PEDRO MINE OPERATIONS REVIEW
(in thousands of US dollars, except where noted)

	Three months ended December 31			*Years ended December 31*	
	2011	2010	2011	2010	2009
Operating Information:					
Tonnes of ore mined (000's)	4,435	2,952	16,763	10,790	11,899
Tonnes of waste mined (000's)	4,449	5,243	16,513	16,580	16,768
Ratio of waste to ore	1.00	1.78	0.99	1.54	1.41
Tonnes of ore processed (000's)	4,435	2,952	16,763	10,790	11,899
Average grade:					
Gold (grams/tonne)	0.43	0.58	0.48	0.62	0.45
Silver (grams/tonne)	25.38	30.66	24.24	37.84	30.68
Gold (ounces):					
Produced [2]	34,145	38,874	143,747	118,708	95,502
Sold	33,284	38,666	142,985	114,713	93,312
Silver (ounces):					
Produced [2]	453,024	700,988	1,989,333	2,188,235	1,496,958
Sold	440,024	696,161	2,007,801	2,143,721	1,475,317
Average realized price [3]:					
Gold ($/ounce)	1,673	1,373	1,564	1,262	978
Silver ($/ounce)	31.26	26.91	35.15	21.40	14.48
Total cash costs per gold ounce sold [3][4]	$ 253	$ 138	$ 115	$ 230	$ 407
Financial Information [1]:					
Revenues	$ 69,441	$ 71,831	$ 294,271	$ 190,459	$ 112,642
Earnings from mine operations	$ 37,555	$ 36,155	$ 172,723	$ 83,559	$ 28,124
Capital expenditures	$ 1,762	$ 1,855	$ 7,417	$ 9,653	$ 3,164

1. The 2011 and 2010 figures have been prepared in accordance with IFRS, while the 2009 figures have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). The 2010 figures are presented for comparative purposes only, and have been restated to comply with IFRS which was adopted January 1, 2010. The 2009 figures are also presented for comparative purposes only.
2. Tonnes of ore processed each period does not necessarily correspond to ounces produced during the period, as there is a time delay between placing tonnes on the leach pad and pouring ounces of gold.
3. We use certain non-GAAP financial performance measures throughout our MD&A. Total cash costs per gold ounce sold, average realized price, average realized margin, operating margin, adjusted net earnings and adjusted net earnings per share are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the 'Non-GAAP Performance Measures' section of this MD&A.
4. The calculation of total cash costs per ounce of gold is net of by-product silver revenue. If the silver revenues were treated as a co-product, average total cash costs at Cerro San Pedro Mine for the year ended December 31, 2011 would be $463 per ounce of gold (2010 - $478) and $10.40 per ounce of silver (2010 - $8.08). For the three months ended December 31, 2011, the average total cash costs at Cerro San Pedro Mine would be $534 per ounce of gold (2010 - $460) and $9.98 per ounce of silver (2010 - $9.01).

Update on 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 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 of compliance 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.

In September 2009, a Federal Court of Fiscal and Administrative Justice ordered SEMARNAT, the Mexican environmental regulatory agency, to nullify the authorization of MSX's 2006 Environmental Impact Statement ("EIS") for the Cerro San Pedro mine. This decision was appealed at several levels and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of the Company's position against the nullification of the EIS. In March 2011, the municipality of Cerro de San Pedro approved a new municipal land use plan ("Plan"), after public consultation. The Plan clearly designates the area of the Cerro San Pedro Mine for mining, resolving any ambiguity regarding land use in that area. On August 5, 2011 a new EIS was granted for the Cerro San Pedro Mine. The 2011 EIS contains a number of conditions with which the Company must comply and the work to fulfill these conditions is in progress. MSX's land usage permit and its other operating permits remain in effect.

Annual Operating Results

Production
Gold production for the year ended December 31, 2011 was 143,747 ounces compared to 118,708 ounces produced in the same period in 2010. The 21% increase in gold production is primarily driven by an increase in ore tonnes placed and higher gold recoveries, which were partially offset by lower gold grades.

Revenue
Revenue for the year ended December 31, 2011 was $294.3 million compared to $190.5 million in the same prior year period mainly due to higher gold ounces sold as well as a higher realized gold and silver prices. The average realized gold price during the year 2011 and 2010 was of $1,564 and $1,262 per ounce, respectively, which compares well to the average London Metals Exchange PM gold fix price of $1,568 and $1,225 per ounce, respectively. The average realized silver price per ounce during the year 2011 and 2010 was $35.15 and $21.40 respectively, which also correlates to the average London Metals Exchange silver fix price of $35.10and $20.16 per ounce, respectively.

Total cash costs
Total cash costs per ounce of gold sold for the year ended December 31, 2011 was $115 per ounce compared to $230 per ounce in the prior year. The decreased total cash costs achieved during 2011 was driven by strong silver by-product revenue and increased gold production when compared to 2010. The increased silver by-product revenue was a result of the continued strength of the silver price throughout 2011.

Earnings from mine operations
As a result of increased production, lower costs and higher realized gold prices, Cerro San Pedro generated $172.7 million in earnings from mine operations in 2011 compared to $83.6 million in the same period of the prior year.

Capital expenditures
Capital expenditures totaled $7.4 million and $9.7 million respectively for the year ended December 31, 2011 and 2010. Capital expenditures in 2011 were primarily associated with a plant and leach pad expansion and mining equipment additions.

Quarterly Operating Results

Production
Gold production for the fourth quarter of 2011 decreased by 12% to 34,145 ounces, compared to 38,874 ounces produced in the same prior year period. The decreased production is due to lower grade ore being processed which is partially offset by an increase in ore tonnes placed on the leach pad. Silver production was 453,024 ounces compared to 700,988 ounces in the same prior year period as mine sequencing is currently focusing on an area of lower silver grade than prior year.

Revenue
Revenue for the fourth quarter of 2011 was $69.4 million, which was comparable to the same prior year period. Fewer ounces of gold and silver sold were partly offset by an increase in the gold and silver average realized prices. The average realized gold price per ounce during the fourth quarters 2011 and 2010 were $1,673 and $1,373 respectively, which corresponds well to the average London Metals Exchange PM gold fix price of $1,680 and $1,368 per ounce, respectively. The average realized silver price per ounce during the fourth quarters of 2011 and 2010 were $31.26 and $26.91 respectively, which also correlate to the average London Metals Exchange silver fix price of $31.79 and $26.43 per ounce, respectively.

Total cash costs
Total cash costs per ounce of gold sold in the fourth quarter of 2011 was $253 per ounce compared to $138 per ounce in the same prior year period. The increase in total cash costs during the fourth quarter was due to the combination of lower silver by-product revenue and lower gold production caused by the lower grade of ore mined during the year.

Earnings from mine operations
The increased average realized prices for both gold and silver sales, partially offset by lower volumes sold, resulted in Cerro San Pedro generating $37.6 million in earnings from mine operations in the fourth quarter of 2011 compared to $36.2 million in the same period of the prior year.

Capital expenditures
Cash flow relating to capital expenditures totaled $1.8 million and $1.9 million for the three month period ended December 31, 2011 and 2010, respectively.

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. The value of the Mexican peso strengthened from an average of 12.65 to the U.S. dollar in the year 2010 compared to 12.43 to the U.S. dollar in the year 2011. This had a negative impact of approximately $5 per ounce of gold sold.

During the fourth quarter of 2011 compared to the same prior year period, the value of the Mexican peso decreased from an average of 12.40 to the U.S. dollar in the fourth quarter of 2010 to 13.64 to the U.S. dollar in the fourth quarter of 2011. This had a positive impact of approximately $35 per ounce of gold sold, which partly offset the impact of the other factors described above.

Exploration Project Review

Exploration drilling activities at the Cerro San Pedro Sulphide project continued during the fourth quarter, with 7,552 meters in 13 holes drilled. The objective of the Cerro San Pedro Sulphide project is 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. Year-to-date progress for the project includes ongoing metallurgical test work and the completion of 30 holes totaling 21,000 meters of core drilling. Since the inception of the investigation in 2008, there have been 73 drill holes completed, totaling 45,015 meters.

At the end of Q4 2011 the Company reported an updated inferred mineral resource estimate for the manto zone of 6.3 million tonnes averaging 1.83 g/t gold, 94.5 g/t silver, 3.1% zinc and 1.1% lead. Exploration drilling to expand the manto resource will continue during 2012.

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.

Outlook

Cerro San Pedro is forecast to produce 140,000 to 150,000 ounces of gold and 1.9 to 2.1 million ounces of silver in 2012 at a total cash costs per ounce sold, net of by-product sales, of $250 to $270 per ounce. Gold and silver production in 2012 is expected to be consistent with the levels achieved in 2011. The total cash costs assume a $30 per ounce silver price and a foreign exchange rate of 13.00 Mexican pesos to U.S. dollar. The majority of the forecast cost increase from 2011 is attributable to the lower silver price assumption. 2012 capital expenditures at Cerro San Pedro are forecast to be approximately $16 million, approximately $9 million of which relates to leach pad expansions.

Peak Mines, New South Wales, Australia
A summary of the Peak Mines operations results is provided below:

PEAK MINE OPERATIONS REVIEW
(in thousands of US dollars, except where noted)

	Three months ended December 31		*Years ended December 31*	
	2011	2010	2011	2010	2009
Operating Information:					
Tonnes of ore mined (000's)	191	160	755	740	801
Tonnes of ore processed (000's) [2]	215	200	783	775	794
Average grade:					
Gold (grams/tonne)	4.12	5.18	3.94	4.23	4.05
Copper (%)	0.92	1.11	0.93	1.01	1.00
Recovery rate (%):					
Gold	90.80	89.20	88.80	90.40	
Copper	85.10	86.90	82.00	88.80	
Gold (ounces):					
Produced	22,896	29,581	85,404	95,180	93,247
Sold	22,611	27,905	87,691	84,793	87,812
Copper (thousands of pounds):					
Produced	3,297	4,236	12,715	15,340	15,613
Sold	2,917	4,709	15,316	14,050	13,901
Average realized price [3]:					
Gold ($/ounce)	1,656	1,385	1,591	1,257	994
Copper ($/pound)	3.56	3.89	3.78	3.48	2.54
Total cash costs per gold ounce sold [3][4]	$ 726	$ 312	$ 618	$ 361	$ 334
Financial Information [1]**:**					
Revenues	$ 47,030	$ 55,316	$ 192,598	$ 150,630	$ 116,631
Earnings from mine operations	$ 15,680	$ 20,955	$ 62,847	$ 59,611	$ 41,811
Capital expenditures	$ 15,107	$ 11,097	$ 50,263	$ 29,123	$ 28,581

1. The 2011 and 2010 figures have been prepared in accordance with IFRS, while the 2009 figures have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). The 2010 figures are presented for comparative purposes only, and have been restated to comply with IFRS which was adopted January 1, 2010. The 2009 figures are also presented for comparative purposes only.
2. Tonnes of ore processed each period does not necessarily correspond to ounces produced during the period, as there is a time delay between placing tonnes on the leach pad and pouring ounces of gold.
3. We use certain non-GAAP financial performance measures throughout our MD&A. Total cash costs per gold ounce sold, average realized price, average realized margin, adjusted net earnings and adjusted net earnings per share are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the 'Non-GAAP Performance Measures' section of this MD&A.
4. The calculation of total cash costs per ounce of gold is net of by-product silver revenue. If the copper revenues were treated as a co-product, average total cash costs at Peak Mines for the year ended December 31, 2011 would be $847 per ounce of gold (2010 - $594) and $2.48 per pound of copper (2010 - $2.05). For the three months ended December 31, 2011, the average total cash costs at Peak Mines would be $881 per ounce of gold (2010 - $606) and $2.53 per pound of copper (2010 - $2.14).

Annual Operating Results

Production
Peak Mines produced 85,404 ounces of gold and 12.7 million pounds of copper during the year 2011 compared to 95,180 ounces of gold and 15.3 million pounds of copper for the same prior year period. Gold and copper production during 2011 was lower than the prior year due to a combination of lower gold and copper grades and lower recoveries, which primarily impacted the third quarter. Gold and copper sales were higher during 2011 as Peak was able to drawdown its concentrate inventory.

Revenue
Revenue for the year 2011 was $42.0 million higher than in the same year in 2010 mainly due to higher realized gold prices of $1,591 per ounce compared to $1,257 per ounce and the higher realized copper prices of $3.78 per pound compared to $3.48 per pound in the same prior year period. This compares to the average London Metals Exchange PM gold fix price of $1,568 and $1,225 per ounce for the year 2011 and 2010, respectively. The average London Metals Exchange copper fix price was $4.00 for the year 2011 and $3.42 for 2010, with the Peak realized price for 2011 being impacted by the timing of third quarter sales being priced at lower than the market average. Revenue was also impacted by additional copper pounds sold of 15.3 million pounds relative to 14.1 million pounds in the prior year as Peak Mines sold a large portion of its concentrate inventory.

Total cash costs
Total cash costs per ounce of gold sold, net of by-product sales, for the year was $618 compared to $361 in the same period of 2010. The increase in total cash costs when comparing 2011 with 2010 were driven by the appreciation of the Australian dollar during 2011 and the inflationary cost pressures, particularly labour, in the region which were only partially offset by the increase in copper by-product revenue during 2011.

Earnings from mine operations
The higher average realized price, partially offset by increased total cash costs per ounce of gold sold, net of by-product sales and reduced gold sales volume resulted in Peak Mines generating $62.8 million in earnings from operations during 2011 compared to $59.6 million in the same period of the prior year.

Capital expenditures
Capital expenditures totaled $50.3 million and $29.1 million for the year ended December 31, 2011 and 2010, respectively. Capital expenditures in 2011 were primarily associated with mine development, loader and truck purchases and capitalized exploration.

Quarterly Operating Results

Production
Peak Mines produced 22,896 ounces of gold and 3.3 million pounds of copper during the fourth quarter of 2011 compared to 29,581 ounces of gold and 4.2 million pounds of copper in the same prior year period. Gold and copper production in the fourth quarter was lower than the prior year period as a result of lower grade ore being processed. Importantly, both gold and copper recoveries were up during the quarter and consistent with the prior year period after the lower than expected recoveries in the third quarter of 2011.

Revenue
Revenue for the fourth quarter of 2011 was 15% lower than in the same quarter 2010 mainly due to fewer ounces of gold sold, from 27,905 ounces in the fourth quarter of 2010 to 22,611 ounces in the same period in 2011. The impact of the decrease in ounces sold was partly offset by higher realized gold prices of $1,656 per ounce compared to $1,385 per ounce. This compares to the average London Metals Exchange PM gold fix price of $1,680 and $1,368 per ounce for the fourth quarter of 2011 and 2010, respectively. Copper sales were also lower in the fourth quarter of 2011 with 2,917 thousand pounds, compared to 4,709 thousand pounds in the same prior year period. This was further exacerbated by the lower average realized copper price of $3.56 per pound in the fourth quarter of 2011, compared to $3.89 per pound in the same prior year period. The average London Metals Exchange copper fix price was $3.40 for the fourth quarter of 2011 and $3.92 for the fourth quarter of 2010.

Total cash costs
Total cash costs per ounce of gold sold, net of by-product sales, for the fourth quarter was $726 compared to $312 in the fourth quarter of 2010. Total cash costs per ounce sold, net of by-product sales, during the fourth quarter of 2011 was higher than the prior year period due to a combination of significantly lower by-product revenue, the appreciation of the Australian dollar, increased labour costs and lower gold production.

Earnings from mine operations
The higher average realized price, offset by increased total cash costs per ounce of gold sold, net of by-product sales and reduced sales volume resulted in Peak Mines generating $15.7 million in earnings from operations during the fourth quarter of 2010 compared to $21.0 million in the same period of the prior year.

Capital expenditures
Capital expenditures totaled $15.1 million and $11.1 million for the three month period ended December 31, 2011 and 2010, respectively. Significant capital expenditure during the fourth quarter of 2011 included the building of a tailing dam lift and Perseverance vent fan upgrade project, as well as 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 year 2011 averaged 0.97 compared to 1.09 in the year 2010 resulting in a negative impact on cash costs of approximately $138 per gold ounce sold.

The value of Australian dollar in the fourth quarter of 2011 averaged 0.99 compared to 1.01 in the fourth quarter of 2010 resulting in a negative impact on cash costs of approximately $26 per gold ounce sold.

Exploration Project Review

During the fourth quarter of 2011, the Company conducted 13,657 meters of underground exploration and delineation diamond drilling to delineate additional reserves at its Peak Mines operations. This total includes 5,441 meters drilled in the Perseverance deposit, 5,801 meters drilled in the Jubilee deposit, 767 metres drilled in the New Cobar deposit and 1,648 meters drilled in the Chesney deposit. Total underground drilling for the year was 48,142 meters in 332 holes. By year end, Peak's 2011 exploration activities had more than replaced reserves mined during the year.

Surface exploration during the reporting period included 500 meters of surface drilling to explore for new deposits at Rookery South, 493 meters at Nymagee East, 250 meters at Rookery East and 150 meters at Mafeesh, all within the Peak Gold Mine's exploration licenses surrounding the mine. Total surface drilling for the year was 9,897 meters in 38 holes. In addition, the Company's regional exploration initiative continues with geophysical surveys, geological mapping and geochemical sampling of targets identified within the Cobar mineral field.

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.

Outlook

Peak Mines is forecast to produce 90,000 to 100,000 ounces of gold and 12 to 14 million pounds of copper in 2012 at a total cash costs per ounce sold, net of by-product sales, of $640 to $660 per ounce. The anticipated increase in gold production is due to mine sequencing moving to higher grade areas and the continued improvement in recoveries as seen in the fourth quarter. The total cash costs assume a $3.50 per pound copper price and a foreign exchange rate of $1.00 Australian to U.S. dollar. 2012 capital expenditures at Peak Mines are forecast to be approximately $60 million with approximately 50% of this total to be spent on underground development and exploration. The balance of capital expenditures relates to equipment and fleet replacements as well as major components. Through these ongoing underground exploration efforts, during 2011 Peak Mines was able to more than replace the reserves mined during 2011 thus further extending its mine life.

DEVELOPMENT AND EXPLORATION REVIEW

New Afton Project, British Columbia, Canada

New Afton, the Company's most immediate development project achieved many important milestones throughout 2011, particularly in the fourth quarter. The project is on schedule for a June 2012 production start with the ramp-up to commercial production expected to take approximately two months resulting in an August 2012 commercial production start. Commercial production will be defined as a 30 rolling day period at 60% mill capacity. Once in full production, the 11,000 tonne per day underground block cave mine and concentrator is expected to produce an annual estimated average of 85,000 ounces of gold and 75 million pounds of copper at low operating costs.

There was a range of key advances in the fourth quarter and full year 2011.

- § Underground development advanced a record total of 2,284 metres during the fourth quarter of 2011, compared to an advance of 2,210 metres during the third quarter of the year. The total 2011 advance was 8,240 metres excavated representing 102% of budget.
- § Cave construction crews constructed and blasted 7 draw bells during the quarter, for a total of 8 draw bells completed in 2011. Cave drilling, blasting, and mucking continue in the undercut and extraction levels.
- § The underground crushing and conveying system was brought to mechanical completion and into the pre-commissioning phase.
- § Substantial completion of permanent power distribution underground.
- § Construction and commissioning of a 60-person permanent underground refuge chamber and lunchroom was completed.
- § The on-going mill concrete and internal structural steel both made good progress allowing the mechanical, piping and electrical contracts to proceed.
- § Completion of installation of all major mill equipment with piping and cabling in progress.
- § All surface buried services including water and sewage treatment fully commissioned.
- § Production and development ore continues to be stockpiled on the surface near the mill with a total of approximately 300,000 tonnes stockpiled by year-end.
- § 100% hiring of key personnel.

Through the end of January 2012, the team had increased these totals to 12 drawbells and 340,000 tonnes of ore stockpiled. Additionally, the underground conveyor is operational and 100% of key underground equipment is in place. With drawbells being added at a targeted rate of three to four per month and the underground conveyor system now bringing ore to surface, the ore stockpile is expected to steadily grow to approximately 900,000 tonnes, or the equivalent of three months of production, at the time of the mill start-up in June.

Total project spending at New Afton in 2011 was $291 million, excluding capitalized interest. Of this total, $174 million was spent on underground development and construction including the completion of the underground conveyor, installation of the development crusher, set up of the drawbells and initiation of the caving process. $74 million was spent on surface construction including ongoing construction of the mill building, process equipment, and tailings storage facility and ventilation raises. The remaining $43 million was spent on various items and includes owners costs and indirect construction costs.

Looking forward to 2012, a range of key milestones are scheduled:

§ March – Completion of mill services and offices.

§ April – Complete excavation of underground gyratory crusher. SAG and ball mill “dry commissioning” to commence.

§ June – First ore through the entire mill circuit. 26 drawbells complete.

§ July – First production run and concentrate shipment.

§ August – Commercial production.

In the full production period of 2012, New Afton plans to produce 35,000 to 45,000 ounces of gold and 30.0 to 35.0 million pounds of copper, with the sale of pre-commercial production gold and copper being credited back to the initial capital cost.

In 2012, the remaining development capital for New Afton through the start of commercial production in August is forecast to be $150.0 million, excluding capitalized interest. This total includes approximately $56.0 million in underground development and construction, $54.0 million in mill and surface construction and $40.0 million in owners costs and construction indirects. The above breakdown of capital costs includes an estimated $40 million in offsetting revenue from gold and copper sales prior to commercial production which have been netted against the underground development costs. Including the remaining 2012 amount, this would bring New Afton’s total development costs to C$765 million which is within 8% of the latest 2009 technical report capital estimate

An additional benefit of the completion of underground development at New Afton is that it provides greater access for New Gold’s exploration team to continue drilling the C-zone block of mineralization that lies below and to the side of the New Afton reserve block. Thus far, the exploration teams have limited their work as the completion of New Afton has been the company’s priority. New Gold has budgeted $5.0 million for exploration at New Afton in the second half of 2012 to work towards further exploring and delineating the C-zone.

Blackwater, British Columbia, Canada

On June 1, 2011, New Gold completed the acquisition of Richfield and its Blackwater project in central British Columbia. New Gold added to its property holding with the subsequent acquisitions of Silver Quest and Geo Minerals in December 2011.

On September 19, 2011 New Gold announced the results of an updated mineral resource estimate for Blackwater which increased New Gold’s share of the mineral resource estimate to 5.3 million ounces of indicated gold resources and 1.2 million ounces of inferred gold resources. The year-end resource update has again increased the mineral resource estimate to 5.4 million ounces of indicated gold resources and 1.9 million ounces of inferred gold resources.

New Gold was very active in the Blackwater area since the acquisition date. After acquiring the Blackwater project in June of 2011, New Gold has made significant strides in advancing the project through the remainder of the year and into early 2012. The key highlights of the fourth quarter and full year are:

§ Completed the construction of a 105 person camp at site.

§ Completed the installation of an all season drill water supply system.

§ Upgraded 17 kilometer access road.

§ Continued environmental baseline studies and scoping of key parameters related to the Preliminary Economic Assessment (“PEA”).

§ Increased the number of drills from four in June to nine at the end of 2011. A tenth drill was added subsequent to year-end.

§ Completed the first of two exploration participation agreements with local First Nations, with second agreement finalized subsequent to year-end.

§ Drilling at the Blackwater project during the fourth quarter totaled 24,319 meters in 67 holes. Total drilling for 2011 is 64,897 meters in 184 holes.

Drilling at the Blackwater project during the fourth quarter totaled 24,319 meters in 67 holes. Total drilling for 2011 (inclusive metres pre-acquisition) is 64,897 meters in 184 holes. On February 2, 2012, the Company announced an updated mineral resource estimate based on 67,848 meters in 218 holes drilled through November 2011. The updated resource comprises 5.4 million ounces of indicated gold resources and 1.9 million ounces of inferred gold resources. 2011 drill results that postdate the November resource estimate (21,612 meters, 43 holes) will be incorporated into an updated mineral resource estimate to serve as the basis for the PEA.

Total capital spending at Blackwater, including exploration and infrastructure-related expenditures, from June through the end of 2011 was $45.9 million.

Looking forward to 2012, a range of key activities are planned:

- § Camp extension to 230 people.
- § Expansion of core logging facilities.
- § Establishment of site office in Vanderhoof.
- § Installation of permanent communication system.
- § Completion of process trade off study and PEA selection.
- § Completion of key environmental baseline programs.
- § Completion of approximately 210,000 metres of drilling.

Key milestones that are scheduled include:

- § First Quarter – Anticipated receipt of the Multi-Year Area Based Permit which would allow for exploration drilling in the Blackwater project area for multiple years.
- § Second Quarter – Scheduled announcement of the PEA resource update. This will incorporate drilling through the end of January 2012.
- § Third Quarter – Targeted completion of the PEA.
- § Third/Fourth Quarter – Planned submission of the project Description.

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 kilometers east of the city of Vallenar. The Company acquired its interest in the El Morro project as part of the business combination with Metallica Resources Inc. on June 30, 2008. The project is a development stage project and was initially managed under a shareholder agreement between the Company's wholly owned subsidiary Datawave Sciences Inc. ("Datawave") and Xstrata Copper Chile S.A. ("Xstrata"), the previous project operator and owner of a 70% interest. Goldcorp Inc. ("Goldcorp"), through a wholly owned subsidiary, currently owns the 70% interest and is the operator of the project. On March 16, 2011, Chilean authorities approved the Environmental Impact Assessment.

During the fourth quarter, the feasibility study update was completed by Goldcorp and estimates total development capital of $3.9 billion (100% basis). Under the terms of New Gold's agreement with Goldcorp, Goldcorp is responsible for funding New Gold's 30% share of capital costs, or approximately $1.2 billion. New Gold's 30% of project spending, excluding interest, for the three months and year ended December 31, 2011 was $4.5 million and $21.3 million, respectively. Under an agreement with Goldcorp, they have agreed to fund 100% of the Company's El Morro funding commitments 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. New Gold has had no cash outlay in 2011. As at December 31, 2010 the interest rate on the Company's share of the capital funded by Goldcorp was locked in at 4.58% (and is compounded monthly). As at December 31, 2011, New Gold has drawn down $30.2 million pursuant to this agreement.

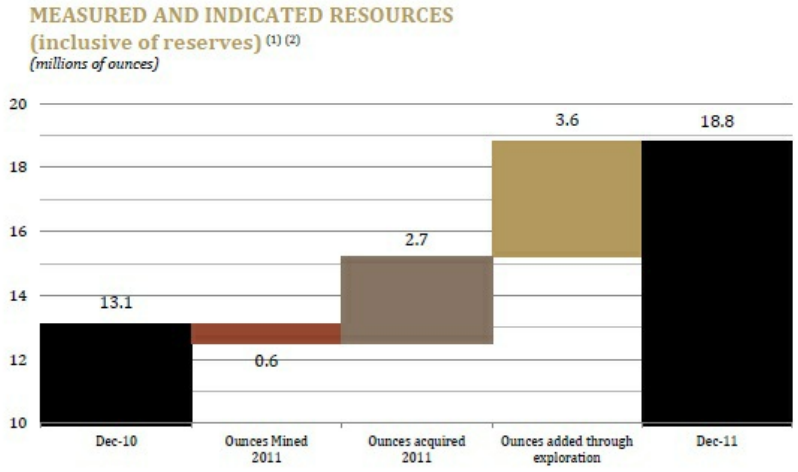
In early January of 2012, Goldcorp's Board officially approved commencement of construction of El Morro. While some of the more significant construction is targeted to commence later in 2012, pre-construction activities have started including mobilization of the road construction contractor. In addition, the current focus is on completion of detailed engineering, negotiation of power contracts and drilling.

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. Datawave held a right of first refusal over Xstrata's 70% interest, which came into effect when an agreement between Barrick Gold Corporation ("Barrick") and Xstrata was announced October 12, 2009. A subsidiary of 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 the Datawave subsidiary, Datawave sold that subsidiary to a subsidiary of Goldcorp. Concurrent with this sale, Datawave received a $50.0 million payment and the parties amended the terms of the existing shareholders' agreement. Under the revised shareholders agreement, Goldcorp (through its subsidiary) agreed to fund 100% of Datawave's share of the development and construction capital for the El Morro project.

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 affiliated subsidiaries as defendants. The claim relates to Datawave's exercise of its right of first refusal with respect to the El Morro project. New Gold believes the claim is without merit and is defending this action using all available legal avenues. The closing arguments related to the litigation are now complete and it is anticipated that a decision will be rendered by the end of the second quarter of 2012.

MINERAL RESERVES AND RESOURCES UPDATE

New Gold's production profile is underpinned by the Company's mineral reserve and resource base combined with its strong record of organic growth through focused exploration and accretive growth through strategic acquisitions. During 2011, through the acquisitions of Blackwater and Capoose and with another year of successful reserve replacement at the Peak Mines, New Gold increased its Measured and Indicated Resources to 18.8 million ounces from 13.1 million ounces at December 31, 2010. This increase was accompanied by a 54% increase to Inferred Resources. These changes are especially significant when compared against the overall 8% decrease in Proven and Probable Reserves from 2011 mine production.



(1) Includes Blackwater indicated ounces at time of Richfield and Silver Quest transactions and Capoose indicated ounces.
(2) Proven and Probable Reserves and Measured, Indicated and Inferred Resources are calculated in accordance with National Instrument 43-101 as required by Canadian securities regulatory authorities. For a breakdown of Reserves and Resources by category and additional information relating to Reserves and Resources and related key assumptions and parameters, see our Mineral Reserve and Resource Statement in our news release *New Gold Announces Record Gold Production in 2011, 25% Increase in Gold Resources per Share and 2012 Guidance with Production Growth at Lower Costs*, filed on and dated February 2, 2012 on www.sedar.com. The scientific and technical information in this MD&A has been prepared under the supervision of Mark Petersen, a Qualified Person under National Instrument 43-101 and an employee of the Company.

Beyond the significant resource increase seen at Blackwater since the project was first acquired in June of 2011, the Company was also successful in its continued exploration efforts at the Peak Mines operation. Peak's Proven and Probable gold Reserves increased by 126,000 ounces when compared to the end of 2010, despite mining approximately 100,000 ounces during 2011. Importantly, Peak's total gold resources remained largely consistent year-over-year and continue to support over 8 years of mine life at current production rates. At Mesquite and Cerro San Pedro, no significant exploration drilling was completed on the open pit resources during 2011, however, at Cerro San Pedro, the exploration teams continued to evaluate the underground manto sulphide resource. New Afton's mineral resource remained largely unchanged as the Company maintained its focus on meeting its construction goals during the year, New Gold's partner at El Morro, Goldcorp, updated the mineral reserves and resources which saw further increases in both the gold and copper mineral resources.

(1) Proven and Probable Reserves and Measured, Indicated and Inferred Resources are calculated in accordance with National Instrument 43-101 as required by Canadian securities regulatory authorities. For a breakdown of Reserves and Resources by category and additional information relating to Reserves and Resources and related key assumptions and parameters, see our Mineral Reserve and Resource Statement in our news release *New Gold Announces Record Gold Production in 2011, 25% Increase in Gold Resources per Share and 2012 Guidance with Production Growth at Lower Costs*, filed on and dated February 2, 2012 on *www.sedar.com*. The scientific and technical information in this MD&A has been prepared under the supervision of Mark Petersen, a Qualified Person under National Instrument 43-101 and an employee of the Company.

FINANCIAL CONDITION REVIEW

BALANCE SHEET REVIEW

Assets

At December 31, 2011, New Gold held cash and cash equivalents of $309.4 million. This compares to $490.8 million held at December 31, 2010. As at December 31, 2011, $73.9 million of the cash was held in Canadian dollars. Of the Company's holdings, $70.0 million is held in Canadian federal and provincial treasury bills, and $239.4 million in cash and near cash instruments including bank deposits, term deposits and guaranteed investment certificates.

Gold hedge contracts

Under the terms of the term loan facility entered into by Western Mesquite Mines Inc. ("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, 2011, the remaining gold contracts represent a commitment of 5,500 ounces per month for 36 months with the last commitment deliverable in December 2014 for a total of 198,000 ounces.

The Company's gold hedge contracts did not initially meet the criterion in IAS 39 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 IAS 39. 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 with changes in 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 hedges with two counterparties who had previously been lenders in the Mesquite project financing was moved to one of the new banks included in the Company's revolving credit facility. 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 IAS 39 in accounting for its gold hedge. 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, 2011 using the December 31, 2011 gold forward curve, resulting in a cumulative unrealized pre-tax loss of $141.6 million that has been disclosed as a liability and a pre-tax adjustment of $9.6 and $23.2 million to other comprehensive income for the year and quarter ended December 31, 2011, respectively.

Long-Term Debt

The majority of the Company's contractual obligations consist of long-term debt and interest payable. At December 31, 2011, the Company had $251.7 million in long-term debt compared to $241.1 at September 30, 2011 and $229.9 million at December 31, 2010.

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, 2011 the face value of the Notes totalled $183.9 million (Cdn$187.0 million) and the carrying amount totaled $176.6 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 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% of face value (decreasing rates based on the length of time the Notes are outstanding). At December 31, 2011 the redemption price was 105% and is scheduled to decrease to 104% on June 28, 2012. These Notes are secured by the New Afton project assets. Capitalized interest relating to the Notes was $19.7 million and $20.1 million for the years ended December 31, 2011 and 2010, respectively. For the quarters ended December 31, 2011 and 2010, capitalized interest was of $5.2 million and $5.6 million, respectively.

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, 2011, the aggregate principal of the Debentures was $54.1 million (Cdn$55.0 million). The Debentures are accounted for as compound financial instruments comprised of a liability and a derivative liability for the conversion option. At December 31, 2011, the carrying amount of the liability of $44.9 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 $5.9 million and $5.8 million for the years ended December 31, 2011 and 2010, respectively. For the quarters ended December 31, 2011 and 2010, capitalized interest was of $1.6 million and $1.6 million, respectively.

On December 14, 2010, the Company entered into an agreement for a $150 million revolving credit facility (the 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. The credit agreement makes allowances to ensure that there shall not be a breach of any financial covenants solely from the change in the opening balance sheet balances as restated from CGAAP to IFRS. Significant financial covenants are as follows:

	Financial covenant
Minimum tangible net worth	$1.38 billion + 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 was in compliance with these covenants at December 31, 2011.

The interest margin on drawings under the Facility ranges from 2.00% to 4.25% over LIBOR, the Prime Rate or the Base Rate. For the first three quarters following the execution of the credit agreement fixed interest margins were applicable and depended on the currency and type of credit selected by the Company. From October 1st, 2011 the interest margins are based on the Company's debt to EBITDA ratio (the Debentures are not considered debt for covenant purposes). Based on the Prime Rate, the interest rate at December 31, 2011 would have been 5.0% if any funds had been drawn. The standby fee on undrawn amounts under the Facility was 0.875% through the first three full quarters following execution of the credit agreement and 0.75% during the fourth quarter of 2011, from which time the fee was based on the Company's debt to EBITDA ratio. The standby fee can range from 0.75% to 1.06% and is currently 0.75% based on the Company's debt to EBITDA ratio at December 31, 2011.

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, an C$8.0 million letter of credit related to the New Afton reclamation obligation to the British Columbia government in Canada (resulting in the release to the Company by the British Columbia government of C$8.0 million in cash on deposit with a major Canadian bank), a C$0.25 million letter of credit related to the Blackwater project reclamation obligation to the British Columbia government, a C$1.0 million letter of credit issued to Kinder Morgan Container Terminals and 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. At December 31, 2011, approximately $122.0 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 remaining loan balance of $27.2 million was fully repaid on February 26, 2010 which allowed 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 were released by the syndicate of banks on December 14, 2010 when New Gold entered in to the new revolving credit facility. The gold hedge is now secured under the Facility and shares in security, on a pari passu basis, with the new lenders. One of the banks under the Facility 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.

Deferred Income and Mining Taxes

The net deferred income tax liability decreased from $169.1 million on December 31, 2010 to $138.0 million on December 31, 2011 (September 30, 2011 - $115.0 million).

The current income tax liability decreased from $31.4 million on December 31, 2010 to $20.5 million on December 31, 2011.

Reclamation and Closure Cost Obligations

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, the New Afton development project and the Blackwater exploration 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, 2011 is $50.7 million compared to $34.2 million at December 31, 2010. The increase in the liability is due to changes in estimated cash flows related to reclamation activities, amortization or unwinding of the discount, and revisions to the discount and foreign currency rates used in the valuation of the obligations.

LIQUIDITY AND CASH FLOW

As at December 31, 2011, the Company had cash and cash equivalents held by continuing operations of $309.4 million compared to $490.8 million at December 31, 2010. These balances exclude reclamation deposits for the Mesquite Mine, Cerro San Pedro Mine, and Blackwater project of $10.0 million at December 31, 2011, which is included in Reclamation deposits and other assets on the balance sheet. The change in cash in the year ended December 31, 2011 was attributed to the following key items:

- § Strong cash flows from gold sales at the Company's Mesquite, Peak Mines and Cerro San Pedro operating mines which benefited from prevailing average market gold and silver prices of $1,568 and $35.10 per ounce respectively during the year;

- § Project spending at the New Afton project for the year ended December 31, 2011 of $290.6 million;

The Company's cash and cash equivalents are either held in cash or 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.

As at December 31, 2011, the Company had working capital of $238.0 million . In the opinion of Management, the working capital at December 31, 2011, 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 and expected incremental cash flow, it is expected that the Company's existing cash will be sufficient to fully fund the construction of the New Afton, El Morro and Blackwater projects. However, this could change if any further acquisitions or external growth opportunities are realized.

During the year ended December 31, 2011, the Company had positive net cash generated from continuing operations of $229.5 million and invested a total of $413.6 million in mining interests, including $18.5 million at the Mesquite Mine, $7.4 million at the Cerro San Pedro Mine, $50.3 million at the Peak Mines, $290.6 million at the New Afton project, $45.9 million at the Blackwater project and the remainder on 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 2017 for El Morro. In addition to these internal growth opportunities, the Company has other prospective properties which include, but are not limited to, the Cerro San Pedro Mine Sulphides, and Rio Figueroa in Chile. Internal growth will focus on the New Afton, El Morro and Blackwater 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 may consider expansion opportunities through mergers and acquisitions.

Based on the Company's current cash balance it is expected that 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 under the agreement with Goldcorp the Company's 30% share is fully funded and both principal and interest will be repaid solely from future cash generated from New Gold's share of the El Morro project's distributable cash flows. As at December 31, 2011 the interest rate on New Gold's share of the capital funded by Goldcorp has been locked in at 4.58% as per the Company's funding agreement with Goldcorp.

At the end of the year the Company had significant cash and cash equivalents balance of $309.4 million . 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.

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 prevailing strength of commodity prices and are subject to change if any acquisitions or external growth opportunities are realized.

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, 2011, these commitments totaled $127.7 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, 2011, these commitments totaled $7.8 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.

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, 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 project. New Gold believes the claim is without merit and is defending this action using all available legal avenues. No amounts have been accrued for any potential loss under this claim.

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 related primarily to a land use dispute. In September 2009, a Federal Court of Fiscal and Administrative Justice ordered SEMARNAT, the Mexican environmental regulatory agency, to nullify the authorization of MSX's 2006 Environmental Impact Statement ("EIS") for the Cerro San Pedro mine. This decision was appealed at several levels and in November 2010, a Collegiate Appeals Court in Mexico City ruled unanimously in favour of the Company's position against the nullification of the EIS. In March 2011, the municipality of Cerro de San Pedro approved a new municipal land use plan ("Plan"), after public consultation. The Plan clearly designates the area of the Cerro San Pedro Mine for mining, resolving any ambiguity regarding land use in that area. On August 5, 2011 a new EIS was granted for the Cerro San Pedro Mine. The 2011 EIS contains a number of conditions with which the Company must comply and the work to fulfill these conditions is in progress. MSX's land usage permit and its other operating permits remain in effect.

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

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's payments due under contractual obligations:

CONTRACTUAL OBLIGATIONS
(in thousands of US dollars)

	Payments due by period				
	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
Long-term debt	-	54,082	-	183,877	237,959
Interest payable on long-term debt	21,092	40,806	36,775	9,194	107,867
Operating leases and other commitments	150,506	14,697	14,639	14,613	194,455
Asset retirement obligations	4,406	3,299	6,248	57,241	71,194
Total contractual obligations	176,004	112,884	57,662	264,925	611,475

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, 2011, the face value of the Notes totaled $183.9 million (Cdn$187.0 million) with remaining interest payable totaling $101.1 million (Cdn$102.9 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 price ranging from 120% to 100% of face value (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, 2011, the aggregate principal of the subordinated convertible debentures was $54.1 million (Cdn$55.0 million) with remaining interest payable totaling $6.7 million (Cdn$6.8 million). Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year.

RELATED PARTY TRANSACTIONS

The Company did not enter into any related party transactions during the year ended December 31, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

SUBSEQUENT EVENTS

The Company had no subsequent events as of date of this MD&A .

OUTSTANDING SHARES

As at February 29, 2012, there were 461,396,498 common shares of the Company outstanding. The Company had 10,258,381 stock options outstanding under its share option plan, exercisable for 10,258,381 common shares. In addition, the Company had 319,594,644 common share purchase warrants outstanding exercisable for 57,414,146 common shares.

NON-GAAP FINANCIAL PERFORMANCE MEASURES

TOTAL CASH COSTS PER GOLD OUNCE

"Total cash costs per gold ounce" is a common financial performance measure in the gold mining industry but with no standard meaning under IFRS. New Gold reports total cash costs on a sales basis. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, 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 IFRS. 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.

Total cash costs 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 costs 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 calculation of total cash cost per ounce of gold for the Cerro San Pedro Mine and Peak Mines is net of by-product silver and copper sales revenue, respectively.

Total cash costs are intended to provide additional information only and do not have any standardized definition under IFRS and should not be considered in isolation or as substitutes for measures of performance prepared in accordance with IFRS. Other companies may calculate these measures differently.

The 2010 comparative has been adjusted to be consistent with the 2011 calculation methodology which capitalizes significant property, plant and equipment components as defined by IFRS.

TOTAL CASH COSTS PER OUNCE RECONCILIATION

(in thousands of US dollars, except where per ounce amounts)

	For the three months ended December 31		For the years ended December 31	
	2011	2010	2011	2010
Operating expenses from continuing operations	78,569	79,840	303,778	247,773
Operating expenses from discontinued operations	-	-	-	-
Treatment and refining charges on concentrate sales	1,855	2,708	8,981	7,477
By-product copper and silver sales	(25,184)	(38,097)	(132,644)	(97,273)
Non-cash adjustments	(196)	(4,332)	(5,464)	(3,533)
Total cash costs	55,044	40,119	174,651	154,444
Ounces of gold sold	99,612	116,964	391,890	369,077
Total cash costs per ounce of gold sold	**553**	**343**	**446**	**418**

ADJUSTED NET EARNINGS AND ADJUSTED NET EARNINGS PER SHARE

“Adjusted net earnings” and “adjusted net earnings per share” are financial measures with no standard meaning under IFRS which excludes the following from net earnings:

- Impairment losses;
- Fair value changes of embedded derivative in Senior secured notes;
- Gains (loss) on Fair Value Through Profit and Loss financial assets;
- Ineffectiveness of hedging instruments;
- Fair value changes of non-hedged derivatives such as share purchase warrants and the prepayment option on our convertible debt;
- Fair value changes of asset backed commercial paper;
- Gains (losses) on foreign exchange; and
- Other non- recurring items.

Net earnings has been adjusted and tax affected for the group of costs in "Other gains (losses)" on the condensed consolidated income statement. The adjusted entries are also impacted for tax to the extent that the underlying entries are impacted for tax in the unadjusted net earnings from continuing operations. As the loss on the fair value change of non-hedged derivatives is only minimally tax affected in unadjusted net earnings from continuing operations, the reversal of tax on an adjusted basis is also minimal. The prior period tax is adjusted for the foreign exchange impact of deferred tax on non-monetary assets.

As noted, the Company uses this measure for its own internal purposes. Management's internal budgets and forecasts and public guidance do not reflect fair value changes on senior notes and non-hedged derivatives, foreign currency translation and FVTPL financial asset gains/losses. Consequently, the presentation of adjusted net earnings enables investors and analysts to better understand the underlying operating performance of our core mining business through the eyes of Management. Management periodically evaluates the components of adjusted net earnings based on an internal assessment of performance measures that are useful for evaluating the operating performance of our business and a review of the non-GAAP measures used by the mining industry analysts and other mining companies.

Adjusted net earnings are intended to provide additional information only and do not have any standardized definition under IFRS and should not be considered in isolation or as substitutes for measures of performance prepared in accordance with IFRS. The measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate these measures differently.

The following table reconciles these non-GAAP measures to the most directly comparable IFRS measure. The reconciliation of net earning to adjusted net earnings is below.

ADJUSTED NET EARNINGS RECONCILIATION

(in thousands of US dollars, except per share amounts)

	For the three months ended December 31		For the years ended December 31	
	2011	2010	2011	2010
Net earnings before taxes	57,127	29,060	258,386	75,356
Impairment of exploration assets	-	15,728	-	15,728
Fair value of embedded derivative in senior notes	(598)	3,889	(11,118)	(7,679)
Gain on FVTPL financial assets	-	(41,820)	(1,349)	(48,838)
Ineffectiveness on hedging instruments	2,444	-	6,611	-
Fair value change of non-hedged derivatives	(10,548)	63,444	18,347	113,336
(Gain) Loss on foreign exchange	12,907	486	(7,122)	9,675
Other	53	1,301	2,485	3,767
Adjusted net earnings before tax	61,385	72,088	266,240	161,345
Income tax expense	(22,129)	(3,503)	(79,358)	(18,009)
Tax adjustments	2,943	(11,574)	900	(27,613)
Adjusted tax	(19,186)	(15,077)	(78,458)	(45,622)
Adjusted net earnings	**42,199**	57,011	**187,782**	115,723
Adjusted EPS	**0.09**	0.15	**0.44**	0.30
Adjusted effective tax rate	**31%**	21%	**29%**	28%

AVERAGE REALIZED PRICE AND AVERAGE REALIZED MARGIN

“Average realized price” and “average realized margin per ounce of gold sold” are financial measures with no standard meaning under IFRS. Management uses these measures to better understand the price realized in each reporting period for gold, silver, and copper sales. Average realized price:

- § 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.

Average realized margin represents average realized price per ounce less total cash costs per ounce.

Average realized price and average realized margin are intended to provide additional information only and do not have any standardized definition under IFRS and should not be considered in isolation or as substitutes for measures of performance prepared in accordance with IFRS. Other companies may calculate these measures differently.

OPERATING MARGIN

“Operating margin” is a financial measure with no standard meaning under IFRS, which management uses to further evaluate the Company’s results of operations in each reporting period. Operating margin is calculated as revenues less operating expenses, and therefore does not include depreciation and depletion.

Operating margin is intended to provide additional information only and does not have any standardized definition under IFRS and should not be considered in isolation or as substitutes for measures of performance prepared in accordance with IFRS. Other companies may calculate this measure differently.

ENTERPRISE RISK MANAGEMENT

Readers of this Management's Discussion and Analysis should give careful consideration to the information included or incorporated by reference 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, 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 the 2011 year-end audited consolidated financial statements and our latest Annual Information Form filed on SEDAR at *www.sedar.com*.

GENERAL RISKS

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.

FINANCIAL RISK MANAGEMENT

The Company holds a mixture of financial instruments, which are classified and measured as follows. For a discussion of the methods used to value financial instruments, as well as any significant assumptions, refer also to Note 3 to our consolidated financial statements for the year ended December 31, 2011.

					As at December 31, 2011
(in thousands of US dollars)	Loans and receivables at amortized cost	Designated as Fair value through profit/loss	Available for sale at fair value	Financial liabilities at amortized cost	**Total**
Financial Assets					
Cash and cash equivalents	309,406	-	-	-	**309,406**
Trade and other receivables	37,572	-	-	-	**37,572**
Investments	-	-	1,823	-	**1,823**
Prepayment option	-	18,797	-	-	**18,797**
Reclamation deposits	10,004	-	-	-	**10,004**
Financial Liabilities					
Trade and other payables	-	-	-	100,437	**100,437**
Long-term debt	-	-	-	251,664	**251,664**
Gold contracts	-	141,591	-	-	**141,591**
Warrants	-	143,627	-	-	**143,627**
Conversion option	-	23,957	-	-	**23,957**
Share award units	-	5,334	-	-	**5,334**

				As at December 31, 2010
(in thousands of US dollars)	Loans and receivables at amortized cost	Designated as Fair value through profit/loss	Financial Liabilities at amortized cost	Total
Financial Assets				
Cash and cash equivalents	490,754	-	-	490,754
Trade and other receivables	11,929	-	-	11,929
Prepayment option	-	7,679	-	7,679
Investments	-	7,533	-	7,533
Reclamation deposits	17,955	-	-	17,955
Financial Liabilities				
Trade and other payables	-	-	69,245	69,245
Long-term debt	-	-	229,884	229,884
Gold contracts	-	153,375	-	153,375
Warrants	-	125,936	-	125,936
Conversion option	-	29,429	-	29,429
Share award units	-	3,295	-	3,295

(in thousands of US dollars)	Loans and receivables at amortized cost	Designated as Fair value through profit/loss	Financial Liabilities at amortized cost	*As at January 1, 2010* Total
Financial Assets				
Cash and cash equivalents	271,526	-	-	271,526
Trade and other receivables	10,345	-	-	10,345
Investments	-	45,890	-	45,890
Reclamation deposits	16,047	-	-	16,047
Financial Liabilities				
Trade and other payables	-	-	37,999	37,999
Long-term debt	-	-	225,456	225,456
Gold contracts	-	95,986	-	95,986
Warrants	-	29,841	-	29,841
Conversion option	-	7,701	-	7,701
Share award units	-	99	-	99

The Company 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.

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 trade and other receivables. Credit risk is primarily associated with trade and other 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 four customers, as outlined in Note 18 of our audited consolidated financial statements for the year ended December 31, 2011.

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, 2011 is not considered to be high.

The Company's maximum exposure to credit risk at December 31 is as follows:

(in thousands of US dollars)	**2011**	2010	*As at December 31* 2009
Cash and cash equivalents	309,406	490,754	271,526
Trade receivables	37,572	11,929	10,345
Reclamation deposits and other	14,912	23,616	17,646
Total financial instruments subject to credit risk	**361,890**	526,299	299,517

The aging of accounts receivable at December 31 was as follows:

(in thousands of US dollars)	0-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	**December 31 2011 Total**	December 31 2010 Total	January 1 2010 Total
Mesquite Mine	360	-	-	-	-	360	442	273
Cerro San Pedro Mine	3,756	(48)	267	(59)	787	4,703	3,798	5,348
Peak Mine	2,464	1,883	-	1,228	25	5,600	3,176	3,922
New Afton	10,107	-	-	6,071	-	16,178	3,581	632
Blackwater	6,831	-	-	-	-	6,831	-	-
Corporate	3,900	-	-	-	-	3,900	932	170
Total trade receivables	27,418	1,835	267	7,240	812	**37,572**	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 employs a restrictive investment policy as detailed in the capital risk management section, which is described in Note 19 of our audited consolidated financial statements for the year ended December 31, 2011.

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, 2011, the Company had $8.9 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.

Sales to individual customers exceeding 10% of annual sales for the years ended December 31, 2011 and 2010 are presented in Note 18 of our audited consolidated financial statements for the year ended December 31, 2011.

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 19 of our audited consolidated financial statements for the year ended December 31, 2011.

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 statements of financial position.

	Payments due by period				**December 31**	December 31	January 1
(in thousands of US dollars)	Less than 1 year	1-3 years	4-5 years	After 5 years	**2011 Total**	2010 Total	2010 Total
Trade and other payables	100,437	-	-	-	100,437	69,245	37,999
Long-term debt	-	-	54,082	183,877	237,959	243,307	258,467
Interest payable on long-term debt	21,092	40,806	36,775	9,194	107,867	131,857	147,352
Gold contracts	49,184	92,407	-	-	141,591	153,375	95,986
Total contractual debt commitments	170,713	133,213	90,857	193,071	**587,854**	597,784	539,804

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.

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:

			As at December 31, 2011	
(in thousands of US dollars)	Canadian dollar	Australian dollar	Mexican peso	Chilean peso
Cash and cash equivalents	75,342	20,794	2,349	8
Trade and other receivables	26,957	1,226	4,675	-
Prepayment option	18,797	-	-	-
Trade and other payables	(46,482)	(22,306)	(33,862)	-
Reclamation and closure cost obligations	(8,634)	(17,080)	(15,820)	-
Warrants	(143,627)	-	-	-
Conversion option on convertible debt	(23,957)	-	-	-
Share award units	(5,334)	-	-	-
Long-term debt	(221,483)	-	-	-
Gross balance exposure	**(328,421)**	**(17,366)**	**(42,658)**	**8**

(in thousands of US dollars)	Canadian dollar	Australian dollar	Mexican peso	*As at December 31, 2010* Chilean peso
Cash and cash equivalents	331,948	41,254	5,224	11
Investments	7,533	-	-	-
Trade and other receivables	4,556	3,176	3,063	39
Reclamation deposit	8,043	-	-	-
Prepayment option	7,679	-	-	-
Trade and other payables	(24,458)	(24,415)	(34,003)	-
Reclamation and closure cost obligations	(3,655)	(13,618)	(8,421)	-
Warrants	(125,936)	-	-	-
Conversion option on convertible debt	(29,429)	-	-	-
Share award units	(3,294)	-	-	-
Long-term debt	(221,832)	-	-	-
Gross balance exposure	**(48,845)**	**6,397**	**(34,137)**	**50**

(in thousands of US dollars)	Canadian dollar	Australian dollar	Mexican peso	*As at January 1, 2010* Chilean peso
Cash and cash equivalents	165,147	32,008	2,670	18
Investments	45,890	-	-	-
Trade and other receivables	549	3,922	5,674	(94)
Reclamation deposit	6,211	-	-	-
Trade and other payables	(6,529)	(11,566)	(8,806)	-
Reclamation and closure cost obligations	(1,849)	(8,330)	(4,314)	-
Warrants	(29,841)	-	-	-
Conversion option on convertible debt	(7,701)	-	-	-
Share award units	(99)	-	-	-
Long-term debt	(206,653)	-	-	-
Gross balance exposure	**(34,875)**	**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 loss from the financial instruments presented by the amounts shown below.

(in thousands of US dollars)	December 31 2011	December 31 2010	January 1 2010
Canadian dollar	(32,842)	(4,885)	(3,488)
Australian dollar	(1,737)	640	1,603
Mexican peso	(4,266)	(3,414)	(478)
Chilean peso	1	5	(8)
Total translation risk exposure	**(38,844)**	(7,654)	(2,371)

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. 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, 2011.

The Company is exposed to interest rate risk on its 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.

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 our control, including:

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

The Company 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 13 (a) of the notes to the financial statements. At December 31, 2011 the Company had remaining gold forward sales contracts for 198,000 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 36 months.

During the year, the Company's revenues and cash flows were impacted by copper prices in the range of $3.08 and $4.60 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, 2011, working capital includes unpriced copper concentrate receivables totaling 1.0 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. The company has no fuel hedge contracts at this time.

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 unit award prices would decrease the Company's net earnings. A 10% change in commodity prices would impact the Company's net earnings before taxes and other comprehensive income before taxes as follows:

			Year ended December 31	
(in thousands of US dollars)	*2011* Net earnings	*2011* Other Comprehensive Income	*2010* Net earnings	*2010* Other Comprehensive Income
Gold price	57,228	28,400	44,076	33,201
Silver price	5,794	-	4,889	-
Copper price	7,058	-	4,588	-
Fuel price	4,927	-	3,624	-
Warrants	14,363	-	12,594	-
Conversion option on convertible debt	4,414	-	4,464	-
Share award units	470	-	329	-
Total price risk exposure	**94,254**	**28,400**	74,564	33,201

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, 2011.

Inventories

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.

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 the event that the Company determines, based on engineering estimates, that a quantity of gold contained in ore on leach pads is to be recovered over a period exceeding twelve months, that portion is classified as long-term.

Work-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 work-in-process inventories incurred prior to the refining process, plus applicable refining, selling, shipping costs and associated royalties.

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

Mining interests

Mining interests represent capitalized expenditures related to the development of mining properties, related plant and equipment and expenditures related to advanced 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.

Mining properties
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.

Mining properties include costs directly attributable to bringing a mineral asset into the state where it is capable of operating in the manner intended by management. The determination of development costs to be capitalized during the production stage of a mine operation requires the use of judgment and estimates.

The value associated with resources and exploration potential is the value beyond proven and probable reserves assigned through acquisition. 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.

The Company estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons. The estimation of recoverable reserves will be impacted by forecast commodity prices, exchange rates, production costs and recoveries amongst other factors. Changes in the reserve or resource estimates may impact the carrying value of assets and depreciation and impairment charges recorded in the income statement.

A mining property is considered to be capable of operating in a manner intended by management when it commences commercial production. Upon commencement of commercial production, a mining property is depreciated on a unit-of-production method. Unit-of-production depletion rates are determined based on the estimate recoverable proven and probable mineral reserves at the mine.

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 and evaluation
Exploration and evaluation costs are expensed until the probability that future economic benefits will flow to the entity and the asset cost or value can be measured reliably. Management uses the following criteria to determine the economic recoverability and probability of future economic benefits:

- The Company controls access to the benefit;
- Internal project economics are beneficial to the Company;
- The project is technically feasible; and
- Costs can be reliably measured.

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.

Property, plant and equipment
Plant and equipment consists of buildings and fixtures, surface and underground fixed and mobile equipment.

Depreciation rates of major categories of asset costs
Mining assets are depleted using a unit-of-production method based on the estimated economically recoverable reserves to which they relate.

Plant and equipment is depreciated using the straight-line method over their estimated useful lives, or the remaining life of the mine if shorter.

	Average life
Building	15-50
Plant and machinery	3-20
Office equipment	5-10
Vehicles	5-7
Computer equipment	3-5

Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized until such time as the assets are substantially ready for their intended use. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of interest rates applicable to relevant general borrowings of the Group during the period, to a maximum of actual borrowing costs incurred. Capitalization of interest is suspended during extended periods in which active development is interrupted.

Commencement of commercial production
There are a number of factors the Company considers when determining if conditions exist for the commencement of commercial production of an operating mine. Management examines the following when making that judgment:

- § All major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed;
- § The completion of a reasonable period of testing of the mine plant and equipment;
- § The mine or mill has reached a pre-determined percentage of design capacity; and
- § The ability to sustain ongoing production of ore.

The list is not exhaustive and each specific circumstance is taken into account before making the decision.

Derecognition
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 recognized in net earnings.

Impairment of non-financial assets

The Company reviews and evaluates its mining interests for indicators of impairment at the end of each reporting period. Impairment assessments are conducted at the level of cash-generating units ("CGUs"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, with each operating mine, development and exploration project representing a separate CGU. If an indication of impairment exists, the recoverable amount of the CGU is estimated. An impairment loss is recognized when the carrying amount of the CGU is in excess of its recoverable amount.

The recoverable amount of a mine site is the greater of its fair value less costs to sell and value in use. In determining the recoverable amounts of the Company's mine sites, the Company uses the fair value less costs to sell as this will generally be greater than or equal to the value in use. When there is no binding sales agreement, fair value less costs to sell is estimated as the discounted future after-tax cash flows expected to be derived from a mine site, less an amount for costs to sell estimated based on similar past transactions. When discounting estimated future cash flows, the Company uses an after-tax discount rate that would approximate what market participants would assign. Estimated cash flows are based on expected future production, metal selling prices, operating costs and capital costs. If the recoverable amount of a mine site is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The carrying amount of each mine site includes the carrying amounts of mining properties, plant and equipment, goodwill and related deferred tax balances. Impairment losses are recognized as other operating expenses in the period they are incurred. The allocation of an impairment loss, if any, for a particular mine site to its mining properties and plant and equipment is based on the relative book values of these assets at the date of impairment. When an impairment loss reverses in a subsequent period, the carrying amount of the related asset is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset previously. Reversals of impairment losses are recognized in net earnings in the period the reversals occur.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for a long-lived asset may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that CGU. A reversal of an impairment loss is recognized up to the lesser of the recoverable amount or the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the CGU in prior years.

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. 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, changes in laws and regulations or changes to market inputs to the decommissioning model.

The present value of estimated costs is recorded in the period in which the asset is installed or the environment is disturbed and a reasonable estimate of future costs and discount rates can be made. The provision is discounted using a risk-free rate and estimates of future cash flows are adjusted to reflect risk.

Subsequent to the initial measurement, the obligation is adjusted to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized in finance costs, whereas increases and decreases due to changes in the estimated future cash flows are capitalized and depreciated over the life of the related asset unless the amount deducted from the cost exceeds the carrying value of the asset, in which case the excess is recorded in net earnings. Actual costs incurred upon settlement of the site restoration obligation are charged against the provision to the extent the provision was established for those costs. Upon settlement of the liability, a gain or loss may be recorded in net earnings.

Income taxes

The income tax expense or benefit for the period consists of two components: current and deferred. Income tax expense is recognized in the consolidated statement of operations except to the extent it relates to a business combination or items recognized directly in equity.

Current Tax
The tax currently payable is based on taxable earnings for the year. Taxable earnings differs from earnings before taxes due to items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Deferred Tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the corresponding tax bases used in the computation of taxable net earnings. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are generally recorded for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable earnings will be available against which those deductible temporary difference can be utilized. The carrying amount of deferred tax assets in reviewed at each balance sheet date and reduced to the extent that it is no longer probable that it sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and where the Company has the legal right and intent to offset.

The Company records foreign exchange gains and losses representing the impacts of movements in foreign exchange rates on the tax bases of non-monetary assets and liabilities which are denominated in foreign currencies. Foreign exchange gains and losses relating to deferred income taxes are included within foreign exchange gains in the Consolidated Statement of Earnings.

Current and deferred tax for the year
Current and deferred tax are recognized in net earning except when they arise as a result of items recognized in other comprehensive income or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

Government assistance and tax credits
Any federal or provincial tax credits received by the Company, with respect to exploration or development work conducted on any of its properties, are credited as a reduction to the carrying costs of the property to which the credits related. The Company records these tax credits when there is reasonable assurance with regards to collections and assessments as well as reasonable assurance that the Company will comply with the conditions associated to them and that the grants will be received.

Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which that entity operates (its functional currency). The functional currency of the parent entity and the presentation currency of the consolidated financial statements is the U.S. Dollar. The Company's Mexican, Australian, and U.S. operations also have the U.S. Dollar as their functional currency. The functional currency of the Canadian development project (New Afton), and the exploration project (Blackwater) is the Canadian dollar.

Management determines the functional currency by examining the primary economic environment of each operating mine, development and exploration project. The Company considers the following factors in determining its functional currency:

- The main influences of sales prices for goods and the country whose competitive forces and regulations mainly determine the sales price;
- The currency that mainly influences labour, material and other costs of providing goods;
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

In preparing the functional currency financial statements of the individual entities, transaction amounts denominated in foreign currencies (currencies other than the functional currency of the respective entity) are translated into the entity's functional currency using exchange rates prevailing at the transaction dates.

The method of translation of an entity's financial statements to the Company's U.S. dollar presentation currency is dependent upon the functional currency of the entity being translated.

For the operations with the U.S. Dollar as their functional currency, monetary assets and liabilities are translated at exchange rates in effect at the end of each period and non-monetary assets and liabilities are translated using historical exchange rates. Revenues and expenses are translated at the exchange rates at the dates of the transactions or using a rate that approximates the exchange rates at the dates of the transactions. Foreign currency transaction gains and losses are included in the determination of net earnings. In addition, unrealized gains and losses to movement in exchange rates on cash balances held in foreign currencies are shown separately on the consolidated statements of cash flows.

For the operations with Canadian dollar as its functional currency, carrying values of foreign currency assets and liabilities are translated at each statement of financial position date using the closing exchange rate on that date. Revenues and expenses are translated at exchange rates at the dates of the transactions or using a rate that approximates the exchange rates at the dates of the transactions. Gains and losses arising from translation of foreign currency assets and liabilities at each reporting period are included in the cumulative translation adjustment account in other comprehensive income.

Earnings per share

Earnings 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 stock 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.

Revenue Recognition

Revenue from the sale of metals and metals in concentrate is recognized when all the following conditions are satisfied:

- § the Company has transferred to the buyer the significant risks and rewards of ownership;
- § the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- § the amount of revenue can be measured reliably;
- § it is probable that the economic benefits associated with the transaction will flow to the entity; and
- § the costs incurred or to be incurred in respect of the transaction can be measured reliably

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.

Stock-based compensation

The Company offers a Restricted Share Unit (“RSU”) plan and stock option plan for employees.

Cash-settled transactions, RSUs, are initially measured at fair value and recognized as an obligation at the grant date. The liabilities are re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in net earnings. The Company values the liabilities based on the change in the Company’s share price. RSU liabilities are included in provisions on the balance sheet, and changes in the fair value of the liabilities are recorded in the income statement. The current portion of the liability reflects those grants that are expected to vest within twelve months.

Equity-settled transactions with employees are measured by reference to the fair value at the grant date. Fair value is determined using a Black-Scholes option pricing model, which relies on estimates of the future risk-free interest rate, future dividend payments, future share price volatility and the expected average life of the options. The Company believes this model adequately captures the substantive features of the option awards and is appropriate to calculate their fair values. The fair value determined at grant date is recognized over the vesting period in accordance with vesting terms and conditions, with a corresponding increase to contributed surplus. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

Non-derivative financial assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following four categories: held-to-maturity, available-for-sale ("AFS"), loans and receivables, or fair value through profit or loss ("FVTPL"). Financial assets held to maturity and loans and receivables 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 FVTPL are measured at fair value with unrealized gains and losses recognized in net earnings.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the statement of financial position. The quoted market price used for financial assets held by the Company is the last bid price of the day.

The Company has classified cash and cash equivalents, trade receivables and reclamation deposits as loans and receivables. Investments are classified as AFS, excluding asset backed notes which are classified as FVTPL.

Transaction costs related to financial assets classified as FVTPL are recognized immediately into income. For financial instruments assets classified as other than as FVTPL, transaction costs are included in the initial carrying value of the instrument.

Non-derivative financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in net earnings. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost.

Trade and other payables, short-term borrowings and long-term debt are classified as other financial liabilities. Accrued liabilities related to the RSU plan have been classified as FVTPL.

Transaction costs related to financial liabilities classified as FVTPL are recognized immediately into income. For financial liabilities classified as other than as FVTPL, transaction costs are included in the initial carrying value of the instrument.

Derivative instruments, including hedge accounting

Financial and derivative instruments, including embedded derivatives, are recorded at fair values on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recorded in net earnings.

The Company has entered into arrangements for the sale of gold. The Company has designated this derivative as a cash flow hedge. At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and risk management objective and strategy for understanding the hedge. In addition, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective.

Gains and losses for the effective portion of the hedging instruments are included in other comprehensive income. Gains and losses for any ineffective portion of hedging instruments are included in net earnings. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period when the hedged items is recognized in profit or loss in the same line of the income statement.

The Company's share purchase warrants with Canadian dollar exercise prices are derivative liabilities and accordingly, they are recorded at fair value at each reporting period, with the gains or losses recorded in profit or loss for the period.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS as issued by the IASB effective January 1, 2010 (”transition date”) and has prepared its opening statement of financial position in accordance with International Financial Reporting Standards. The date of the first annual financial statements in compliance with IFRS will be for the year ending December 31, 2011.

IFRS 1 First-time adoption of International Financial Reporting Standards (“IFRS 1”), which governs the first time adoption of IFRS requires that the same policies are applied for all periods presented and that these policies are based on IFRS effective at the end of the first IFRS reporting year, December 31, 2011.

The IFRS accounting policies as presented in Note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information and the opening statement of financial position at the date of transition.

Elected exemptions from full retrospective application

IFRS 1 requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Company's transition date of January 1, 2010, and allows certain exemptions on the transition to IFRS. The optional exemptions applied are as follows:

Business combinations
Under IFRS 1, the Company can elect to not restate in accordance with IFRS 3R Business Combinations, all business combinations that occurred prior to the transition date or to only restate all business combinations that occurred after a designated date prior to the transition date. The Company has applied this exemption to all business combinations that occurred prior to January 1, 2010.

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) and use that fair value as its deemed cost. This elective exemption can be applied on an individual asset basis. The Company applied this exemption and used fair value as deemed cost in its opening statement of financial position to establish carrying values for $375.4 million of New Afton mining interests at the transition date.

Share-based payment transactions

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 has elected this exemption and as a result, has applied IFRS 2 retrospectively only for share-based payments that were granted after November 7, 2002, and had not vested at the date of transition.

Cumulative translation differences

IFRS 1 allows cumulative translation differences for all foreign operations to be reset to 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 prior to the date of transition to IFRS. The Company has elected this exemption and accordingly, has reset all cumulative translation differences to zero on transition to IFRS.

Decommissioning liabilities included in the cost of property, plant and equipment

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 relat to changes in such liabilities before the date of transition to IFRS.

When applying this exemption, an entity would determine its decommissioning liabilities at the transition date, discount the liabilities back to the dates when they first arose using management's best estimate of the historical risk-adjusted discount rates, and depreciate these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets. The

Company has elected this exemption and in doing so, is required to apply it to all its decommissioning liabilities.

Borrowing costs

IFRS 1 permits an entity to apply the transitional provisions of IAS 23 - *Borrowing Costs* 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 has 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 for projects with a commencement date of January 1, 2010 or later.

Assets and liabilities of subsidiaries, associates and joint ventures

IFRS 1 requires that when a parent company becomes a first-time adopter later than its subsidiary the parent shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation adjustments and for the effects of the business combination in which the parent acquired the subsidiary.

The Company applied this exemption to its Australian subsidiaries that are already reporting under IFRS.

Mandatory exceptions to retrospective application

IFRS 1 outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

Hedge accounting
Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") criteria for hedge accounting were recorded as non-hedged derivative instruments.

Estimates
Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under previous Canadian GAAP are consistent with their application under IFRS.

Reconciliations from previous Canadian GAAP to IFRS

The Company's transition from previous Canadian GAAP to IFRS has resulted in a number of adjustments to its consolidated statement of income, statement of comprehensive income, statement of financial position and statement of cash flows for the year ended December 31, 2011, the year ended December 31, 2010 and to the statement of financial position for January 1, 2010. Further details of the adjustments are provided in the following reconciliations and the notes that accompany the reconciliations. The adoption of IFRS has not changed the Company's actual cash flows.

The following previous Canadian GAAP to IFRS adjustments are identified as:

	Note
Deferred taxes	a
Fair value deemed cost	b
Convertible debentures	c
Foreign currency translation	d
Decommissioning liabilities	e
Property, plant and equipment	f
Reversal of impairment loss	g
Share purchase warrants	h

The January 1, 2010 previous Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Assets			**Liabilities**			**Equity**			**Total**
	Current	Non-current	Total	Current	Non-current	Total	Components of equity	Deficit	Total	Liabilities and equity
Previous CGAAP	**394,955**	**2,093,304**	**2,488,259**	**93,418**	**663,796**	**757,214**	**2,036,904**	**(305,859)**	**1,731,045**	**2,488,259**
IFRS adjustments										
a	(8,848)	8,848	**-**	-	13,653	**13,653**	-	(13,653)	(13,653)	**-**
b	-	(327,606)	**(327,606)**	-	(81,245)	**(81,245)**	-	(246,361)	(246,361)	**(327,606)**
c	-	-	**-**	-	10,301	**10,301**	(21,604)	11,303	(10,301)	**-**
d	-	8,743	**8,743**	-	2,186	**2,186**	1,566	4,991	6,557	**8,743**
e	-	4,311	**4,311**	-	4,875	**4,875**	-	(564)	(564)	**4,311**
f	-	(2,513)	**(2,513)**	-	(754)	**(754)**	-	(1,759)	(1,759)	**(2,513)**
g	-	51,909	**51,909**	-	-	**-**	-	51,909	51,909	**51,909**
h	-	-	**-**	-	41,754	**41,754**	(139,632)	97,878	(41,754)	**-**
i	-	-	**-**	-	-	**-**	-	-	-	**-**
j	-	(18,810)	**(18,810)**	-	(18,810)	**(18,810)**	-	-	-	**(18,810)**
IFRS	**386,107**	**1,818,186**	**2,204,293**	**93,418**	**635,756**	**729,174**	**1,877,234**	**(402,115)**	**1,475,119**	**2,204,293**

The previous Canadian GAAP consolidated statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

	Assets			Liabilities			Equity			Total
	Current	Non-current	Total	Current	Non-current	Total	Components of equity	Deficit	Total	Liabilities and equity
Previous CGAAP	**625,460**	**2,113,454**	**2,738,914**	**140,709**	**705,014**	**845,723**	**2,022,096**	**(128,905)**	**1,893,191**	**2,738,914**
IFRS adjustments										
a	(9,127)	9,127	**-**	-	4,491	**4,491**	-	(4,491)	(4,491)	**-**
b	-	(327,606)	**(327,606)**	-	(85,522)	**(85,522)**	-	(242,084)	(242,084)	**(327,606)**
c	-	-	**-**	-	29,429	**29,429**	(21,604)	(7,825)	(29,429)	**-**
d	-	33,052	**33,052**	-	2,186	**2,186**	15,900	14,966	30,866	**33,052**
e	347	5,637	**5,984**		8,452	**8,452**	-	(2,468)	(2,468)	**5,984**
f	(3,617)	1,272	**(2,345)**	-	(448)	**(448)**	-	(1,897)	(1,897)	**(2,345)**
g	-	-	**-**	-	-	**-**	-	-	-	**-**
h	-	-	**-**	-	125,962	**125,962**	(139,632)	13,670	(125,962)	**-**
i	-	-	**-**	-	-	**-**	(1,611)	1,611	-	**-**
j	-	(18,810)	**(18,810)**	-	(21,579)	**(21,579)**	-	2,769	2,769	**(18,810)**
IFRS	**613,063**	**1,816,126**	**2,429,189**	**140,709**	**767,985**	**908,694**	**1,875,149**	**(354,654)**	**1,520,495**	**2,429,189**

The previous Canadian GAAP consolidated income statement and statement of comprehensive income for the year ended December 31, 2010 have been reconciled to IFRS as follows:

	Notes	Previous CGAAP	Effect of IFRS transition	IFRS
Revenues		530,450	-	530,450
Operating expenses	e	250,338	962	247,773
	f		(3,527)	
Depreciation and depletion	e	77,016	(1,117)	78,374
	f		2,475	
Earnings from mine operations		203,096	(1,207)	204,303
Corporation administration expenses		24,134	-	24,134
Share-based payments	i	8,488	(1,611)	6,877
Exploration		12,834	-	12,834
Impairment charge of exploration assets		15,728	-	15,728
Earnings from operations		141,912	(2,818)	144,730
Finance income		3,258		3,258
Finance costs	e	(947)	(1,424)	(2,371)
Realized and unrealized gain on investments		9,128	-	9,128
Unrealized gain on prepayment option		7,679	-	7,679
Gain on sale of investment		39,710	-	39,710
Other expense	f	(2,883)	(884)	(3,767)
Loss on foreign exchange	c	(21,816)	(941)	(9,675)
	d		13,857	
	h		(3,544)	
	j		2,769	
Unrealized loss on non-hedged derivatives	c	-	(20,785)	(113,336)
	h		(92,551)	
Earnings (loss) before taxes		176,041	(100,685)	75,356
Income tax expense	a	(41,110)	8,920	(18,009)
	c		2,600	
	f		(306)	
	h		11,887	
Net earnings (loss) from continuing operations		134,931	(77,584)	57,347
Earnings (loss) from discontinued operations, net of taxes	g	42,023	(51,909)	(9,886)
Net earnings		176,954	(129,493)	47,461

	Notes	Previous CGAAP	Effect of IFRS transition	IFRS
Net earnings		176,954	(129,493)	47,461
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 gains on mark-to-market of fuel contracts		(366)	-	(366)
Currency translation adjustment	d	-	14,334	14,334
Deferred income tax		27,572	-	27,572
Total other comprehensive loss		(38,608)	14,334	(24,274)
Total comprehensive income		138,346	(115,159)	23,187

The reconciliation of the consolidated statement of cash flows for the year ended December 31, 2010:

	Operating		Investing		Financing		Cash and cash equivalents			
	Continuing	Discontinued	Continuing	Discontinued	Continuing	Discontinued	Impact of exchange rate changes	Increase (decrease)	Beginning of year	End of year
Previous CGAAP	**182,260**	**(1,696)**	**(451,363)**	**34,410**	**447,189**	**-**	**16,803**	**227,603**	**263,151**	**490,754**
IFRS adjustments										
Per income statement	(129,493)	-	-	-	-	-	-	(129,493)	-	-
a	(8,920)	-	-	-	-	-	-	(8,920)	-	-
b	-	-	-	-	-	-	-	-	-	-
c	19,128	-	-	-	-	-	-	19,128	-	-
d	(17,262)	-	-	-	-	-	-	(17,262)	-	-
e	634	-	-	-	-	-	-	634	-	-
f	3,972	-	15,076	-	-	-	-	19,048	-	-
g	51,909	-	-	-	-	-	-	51,909	-	-
h	84,208	-	-	-	-	-	-	84,208	-	-
i	(1,611)	-	-	-	-	-	-	(1,611)	-	-
j	-	-	-	-	-	-	-	-	-	-
k	1,677	-	(28,519)	-	-	-	-	(26,842)	9,201	-
IFRS	**186,502**	**(1,696)**	**(464,806)**	**34,410**	**447,189**	**-**	**16,803**	**218,402**	**272,352**	**490,754**

Notes to the IFRS reconciliations above:

(a) Deferred tax
IFRS does not permit deferred tax to be classified as current. Reclassification from current to non-current is therefore required.

Under previous 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 26 (h)), a deferred tax asset is required to be recognized on disposition of the notes.

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 previous Canadian GAAP, a deferred tax asset or liability was 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.

Under IFRS, the Company was required to recognize a deferred tax liability on the prepayment option embedded derivative.

(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 above 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 previous Canadian GAAP, the estimates of future cash flows used to test the recoverability were on an undiscounted basis.

(c) Convertible debentures
Under IFRS, the conversion option of the Company's convertible debentures does not meet the criteria for equity classification and accordingly, is treated as a derivative liability that is measured at fair value on initial recognition. Under previous Canadian GAAP, the conversion option was classified as equity on the Company's balance sheet.

Under IFRS, the conversion option derivative is re-measured at fair value at each statement of financial position date, while under previous Canadian GAAP the equity portion was not re-measured.

Due to the Company's election of the IFRS 1 exemption for business combinations (see above), the initial recognition and subsequent measurement of the debt component of the convertible debentures was unchanged on transition to IFRS.

(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 previous Canadian GAAP, all the Company's entities had 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 previous Canadian GAAP.

(e) Decommissioning liabilities (Reclamation and closure cost obligations)
IFRS requires provisions to be updated at each statement of financial position 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 required 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 (refer to IFRS 1 above).

Under previous Canadian GAAP, the unwinding of the discount was presented as an operating expense. Under IFRS, the unwinding of the discount is presented as a finance cost. Adjustments were required in the Company's 2010 income statements to reclassify these amounts to finance costs and to adjust the Canadian GAAP amounts to the IFRS amounts.

(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.

(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 were not permitted under previous Canadian GAAP.

The Company increased the carrying value of 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.

(h) 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 consolidated income statement. Under previous Canadian GAAP, all the Company's outstanding share purchase warrants were classified and accounted for as equity.

(i) Share-based payments

Under previous Canadian GAAP, the Company recognized 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 existed under previous Canadian GAAP.

(j) Other

On transition to IFRS, certain non-material adjustments totaling $18.8 million related to deferred tax liabilities have been made to the amounts previously reported under previous Canadian GAAP.

(k) Consolidated statement of cash flows

Reclassification adjustments were required in the Consolidated Statement of Cash Flows to conform to the presentation required under IFRS. Interest paid and income taxes paid are presented as separate line items in the Consolidated Statement of Cash Flows, whereas they were previously disclosed as changes in non-cash working capital under previous Canadian GAAP. Borrowing costs capitalized in relation to qualifying assets are presented as interest paid in operating activities, whereas they were previously included in investing activities. Restricted cash has been included in the cash and cash equivalents balance for IFRS purposes, but was separately reported as restricted cash under previous Canadian GAAP.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of and under the supervision of its Chief Executive Officer and Chief Financial Officer, has 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.

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, under the supervision of the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. 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, 2011, 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, 2011 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, 2011. Deloitte & Touche LLP as stated in their report, that immediately precedes the Company's audited consolidated financial statements for the year ended December 31, 2011, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

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.

CAUTIONARY NOTES

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 Annual Information Form, including any information relating to New Gold's 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 use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "projects", "potential", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur" or "be achieved" or the negative connotation. 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 (including that the businesses acquired in various transactions will be integrated successfully in the New Gold organization) that are inherently subject to known and unknown risks, uncertainties and other factors that may cause 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" included in New Gold's disclosure documents filed on and 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 Annual Information Form 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.

Exhibit 4

Dodd-Frank Act Disclosure of Mine Safety and Health Administration Safety Data

The operation of New Gold Inc.'s ("**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 (" **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 ("**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, 2011 ("**Period**"):

Reporting Requirement	Disclosure for Mesquite Mine for the Period
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	6
The total number of orders issued under section 104(b) of the FMSH Act	0
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	0
The total number of flagrant violations under section 110(b)(2) of the FMSH Act	0
The total number of imminent danger orders issued under section 107(a) of the FMSH Act	0
The total dollar value of proposed assessments from MSHA under the FMSH Act	$19,050
The total number of mining-related fatalities	0
Notices received from MSHA during the Period regarding 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	None
Notices received from MSHA during the Period regarding the potential to have 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	None
The total number of legal actions pending as of the last day of the Period	1[1]
The total number of legal actions instituted during the Period	1
The total number of legal actions resolved during the Period	0

[1] Complaint of discharge, discrimination or interference referenced in subpart E of 29 CFR part 2700.

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 26, 2012

"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 26, 2012

"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, 2011 (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 26, 2012

"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, 2011 (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 26, 2012

"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 1, 2012 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. for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 26, 2012

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 in connection with, 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, 2011, 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 26th day of March, 2012

"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 reference to my name in connection with, 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, 2011, 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 26th day of March, 2012

"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 in connection with, 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, 2011, 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 26th day of March, 2012

“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, 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, 2011, 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 26th day of March, 2012

“Sean Pearce”

Name: Sean Pearce
Title: MAusIMM

Exhibit 99.14



Roscoe Postle Associates Inc.
Suite 501, 55 University Avenue, Toronto, ON M5J 2H7
T (416) 947-0907 **F** (416) 947-0395
www.rpacan.com

CONSENT OF NEIL N. GOW

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, and to the use of information derived from, the technical report entitled "Technical Report on the El Morro Project, Region III, Chile," dated March 23, 2012, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2011, 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 26th day of March, 2012

(Signed) "*Neil N. Gow*"

Name: Neil N. Gow
Title: P.Geo. and Associate Consulting Geologist Roscoe Postle Associates Inc.

Exhibit 99.15



Roscoe Postle Associates Inc.
Suite 501, 55 University Avenue, Toronto, ON M5J 2H7
T (416) 947-0907 **F** (416) 947-0395
www.rpacan.com

CONSENT OF A. PAUL HAMPTON

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, and to the use of information derived from, the technical report entitled "Technical Report on the El Morro Project, Region III, Chile," dated March 23, 2012, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2011, 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 26th day of March, 2012

(Signed) "*A. Paul Hampton*"

Name: A. Paul Hampton P.Eng.
Title: Associate Principal Metallurgist Roscoe Postle Associates Inc.

Exhibit 99.16



RPA (USA) Ltd.
Suite 505, 143 Union Boulevard, Lakewood, Co, USA 80228
T (303) 330-0950 **F** (303) 330-0949
www.rpacan.com

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, 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, 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 El Morro Project, Region III, Chile" dated March 23, 2012, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2011, and we 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 26th day of March, 2012

ROSCOE POSTLE ASSOCIATES INC.

(Signed) "*Richard J. Lambert*"

Name: Richard J. Lambert
Title: P.E. and Executive Vice-President
of Roscoe Postle Associates Inc.

Exhibit 99.17



Roscoe Postle Associates Inc.
Suite 388, 1130 West Pender Street, Vancouver, BC V6E 4A4
T (604) 602-6767 **F** (604) 602-0235
www.rpacan.com

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, 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, 2011, 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 26th day of March, 2012

(Signed) ***"David W. Rennie"***

Name: David W. Rennie
Title: P. Eng. and Principal Geologist
for Roscoe Postle Associates Inc.

Exhibit 99.18



Roscoe Postle Associates Inc.
Suite 388, 1130 West Pender Street, Vancouver, BC V6E 4A4
T (604) 602-6767 **F** (604) 602-0235
www.rpacan.com

CONSENT OF R. 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, 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, 2011, 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 26th day of March, 2012

(Signed) ***"R. Dennis Bergen"***

Name: R. Dennis Bergen
Title: P. Eng. and Associate Principal Mining Engineer
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, 2011, 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 26th day of March, 2012

(Signed) "*Kevin C. Scott*"

Name: Kevin C. Scott
Title: P. Eng. and *former* Principal Metallurgist and
General Manager Vancouver Office
for Roscoe Postle Associates Inc.

Exhibit 99.20



RPA (USA) Ltd.
Suite 505, 143 Union Boulevard, Lakewood, Co, USA 80228
T (303) 330-0950 **F** (303) 330-0949
www.rpacan.com

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, and to the use of information derived from, the technical report entitled "Technical Report on the El Morro, Region III, Chile" dated March 23, 2012, 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, 2011, 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 26th day of March, 2012

(Signed) ***"Richard J. Lambert"***

Name: Richard J. Lambert
Title: P.E. and Executive Vice-President
of Roscoe Postle Associates Inc.

Exhibit 99.21



Roscoe Postle Associates Inc.
Suite 501, 55 University Avenue, Toronto, ON M5J 2H7
T (416) 947-0907 **F** (416) 947-0395
www.rpacan.com

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 in connection with, 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, 2011, 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 26th day of March, 2012

(Signed) "*Holger Krutzelmann*"

Name: Holger Krutzelmann
Title: P. Eng and Principal Metallurgist
for Roscoe Postle Associates Inc.

Exhibit 99.22



Roscoe Postle Associates Inc.
Suite 501, 55 University Avenue, Toronto, ON M5J 2H7
T (416) 947-0907 **F** (416) 947-0395
www.rpacan.com

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 in connection with, 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, 2011, 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 26th day of March, 2012

(Signed) "*Christopher Moreton*"

Name: Christopher Moreton
Title: Ph.D., P.Geo. and Senior Geologist for Roscoe Postle Associates Inc.

Exhibit 99.23

Roscoe Postle Associates Inc.
Suite 501, 55 University Avenue, Toronto, ON M5J 2H7
T (416) 947-0907 **F** (416) 947-0395
www.rpacan.com

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 in connection with, and to the use of information derived from, 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, 2011, 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 26th day of March, 2012

(Signed) "*Wayne W. Valliant*"

Name: Wayne W. Valliant
Title: P.Geo. and Principal Geologist for Roscoe Postle Associates Inc.

Exhibit 99.24

Consent of Ronald G. Simpson

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, and to use of information derived from, the technical report entitled “Technical Report, Blackwater Gold Project, British Columbia, prepared for New Gold Inc. dated effective March 7, 2012, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2011, 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 26th day of March, 2012

"Ronald G. SImpson"

Name: Ronald G. Simpson, P.Geo
Title:

Exhibit 99.25

Consent of GeoSim Services 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, and to the use of information derived from, the technical report entitled "Technical Report, Blackwater Gold Project, British Columbia, prepared for New Gold Inc. dated effective March 7, 2012, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2011 and we 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 26th day of March, 2012

GeoSim Sercices Inc.

"Ronald G. Simpson"

_____

Name: Ronald G. Simpson
Title:

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, El Morro Project and Blackwater Project, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2011, 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 26th day of March, 2012

"Mark Petersen"
Name:Mark Petersen
Title: P. Eng., and Vice President, Exploration
of New Gold Inc.

Exhibit 99.27



Roscoe Postle Associates Inc.
Suite 501, 55 University Avenue, Toronto, ON M5J 2H7
T (416) 947-0907 **F** (416) 947-0395
www.rpacan.com

CONSENT OF LEE P. GOCHNOUR

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, and to the use of information derived from, the technical report entitled "Technical Report on the El Morro Project, Region III, Chile," dated March 23, 2012, included in the Annual Information Form of New Gold Inc. for the financial year ended December 31, 2011, 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 26th day of March, 2012

(Signed) "*Lee P. Gochnour*"

Name: Lee P. Gochnour, MMSA
Title: Associate Principal Environmental Scientist Roscoe Postle Associates Inc.