



# **NEW GOLD INC.**

*(A Development Stage Company)*

**2007**

***FIRST QUARTER REPORT***



## LETTER TO SHAREHOLDERS

*(All dollar amounts in Canadian dollars unless otherwise indicated)*

I am pleased to report that the first quarter of 2007 was another during which your Company made significant positive progress in the development of its 100%-owned New Afton Copper-Gold (Cu-Au) Project, Kamloops, British Columbia ("BC").

The year and the quarter began well with the announcement (on January 9, 2007) that a Letter of Intent (LOI) had been signed with Teck Cominco Ltd. ("Teck") to acquire surface rights to more than 4000 acres of land, encompassing the New Afton Project. This land is located within the Company's mineral claims and encompasses all of the land south of the Trans-Canada Highway which covers the site for the proposed development of the New Afton Project into an underground mine. Additionally, it includes a large area of land north of the Trans-Canada Highway to Kamloops Lake. The LOI also covers the acquisition, by New Gold, of the water pipeline which runs from Kamloops Lake, south to the old Afton open pit mine site. This pipeline previously supplied all required water for the past operations at the old Afton site. The majority of the land is fee simple, meaning that, upon completion of the acquisition, New Gold will own the land outright. The remainder (which overlies the location of most of the surface facilities for the proposed New Afton mine development) is Crown land currently held by a Teck subsidiary as a grazing lease. Upon completion of the acquisition, this leased land will be held by New Gold. New Gold and Teck are currently working towards the completion of a definitive agreement to complete the transaction.

Acquisition of these surface rights was an important step in moving the New Afton Project forward to development. To complete this acquisition New Gold will pay Teck CDN\$10 million upon closing, with an additional CDN\$6 million to be paid (with applicable interest) any time within 2 years of closing. Teck will also be granted a 2% Net Smelter Return over the New Afton Copper-Gold Project, which New Gold has the option to repurchase for CDN\$12 million.

In early January we filed an application with the Ministry of Energy, Mines and Petroleum Resources of BC, for a Permit to develop the New Afton Project into a new underground mine. This application was made under the *Mines Act* (BC), and is for the approval of both the Mine Plan and Reclamation Program. The *Mines Act* review and approval process is administered through the multi-agency South-Central Mine Development Review Committee ("SCMDRC") which is responsible for coordinating the permitting requirements of its member agencies. As part of this application, presentations were made to the local First Nations, and to the public. The Company is currently completing its response to any technical questions raised by SCMDRC, and the

Government of BC is conducting its First Nations' consultations. Once this process has been satisfactorily completed, the SCMDRC will prepare a recommendation report for submission to the Chief Inspector of Mines for a permit decision. The Company hopes this can be obtained before the end of Q2, 2007. Any additional permits which are required as project construction moves forward, will be applied for as necessary.

On March 20, 2007 we were pleased to announce a new inferred resource for the C Zone mineralization whose discovery at depth, below the Main Zone had previously been announced on November 8, 2006. The new resource contains approximately 8 million tonnes (at a \$10 cut-off) grading 0.96% Cu and 0.88g/t Au, is present to a depth of up to 1.1 kilometers below surface, and is open at depth. We believe our ability to continue to outline new mineralization and add to the resource base at the New Afton Project supports our belief in its long term potential. Consequently we will continue to explore for additional extensions of this mineralization at depth.

At the New Afton Project, work was largely focused on constructing a more permanent pit access road in order to provide access for the mining contractor - Cementation Canada Inc. (Cementation) to commence the underground development required to develop the New Afton Project into a mine. Subsequent to quarter end the pit access road was completed and Cementation commenced the initial phase of the underground development.

Immediately subsequent to quarter end (on April 2, 2007) New Gold announced the long-awaited results of the Feasibility Study ("FS") for the New Afton Project. The FS indicated the potential to develop the project into one of Canada's largest underground metals mines and one of its lowest cost Au producers (when taking Cu revenue as a bi-product credit) over a 12 year mine life, with production commencing in 2009. At full production rate (of 4 million tonnes per year) the mine could produce up to 100,000 ounces of Au and 84 million pounds of Cu. Initial capital expenditures to commence production at 1.6 million tonnes per year, was forecast at US\$268 million, with additional capital expenditure requirements over the life of the mine of US\$215 million, which included US\$137 million to expand the mine (over 2 years) to its full production rate. Using the 3 year trailing prices of US\$2.01 per pound for Cu, and US\$487 per ounce for Au, the mine would generate an average pre-tax operating cash flow, at full production rate, of US\$108 million per year, and 0% and 5% discounted NPV's of, respectively, US\$614 million and US\$266 million.

The Company views the results of the FS as a very good starting point and is now examining a number of areas where it can potentially be optimized, which include the following:-

- A quicker expansion to the full 4 million tonnes per year rate in order to generate maximum possible cash flow as quickly as possible.
- Optimize cave draw schedule to mine higher grade material as early as possible.

- Potential extraction of the resources below the currently anticipated block cave outlines using sub-level caving, which can more suitably be applied towards the extraction of the mineralization as it narrows at depth. This would extend the mine life beyond the currently forecast 12 years.
- Conversion of the Inferred resources of the C Zone through additional drilling to Measured and/or Indicated classification, which could then potentially add additional life and/or operating flexibility to the operation

The Company has sufficient cash on hand (\$57 million) to commence the underground development, and has ordered the longer lead time items (principally the SAG mill) to ensure that the current fast track project timetable is still attainable. However, significant additional funds will have to be secured in order to ensure that the mine development can be completed. Possible sources include bank or public debt, issuance of common shares, debt potentially convertible into equity, or some combination thereof. The task of securing the necessary funds is a primary focus of New Gold's management. The Company's capital structure continues to be one of our strengths, as we have maintained a low share count with only 24.2 million shares outstanding and 30.6 million shares fully diluted.

In closing I would once more like to thank all our shareholders for their continued support, and all of our management, directors and employees who are working very hard towards the goal of developing the project into a new underground mine and creation of shareholder value. I would like to make particular mention of the efforts of our Chief Operating Officer, Kevin Ross, and his team at the New Afton Project, as they maintained an extremely high level of effort throughout the year in order to keep the project on schedule. I look forward to being able to report further progress at the end of the next quarter.

On behalf of the board of directors,



Chris J. Bradbrook  
President and CEO  
New Gold Inc.  
May 7, 2007

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

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

*This Management's Discussion and Analysis ("MD&A") is intended to supplement the Company's interim unaudited financial statements and notes thereto for the period ended March 31, 2007 (the "Statements") and compares the financial results for the three month period ended March 31, 2007 with those of the comparative period in 2006. The reader is encouraged to review the Statements in conjunction with this document. This report is dated May 3, 2007 and the Company's public filings, including its most recent Annual Information Form, can be viewed on the SEDAR website ([www.sedar.com](http://www.sedar.com)).*

*The Company prepares and files its financial statements and MD&A in Canadian ("CDN") dollars and in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts presented in this MD&A are in Canadian dollars and tabular dollar amounts are in thousands unless otherwise indicated.*

*Please refer to section "AMENDMENTS AND RESTATEMENTS TO THE COMPARATIVE PERIODS" for an explanation of the restated items referred to in this MD&A.*

**BUSINESS OVERVIEW**

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***New Afton Copper-Gold Project***

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

During the first quarter of 2007, the Company received the results of a feasibility study prepared under the direction of Hatch Ltd. ("FS") and issued a press release on April 2, 2007 describing the principal elements of the FS. The FS included an up-dated resource estimation, completion of a reserves estimate, mining method selection and production scheduling, process plant design, tailings deposition, all infrastructure requirements and the preparation of the project economic analysis. The FS establishes the technical and economical parameters for developing a new underground mine at the Project and forms the basis of financing analysis.

In addition, on January 12, 2007 the Company submitted an application to the Ministry of Energy, Mines and Petroleum Resources of the Province of British Columbia for a permit pursuant to the *Mines Act* seeking approval for the Mine Plan and Reclamation Program at the New Afton Project.

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

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The Company also continued with its early development program in the first quarter by completing a new pit road to improve access in the open pit, which will assist in the underground development activities, as well as placing orders for a number of the key long lead item components of the SAG mill and the mobile fleet.

Exploration activities during the quarter focused in and around the Project resource area and will be expanded to additional areas as the year progresses.

*Afton and Ajax Exploration Properties*

During the first quarter of 2007 the Company completed a total of 3,043 metres of exploration drilling which was slightly below the plan. The primary focus of the program was in and around the current Afton resource.

The Company did not drill during the quarter on the Ajax and optioned Magnum properties but plans to do so during the next several quarters.

An additional 520 metres of geotechnical drilling was conducted during the quarter.

**SELECTED QUARTERLY INFORMATION**

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

<i>\$Cdn (Unaudited)</i>	2007 1 <sup>st</sup> Quarter	2006 4 <sup>th</sup> Quarter	2006 3 <sup>rd</sup> Quarter	2006 2 <sup>nd</sup> Quarter
<b>Statements of Operation and Deficit</b>				
Loss	\$ 462	\$ 1,375	\$ 750	\$ 61
Loss per share	0.02	0.06	0.03	0.00
<b>Balance Sheets</b>				
Working Capital	56,783	65,471	71,442	76,460
Total Assets	133,238	132,656	131,040	130,531
<b>Statements of Cash Flows</b>				
Payments for mineral properties exploration costs	5,867	5,449	4,544	5,442

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

<i>\$Cdn (Unaudited)</i>	2006 1 <sup>st</sup> Quarter	2005 4 <sup>th</sup> Quarter	2005 3 <sup>rd</sup> Quarter	2005 2 <sup>nd</sup> Quarter
<b>Statements of Operation and Deficit</b>				
Loss	\$ 1,318	\$ 1,232	\$ 140	\$ 662
Loss per share	0.07	0.08	0.01	0.05
<b>Balance Sheets</b>				
Working Capital	80,308	14,815	13,099	17,785
Total Assets	130,223	61,631	53,128	53,271
<b>Statements of Cash Flows</b>				
Payments for mineral claim interest and exploration costs	4,776	3,154	4,423	4,253

***Comparative Periods***

During the first quarter of 2007, the Company invested approximately \$5.9 million on its mineral properties as compared to \$4.8 million in the comparative quarter in 2006. During the current quarter the Company spent \$3.7 million on development activities, principally related to the construction of a new pit road, \$1.9 million on the FS and \$0.3 million on surface exploration programs in and around the current resource. This compares to spending in the comparative quarter in 2006, \$1.7 million on tunneling and decline development, \$1.6 million on in-fill drilling and related assaying costs at the Afton Project and \$0.6 million on surface exploration at Afton and Ajax.

The Company incurred a loss of \$0.5 million or \$0.02 per share in the first quarter compared with a loss of \$1.3 million or \$0.07 per share in the first quarter of 2006. The reduction in the loss is directly related to lower stock-based compensation charges and higher interest revenue due to the higher average cash balances in 2007 than in 2006.

***Previous Eight Quarters***

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

- In February 2006 the Company raised \$75 million from the issuance of units comprised of one share with a half warrant (see Liquidity and Capital Resources). In addition, the Company raised approximately \$10 million in flow through financing during the second and fourth quarters of 2005.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **March 31, 2007**

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- The Company commenced development of an underground decline in the fourth quarter of 2004 which started the process for underground in-fill drilling during 2005 and into early 2006 on the existing resource at Afton. The higher confidence gained on the resource enabled the Company to commence a FS which started in December 2005 and the results of which were published in the first quarter 2007.
- As a result of the increased activities in the Company since the beginning of 2005, the Company has expanded its management and operational teams to correlate with increased activities.
- The Company's management and project team continues to expand. As a result of the increase in personnel, the number of option grants increased during 2005 and 2006 also grew with corresponding increases in the stock-based compensation charges.
- During the second quarter of 2006 the Company invested its surplus cash in other investments with terms of longer than three months resulting in a use of cash in the amount of \$26.2 million. These investments matured in the fourth quarter of 2006 and the proceeds were subsequently invested in investments with terms of less than three months.
- The Company realized a total of \$1.2 million in future income tax recoveries in the second and third quarter of 2005 and second quarter of 2006 as a result of successive reductions in the combined tax rates applicable to the Company.
- The Company completed during the prior five quarters its FS on the Project at a total cost of \$8.8 million.

## **LIQUIDITY & CAPITAL RESOURCES**

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As at March 31, 2007, the Company had working capital of \$56.8 million versus \$65.5 million as at December 31, 2006.

During the first quarter of 2006 the Company completed, by way of a short form prospectus (the "2006 Prospectus"), an offering of 8,334,000 units priced at \$9.00 per unit for gross cash proceeds of \$75 million (net proceeds of \$70.6 million). Each unit consisted of one common share and one-half of a share purchase warrant. Each whole warrant will be exercisable to purchase one common share at a price of \$12.00 per share until February 28, 2008.

The Company's current working capital level is sufficient to meet its 2007 general corporate and administrative costs, fund its planned 2007 exploration activities and commence the initial stage of Project development. However, the Company will be required to raise significant additional funds by either issuing common shares, flow-through common shares, by the arrangement of bank or public debt, or a combination of these alternatives, to fulfill the funding requirement difference between the Company's current cash resources and the ultimate amount required to

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

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fund the Project and to cover administrative and exploration activities. There are no guarantees that the Company will be able to raise the required funds as and when required.

**NEW ACCOUNTING POLICIES**

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The Company has adopted the following accounting policies effective for the Company's first quarter commencing January 1, 2007:

- a) Section 3855 - Financial Instruments - Recognition and Measurement. Section 3855 requires that all financial assets, except those classified as held to maturity and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. For the period ended March 31, 2007 the adoption of this policy had no material impact.
- b) Section 1530 - Comprehensive Income. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in the statement of operations such as unrealized gains or losses on available-for-sale investments. For the period ending March 31, 2007 the Company did not have other comprehensive income or loss, therefore comprehensive loss for the period was equal to the loss for the period.

**COMMITMENTS, CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS**

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Afton Project Commitments

- a) The Company has entered into a number of contractual commitments to advance the development of the Project. These commitments are either in the form of short term Letters of Intent ("LOI"), put in place as an interim measure until long-term arrangements can be completed, equipment orders to purchase or rent long lead items or critical pieces of mining equipment necessary to commence development of the Project. These commitments include the following outstanding commitments as at March 31, 2007:

	LOI(1)	Long lead items and equipment orders
Surface and underground development activities	\$ 8,841	\$ -
Processing plant	-	3,478
Mobile fleet	-	793

(1) The letter of intent may be terminated for convenience upon paying of amounts owing and demobilizing costs.

- b) On January 9, 2007, the Company announced that it had signed a Letter of Intent ("LOI") with Teck Cominco Limited ("Teck"), to acquire the surface rights to more than 4,000 acres of land, encompassing the Project. The LOI contemplates the Company paying Teck \$10

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

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million upon closing, with an additional \$6 million to be paid (with applicable interest) any time within 2 years of closing. Teck will also be granted a 2% Net Smelter Return over the Project, which the Company has the option to repurchase for \$12 million.

As part of the LOI, the Company has agreed to honour all pre-existing agreements made between Teck and any third parties regarding access and rights of way over this land, and access to water.

Completion of the final agreement described in the LOI is subject to definitive documentation, receipt of any necessary regulatory approvals and customary conditions of closing. The Company and Teck have agreed to work towards the completion of a definitive agreement as expeditiously as possible.

- c) Under the terms of the Option agreements to acquire the mineral properties for the Afton Mineral Claims, the optionors retained a 10% net profit royalty which can be purchased on or before December 1, 2010 for \$2,000,000 in cash or common shares of the Company.

Other Royalties and Property Commitments

- a) Under the terms of the Ajax - Python Claim option agreement, the property is subject to a 2% net smelter royalty ("NSR"). The Company can purchase the NSR for \$100,000, payable in cash or common shares of the Company.
- b) In 2006 the Company completed two arm's length agreements with the owners (collectively, the "optionors") of two mineral claim groups, whereby for an aggregate payment to them of \$28,965 in cash, the Company acquired the exclusive right to explore the properties for one year. The exclusive exploration rights may, at the Company's option, be extended for two further one-year periods by making payments of \$65,000 to one optionor and \$71,700 to the other. Any further payments to the optionors are payable in cash or equivalent value in shares of the Company at the optionor's discretion in one case and at the discretion of the Company in the other.

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

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

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Operating Leases

The Company is committed to operating leases in the aggregate of \$242,441. The future minimum lease payments as at March 31, 2007 are as follows:

2007	\$	86
2008		91
2009		57
2010		8
		<hr/>
	\$	242

**SUBSEQUENT EVENTS**

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Subsequent to March 31, 2007, the Company has entered into the following additional commitments:

	<b>Long lead items and equipment orders</b>
Processing plant	\$ 3,508
Mobile fleet	14,238

The arrangements with certain suppliers of mobile equipment contemplate that if delivery of an item of such equipment is not made before a certain date, the Company may cancel the order without any liability. If the cancellation is made after that date, but before actual delivery of the equipment, the Company is obliged to pay the carrying cost of the equipment, plus interest at the prime rate of interest plus 2%, until the equipment is sold. The supplier will use its resources to expedite sale of the equipment. Certain of the mobile fleet assets are expected to be contracted under capital leases.

**AMENDMENTS AND RESTATEMENTS TO THE COMPARATIVE PERIODS**

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During 2006 the Company undertook a review of its previously-issued financial statements for: the accounting treatment for the recognition of future income taxes related to flow-through share offerings; the valuation method used for assigning value for share payments; stock-based compensation costs related to project personnel; and the reporting of non-cash working capital changes reported in the Statement of Cash Flows. Management thereafter determined that amendments should be reflected in the previously issued financial statements for the twelve month period ending December 31, 2005 and the six month period ending June 30, 2006, and this was undertaken and the financial statements re-issued.

The effects of the restatement which have been previously re-filed and which impact the Balance Sheet, Statement of Operations and Cash Flow are summarized as:

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

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<b>Statement of Operations</b>	<b>As previously reported</b>	<b>Adjustment</b>	<b>As restated</b>
Stock-based compensation included in wages, benefits and stock-based compensation expense for the three months ended March 31, 2006	\$ 619	\$ (140)	\$ 479
Tax recovery for the three months ended March 31, 2006	122	(122)	-

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

**OUTLOOK**

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The Company continues to follow its stated priorities for 2007 by focusing on the Project, including completing permitting requirements, continuing early development initiatives and assessing and securing financing. In addition, the Company plans to continue its overall exploration effort.

Advancement of the New Afton Project is the key to the Company's success beyond the FS results and subject to financing availability significant development activities could occur in 2007. Management's efforts in 2007 will be primarily focused on the key areas related to the ultimate development of the Project including:

Financing - now that results of the FS have been released, financing activities will accelerate with formal discussions with commercial banks, equity and debt brokers and smelters so that the Company can best assess the structuring of a financing package.

Permitting - the Company submitted its application for a mining permit in January 2007 and anticipates a formal response from the appropriate regulatory authorities no sooner than the second quarter of 2007.

Surface Rights - the Company anticipates the finalization of a formal agreement encompassing the terms agreed to in the LOI with Teck, to acquire the surface rights at the Project. Completion of this agreement will ensure that full access to the site is attained which would enable any near term development activities to proceed.

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

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Early Development Opportunities - with the results of the FS now in hand, management will undertake an optimization review to determine whether any opportunities may exist to accelerate the development timeline of the Project. Underground development will be initiated from the existing exploration decline with further underground work conditional on receipt of the mine permit. The Company has already commenced ordering certain long lead-time capital assets in the mill and mobile fleet areas. These items would be financed from the Company's existing cash position.

In addition, the Company continues to assess its exploration opportunities on the Afton, Ajax and at its optioned properties. At Afton the major focus has shifted to surface activities in and around the existing Afton resource. At the Ajax and adjacent optioned properties, the Company continues to evaluate the data compiled to date and expects to commence drilling of selected targets during the second and third quarters.

As at May 3, 2007, the Company's outstanding equity instruments were:

Common shares	24,174,717
Warrants	4,167,000
Common stock options	2,201,500

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

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**FORWARD-LOOKING STATEMENT**

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Certain of the statements made and information contained herein is "forward- looking information" within the meaning of the Ontario Securities Act or "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 of the United States. Forward-looking statements are subject to a variety of risks and uncertainties which could cause

actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the interpretation of drill results and the estimation of mineral resources and reserves, the geology, grade and continuity of mineral deposits, the possibility that future exploration, development or mining results will not be consistent with the Company's expectations, metal recoveries, accidents, equipment breakdowns, title matters and surface access, labour disputes or other unanticipated difficulties with or interruptions in production, the potential for delays in exploration or development activities or the completion of feasibility studies, the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations, currency fluctuations, failure to obtain adequate financing on a timely basis and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Annual Information Form and in each management discussion and analysis. Forward-looking information is, in addition, based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of copper and gold, that the FS will confirm that a technically viable and economic operation exists, that the Company will receive required permits and access to surface rights, that the Company can access financing, appropriate equipment and sufficient labour and that the political environment within British Columbia and Canada will continue to support the development of environmentally safe mining projects so that the Company will be able to commence the development of the Afton project within the timetable to be established by the FS. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. The Company does not intend to and assumes no obligations to up-date forward-looking statements and information.

New Gold Inc.  
(A Development Stage Company)

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

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**US INVESTORS SHOULD NOTE**

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The U.S. Securities and Exchange Commission ("SEC") permits mining companies, in their filings with the SEC to disclose only those mineral deposits that a company can economically and legally extract or produce. The Company may use certain terms in its publications such as "resources" that are prescribed by Canadian regulatory policy and guidelines but are not provided for in the SEC guidelines on publications and filings. Investors are cautioned not to assume that any part or all of the mineral deposits in a "resource" category will ever be converted into reserves.



# **NEW GOLD INC.**

*(A Development Stage Company)*

## **INTERIM FINANCIAL STATEMENTS**

**March 31, 2007**

**(Unaudited)**

New Gold Inc.  
(A Development Stage Company)

## BALANCE SHEETS

As at March 31, 2007 and December 31, 2006

(Unaudited and in thousands of Canadian dollars, except for per share amounts)

	2007	2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 59,461	\$ 68,054
Amounts receivable	1,250	1,123
Prepaid expenses	489	80
	<b>61,200</b>	<b>69,257</b>
<b>Mineral Properties - Schedule (Note 3)</b>	<b>69,233</b>	<b>61,440</b>
<b>Property and Equipment (Note 4)</b>	<b>2,805</b>	<b>1,959</b>
	<b>\$ 133,238</b>	<b>\$ 132,656</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,417	\$ 3,786
<b>Future income taxes</b>	<b>10,004</b>	<b>10,004</b>
	<b>14,421</b>	<b>13,790</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 6)	118,038	117,858
Share purchase warrants (Note 7)	5,959	5,959
Stock options (Notes 8 and 9)	4,779	4,546
Deficit	(9,959)	(9,497)
	<b>118,817</b>	<b>118,866</b>
	<b>\$ 133,238</b>	<b>\$ 132,656</b>

See accompanying notes

**Commitments and Contingent Liabilities (Note 13)**

**Subsequent Events (Note 15)**

### APPROVED BY THE BOARD

"Chris Bradbrook"

Chris Bradbrook  
Director

"Paul Sweeney"

Paul Sweeney  
Director

New Gold Inc.  
(A Development Stage Company)

**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**For the three month periods ended March 31, 2007 and 2006**

*(Unaudited and in thousands of Canadian dollars, except for per share amounts)*

	2007	Restated (Note 14) 2006
<b>Income</b>		
Interest income	\$ 645	\$ 366
	<b>645</b>	<b>366</b>
<b>Expenses</b>		
Amortization	8	28
Foreign exchange (gain)/loss	(4)	5
Loss on disposal of property and equipment	-	8
Administrative, office and miscellaneous	143	130
Professional and regulatory fees	240	228
Travel, conferences and promotion	66	152
Wages, benefits and stock-based compensation (Note 5)	654	1,133
	<b>1,107</b>	<b>1,684</b>
<b>Loss and Comprehensive Loss for the period</b>	<b>(462)</b>	<b>(1,318)</b>
<b>Deficit, beginning of period</b>	<b>(9,497)</b>	<b>(5,993)</b>
<b>Deficit, end of the period</b>	<b>\$ (9,959)</b>	<b>\$ (7,311)</b>
<b>Weighted average number of shares outstanding (thousands)</b>	<b>24,162</b>	<b>18,539</b>
<b>Loss per share (basic and diluted)</b>	<b>\$ 0.02</b>	<b>\$ 0.07</b>

*See accompanying notes.*

New Gold Inc.  
(A Development Stage Company)

**STATEMENTS OF CASH FLOWS**  
**For the three month periods ended March 31, 2007 and 2006**  
(Unaudited and in thousands of Canadian dollars)

	2007	Restated (Note 14) 2006
<b>Cash provided by (used for)</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (462)	\$ (1,318)
Items not involving cash:		
Amortization	8	28
Stock-based compensation	224	479
Loss on disposal of property and equipment	-	8
Other	-	(4)
Net change in non-cash working capital items	<b>(1,385)</b>	<b>(739)</b>
	<b>(1,615)</b>	<b>(1,546)</b>
<b>INVESTING ACTIVITIES</b>		
Payments for mineral properties and exploration costs	<b>(5,867)</b>	<b>(4,776)</b>
Acquisition of property and equipment	<b>(1,249)</b>	<b>(151)</b>
	<b>(7,116)</b>	<b>(4,927)</b>
<b>FINANCING ACTIVITIES</b>		
Cash proceeds from shares and share purchase warrants issued, net of issue costs	<b>138</b>	<b>70,563</b>
	<b>138</b>	<b>70,563</b>
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>(8,593)</b>	<b>64,090</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>68,054</b>	<b>18,179</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 59,461</b>	<b>\$ 82,269</b>

See accompanying notes.

For supplemental disclosure of non-cash investing and financing activities, refer to Note 10.

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

*(Unaudited and in Canadian dollars except as indicated)*

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**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

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New Gold Inc. (the "Company"), is in the business of exploring and developing mineral prospects in British Columbia, Canada. Its principal project, the New Afton copper-gold project (the "Project"), has been subject to exploration, an advanced scoping study and a feasibility study to determine whether the Project has economically viable copper/gold reserves.

The underlying value of the Company's mineral claims is dependent upon the existence and economic recovery of mineral reserves, and the ability of the Company to raise financing to complete the development of and operation of the Project. In addition, the Company's projects may be subject to a number of risks, including changes in government relations related to mining activities, economic instability and access rights disruption.

The Company believes it has adequate funds available to meet its corporate and administrative obligations while having surplus funds available for exploration and to commence the initial stages of development of the Project. Management will have to obtain additional financing to finance the remainder of the Project construction. There can be no assurance it will be able to raise sufficient funds as and when these funds are required.

These interim financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"). The unaudited interim financial statements do not include all of the information and disclosures required by GAAP for audited annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in the unaudited interim financial statements. The unaudited interim financial statements should be read in conjunction with the Company's audited annual financial statements, including the notes thereto, for the year ended December 31, 2006.

**2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

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The accounting policies followed by the Company are set out in Note 2 to the audited financial statements for the year ended December 31, 2006 and have been consistently followed in the preparation of these interim financial statements, except that the Company has adopted the following accounting policies effective for the Company's first quarter commencing January 1, 2007:

- a) Section 3855 - Financial Instruments - Recognition and Measurement. Section 3855 requires that all financial assets, except those classified as held to maturity and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. For the period ended March 31, 2007 the adoption of this policy had no material impact.

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

(Unaudited and in Canadian dollars except as indicated)

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- b) Section 1530 – Comprehensive Income. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in the statement of operations such as unrealized gains or losses on available-for-sale investments. For the period ending March 31, 2007 the Company did not have other comprehensive income or loss, therefore comprehensive loss for the period was equal to the loss for the period.

**3. MINERAL PROPERTIES**

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

Under the terms of two option agreements ("Option") dated September 22, 1999 to acquire the Afton Mineral Claims, the Company issued 2 million common shares and completed an aggregate work commitment totaling \$6.5 million to earn 100% right to the mineral claims.

Under the terms of the Option agreement the optionors retained a 10% net profit royalty (See Note 13(c)).

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

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

**4. PROPERTY AND EQUIPMENT**

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*(in thousands)*

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$ 57	\$ -	\$ 57
Building	105	17	88
Transportation vehicles	101	82	19
Equipment	2,599	207	2,392
Office and computer equipment	356	107	249
Balance March 31, 2007	\$ 3,218	\$ 413	\$ 2,805

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New Gold Inc.  
(A Development Stage Company)

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

*(Unaudited and in Canadian dollars except as indicated)*

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

Equipment used in exploration and development activities has been capitalized to mineral properties in the amount of \$94,278 (December 31, 2006 – \$ nil).

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

The following table details the amounts included:

	March 31 2007	Restated <i>(Note 14)</i> March 31 2006
Salaries, wages and benefits	\$ 430	\$ 654
Stock-based compensation	224	479
<b>Total</b>	<b>\$ 654</b>	<b>\$ 1,133</b>

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

(Unaudited and in Canadian dollars except as indicated)

**6. SHARE CAPITAL**

*Authorized*

Unlimited number of common shares without par value.

*Issued and Outstanding*

	Number of Shares		Restated (Note 14) Amount
			(in thousands)
Balance, December 31, 2005	15,576	\$	54,752
For cash - pursuant to a prospectus offering, net (a)	8,334		64,608
For cash - exercise of stock options	235		1,467
Tax effect for flow-through shares	-		(3,303)
Transfer from stock options (See Note 9)	-		334
Balance, December 31, 2006	24,145	\$	117,858
For cash - exercise of stock options	20		138
Transfer from stock options (See Note 9)	-		42
<b>Balance, March 31, 2007</b>	<b>24,165</b>	<b>\$</b>	<b>118,038</b>

- a) On February 28, 2006, the Company completed a short form prospectus filing in Canada to issue, through a syndicate of underwriters, 8,334,000 units at \$9.00 per unit for gross cash proceeds of \$75.0 million (net proceeds \$70.6 million, prior to allocation of the fair value to the share purchase warrants (Note 7)). A commission of 5.25% was paid to the underwriters. Each unit consisted of one common share and one-half of a share purchase warrant. The gross proceeds have been allocated \$8.285 to each common share and \$0.715 to each one-half of a share purchase warrant. The share purchase warrants were valued using a Black-Scholes pricing model using the following assumptions: weighted average risk free interest rate of 3.9%; volatility factor of the expected market price of the Company's common stock of 40%; and a weighted average expected life of the warrants of 2 years.

**7. SHARE PURCHASE WARRANTS**

The following share purchase warrants were issued and outstanding:

	Number of Warrants (in thousands)		Amount (in thousands)
Balance, March 31, 2007 and December 31, 2006	4,167	\$	5,959

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

(Unaudited and in Canadian dollars except as indicated)

Each whole warrant is exercisable to purchase one common share at a price of \$12.00 per share until February 28, 2008. The warrants have been listed for trading on the Toronto Stock Exchange.

The exercise of the outstanding share purchase warrants in the loss calculation would be anti-dilutive.

**8. STOCK-BASED COMPENSATION**

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

	<b>Options Outstanding (in thousands)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life (Years)</b>
Balance, December 31, 2005	1,727	\$ 6.04	4.5
Granted	715	10.64	4.0
Exercised	(185)	(6.69)	-
Terminated	(4)	(11.00)	-
Balance, December 31, 2006	2,253	\$ 7.43	3.6
Exercised	(20)	(6.88)	-
Expired	(2)	(11.00)	-
<b>Balance, March 31, 2007</b>	<b>2,231</b>	<b>\$ 7.43</b>	<b>3.4</b>

<b>Option Strike Price</b>	<b>Exercisable</b>		<b>Outstanding</b>	
	<b>Options (in thousands)</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Options (in thousands)</b>	<b>Weighted Average Remaining Life (Years)</b>
\$4.60	600	2.5	600	2.5
\$4.61 to \$5.99	12	3.5	12	3.5
\$6.00 to \$6.99	660	3.3	660	3.3
\$7.00 to \$7.99	250	3.4	250	3.4
\$8.00 to \$11.00	310	3.6	709	4.2
	<b>1,832</b>	<b>3.1</b>	<b>2,231</b>	<b>3.4</b>

The compensation cost recorded for the period ended March 31, 2007 in respect of options granted in prior periods that have been expensed to the Statement of Operations was \$224,447 (2006 - \$479,378) and capitalized to mineral properties was \$50,403 (2006 - \$139,188).

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

(Unaudited and in Canadian dollars except as indicated)

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

**9. STOCK OPTIONS**

(in thousands)

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

Balance, December 31, 2005	\$	1,728
Stock-based compensation		3,152
Transfer of exercised options to share capital		(334)
Balance, December 31, 2006	\$	4,546
Transfer of exercised options to share capital		(42)
Stock-based compensation		275
<b>Balance, March 31, 2007</b>	<b>\$</b>	<b>4,779</b>

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**10. SUPPLEMENTARY CASH FLOW INFORMATION**

(in thousands)

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

	March 31, 2007	March 31 2006
<b>Investing Activities</b>		
Mineral property expenditures included in accounts receivable and payable	\$ 1,782	\$ (1,250)
Property and equipment expenditures included in accounts payable	(300)	-

**11. FINANCIAL INSTRUMENTS**

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The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to the relatively short period to maturity of these instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

**12. SEGMENTED INFORMATION**

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

(Unaudited and in Canadian dollars except as indicated)

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**13. COMMITMENTS AND CONTINGENT LIABILITIES**

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Afton Project Commitments

- a) The Company has entered into a number of contractual commitments to advance the development of the Project. These commitments are either in the form of short term Letters of Intent ("LOI"), put in place as an interim measure until long-term arrangements can be completed, equipment orders to purchase or rent long lead items or critical pieces of mining equipment necessary to commence development of the Project. These commitments include the following outstanding commitments as at March 31, 2007:

		<i>(in thousands)</i>
	<b>LOI(1)</b>	<b>Long lead items and equipment orders</b>
Surface and underground development activities	\$ 8,841	\$ -
Processing plant	-	3,478
Mobile fleet	-	793

(1) The letter of intent may be terminated for convenience upon paying of amounts owing and demobilizing costs.

- b) On January 9, 2007, the Company announced that it had signed a Letter of Intent ("LOI") with Teck Cominco Limited ("Teck"), to acquire the surface rights to more than 4,000 acres of land, encompassing the Project. The LOI contemplates the Company paying Teck \$10 million upon closing, with an additional \$6 million to be paid (with applicable interest) any time within 2 years of closing. Teck will also be granted a 2% Net Smelter Return over the Project, which the Company has the option to repurchase for \$12 million.

As part of the LOI, the Company has agreed to honour all pre-existing agreements made between Teck and any third parties regarding access and rights of way over this land, and access to water.

Completion of the final agreement described in the LOI is subject to definitive documentation, receipt of any necessary regulatory approvals and customary conditions of closing. The Company and Teck have agreed to work towards the completion of a definitive agreement as expeditiously as possible.

- c) Under the terms of the Option agreements to acquire the mineral properties for the Afton Mineral Claims, the optionors retained a 10% net profit royalty which can be purchased on or before December 1, 2010 for \$2,000,000 in cash or common shares of the Company.

Other Royalties and Property Commitments

- a) Under the terms of the Ajax - Python Claim option agreement the property is subject to a 2% net smelter royalty ("NSR"). The Company can purchase the NSR for \$100,000, payable in cash or common shares of the Company.

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

*(Unaudited and in Canadian dollars except as indicated)*

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- b)** In 2006 the Company completed two arm's length agreements with the owners (collectively, the "optionors") of two mineral claim groups, whereby for an aggregate payment to them of \$28,965 in cash, the Company acquired the exclusive right to explore the properties for one year. The exclusive exploration rights may, at the Company's option, be extended for two further one-year periods by making payments of \$65,000 to one optionor and \$71,700 to the other. Any further payments to the optionors are payable in cash or equivalent value in shares of the Company at the optionor's discretion in one case and at the discretion of the Company in the other.

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

Operating Leases

- a)** The Company is committed to operating leases in the aggregate of \$242,441. The future minimum lease payments as at March 31, 2007 are as follows:

	<i>(in thousands)</i>	
2007	\$	86
2008		91
2009		57
2010		8
	\$	242

**14. RESTATEMENT OF COMPARATIVE FINANCIAL STATEMENTS**

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During 2006 the Company undertook a review of its previously-issued financial statements for: the accounting treatment for the recognition of future income taxes related to flow-through share offerings, the valuation method used for assigning value for share payments, stock-based compensation costs related to project personnel and the reporting of non-cash working capital changes reported in the Statement of Cash Flows. Management thereafter determined that amendments should be reflected in the previously issued financial statements for the periods of December 31, 2005 and June 30, 2006 which were adjusted and re-issued.

The effect of the restatement which have not been previously re-filed and which impact the Balance Sheet , Statement of Operations and Cash Flow are summarized as:

**NOTES TO FINANCIAL STATEMENTS**  
**For the three months ended March 31, 2007**

*(Unaudited and in Canadian dollars except as indicated)*

<b>Statement of Operations</b>	<i>(in thousands)</i>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As restated</b>
Stock-based compensation included in wages, benefits and stock-based compensation expense for the three months ended March 31, 2006	\$ 619	\$ (140)	\$ 479
Tax recovery for the three months ended March 31, 2006	122	(122)	-

Additional information is available in the restated December 31, 2005 audit financial statements

**15. SUBSEQUENT EVENTS**

Subsequent to March 31, 2007, the Company has entered into the following additional commitments:

	<i>(in thousands)</i>
	<b>Long lead items and equipment orders</b>
Processing plant	\$ 3,508
Mobile fleet	14,238

The arrangements with certain suppliers of mobile equipment contemplate that if delivery of an item of such equipment is not made before a certain date, the Company may cancel the order without any liability. If the cancellation is made after that date, but before actual delivery of the equipment, the Company is obliged to pay the carrying cost of the equipment, plus interest at the prime rate of interest plus 2 %, until the equipment is sold. The supplier will use its resources to expedite sale of the equipment. Certain of the mobile fleet assets are expected to be contracted under capital leases.

New Gold Inc.  
(A Development Stage Company)

## SCHEDULE OF MINERAL PROPERTIES

For the periods ended March 31, 2007 and December 31, 2006

(Unaudited and in thousands of Canadian Dollars)

	Afton Claims	Ajax-Python Claims	2007	2006
<b>ACQUISITION COSTS</b>				
Kamloops Afton			\$ 18,841	\$ 18,841
Kamloops Ajax			49	49
Timmins			-	-
			<b>18,890</b>	<b>18,890</b>
<b>DEFERRED EXPLORATION AND DEVELOPMENT COSTS</b>				
Balance, beginning of the year	\$ 41,861	\$ 689	\$ 42,550	\$ 23,551
<b>Afton Mine Development</b>				
Consultants and subcontractors	4,759	-	4,759	-
Other	982	-	982	10
	5,741	-	5,741	10
<b>Feasibility Study</b>	959	-	959	7,859
<b>Aboveground exploration costs</b>				
Option payment	-	15	15	29
Drilling and assaying	844	9	853	2,817
Overhead and general	86	-	86	(227)
Wages and benefits	139	-	139	383
	1,069	24	1,093	3,002
<b>Underground exploration costs</b>				
Drilling and assaying	-	-	-	5,589
Overhead and general	-	-	-	790
Wages and benefits	-	-	-	1,749
	\$ -	\$ -	\$ -	\$ 8,128
Balance, end of period	\$ 49,630	\$ 713	\$ 50,343	\$ 42,550
<b>Mineral properties</b>			<b>\$ 69,233</b>	<b>\$ 61,440</b>



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