



NEW GOLD INC.

(A Development Stage Company)

INTERIM FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

BALANCE SHEETS

As at March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 158,147	\$ 190,176
Accrued interest receivables on cash equivalents	346	663
Amounts receivable	2,695	2,850
Prepaid expenses	457	485
	161,645	194,174
Investments (Note 3)	120,065	120,065
Reclamation deposits (Note 17(c))	3,500	3,500
Mineral properties - schedule (Note 4 and 7)	149,264	116,924
Property and equipment (Note 5)	40,973	34,173
	\$ 475,447	\$ 468,836
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,716	\$ 11,013
Current portion of long-term debt (Note 7)	224,521	212,761
	238,237	223,774
Long-term debt - Debentures (Note 7)	35,676	35,189
Future income taxes	8,144	2,368
	43,820	37,557
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	208,069	213,278
Convertible debenture (Note 7)	18,403	18,403
Share purchase warrants (Note 9)	35,163	41,122
Contributed Surplus (Note 11)	11,921	5,647
Deficit	(80,166)	(70,945)
	193,390	207,505
	\$ 475,447	\$ 468,836

Nature of Operations and Going Concern (Note 1)

Measurement Uncertainty (Note 3)

Commitments and Contingent Liabilities (Note 17)

Subsequent Event (Note 18)

APPROVED BY THE BOARD

"Clifford Davis"

Clifford Davis
Director

"Paul Sweeney"

Paul Sweeney
Director

New Gold Inc.
(A Development Stage Company)

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the three months ended March 31, 2008 and March 31, 2007

(Unaudited and in thousands of Canadian Dollars)

	2008	2007
Income		
Interest income	\$ 1,622	\$ 645
	1,622	645
Expenses		
Amortization	8	8
Foreign exchange gain	(10)	(4)
Administrative, office and miscellaneous	236	143
Professional and regulatory fees	683	240
Travel, conferences and promotion	104	66
Wages, benefits and stock-based compensation <i>(Note 6)</i>	2,104	654
Interest and accretion	9,404	-
	12,529	1,107
Loss before taxes	(10,907)	(462)
Future income tax recovery	1,686	-
Loss and Comprehensive Loss for the period	(9,221)	(462)
Deficit, beginning of period	(70,945)	(9,497)
Deficit, end of the period	\$ (80,166)	\$ (9,959)
Weighted average number of shares outstanding (thousands)	36,950	24,162
(Loss) per share (basic and diluted)	\$ (0.25)	\$ (0.02)

See accompanying notes.

New Gold Inc.
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2008 and March 31, 2007

(Unaudited and in thousands of Canadian Dollars)

	2008	2007
Cash provided by (used for)		
OPERATING ACTIVITIES		
Loss for the period	\$ (9,221)	\$ (462)
Items not involving cash:		
Amortization	8	8
Stock-based compensation	75	224
Future income taxes	(1,686)	-
Accretion and interest	9,337	-
Net change in non-cash working capital items	594	(1,385)
	(893)	(1,615)
INVESTING ACTIVITIES		
Payments for mineral properties and exploration costs	(20,103)	(5,867)
Acquisition of property and equipment	(11,033)	(1,249)
	(31,136)	(7,116)
FINANCING ACTIVITIES		
Cash proceeds from shares and share purchase warrants issued, net of issue costs	-	138
	-	138
Decrease in cash and cash equivalents	(32,029)	(8,593)
Cash and cash equivalents, beginning of the period	190,176	68,054
Cash and cash equivalents, end of the period	\$ 158,147	\$ 59,461
<i>Cash and cash equivalents comprises</i>		
Cash	18,515	12,047
Government of Canada Treasury Bills	139,632	-
Short-term investments	-	47,417
Cash and cash equivalents, end of the year	\$ 158,147	\$ 59,461

See accompanying notes.

For supplemental disclosure of non-cash investing and financing activities, refer to Note 12.

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

1. NATURE OF OPERATIONS, GOING CONCERN AND BASIS OF PRESENTATION

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. These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they fall due.

As at March 31, 2008, the Company has negative working capital of \$76.6 million. The negative working capital position is primarily due to the classification of the Company's Notes as a current liability because of a provision in the Note Indenture which requires the Company to obtain all material permits related to its New Afton project on or before June 27, 2008. Should these permits not be obtained or the Company is unable to negotiate a waiver (See Note 16(c)), the Company is obligated to offer to redeem the Notes at par value (\$237 million). The negative working capital position is also due to the classification of the Company's investments in non-bank sponsored asset backed commercial paper ("ABCP") as non-current assets. The Company has \$120 million (\$170 million net of \$50.1 million impairment recognized in prior periods) in investments subject to the ABCP restructuring in Canada (See Note 3). The financial impact of these two situations creates substantial doubt about the Company's ability to continue as a going concern.

On March 31, 2008 the Company signed a letter of intent with two other companies to complete a business combination (See Note 18), which if approved will result in the Company being the surviving legal entity. Pursuant to the completion of this transaction the Company is required to obtain a waiver from the permit test, which is presently incorporated in the note indenture (see Note 19).

The Company's ability to continue as a going concern is dependent upon obtaining the remaining permits for its New Afton project or a waiver on the same, resolving the liquidity situation surrounding its ABCP investments, obtaining the necessary financing to fund its debt obligations over the next year or the successful completion of the business combination.

In recognition of these circumstances, and following the receipt of the major principal mine permit in October 2007, the Company is actively pursuing the remaining permits required to satisfy the debt requirements or a waiver from this test from the note holders. The Company's ability to continue as a going concern may also be dependent on the successful resolution of the ABCP restructuring which the Company anticipates will result in a limited market for the pooled assets to be created as a result of the new pooled assets credit rating, increased transparency about the underlying assets and the structure as well as the support

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

of a margin facility which is expected to enable the Company to realize on its ABCP investments, as well as its ability to renegotiate its obligations in terms of the Note Indenture should they fall due.

The Company's continuing operations are also dependent on the raising of additional financing to finance the remainder of the Project construction which can be satisfied through the successful completion of the proposed business combination (See Note 18). The amount and timing of these raisings may be materially impacted by the resolution of the Company's investments in ABCP (See Note 3).

There can be no assurance the Company will be able to raise sufficient funds as and when such funds are required if the business combination is not successful. There can furthermore be no assurance that the Company will obtain the necessary permits, waiver of the test, resolve its ABCP issues or obtain the necessary funding to continue with its Project construction or successfully complete the business combination.

These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

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.

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, 2007.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 2 to the audited financial statements for the year ended December 31, 2007 and have been consistently followed in the preparation of these interim financial statements, except that the Company has adopted the following accounting policies effective January 1, 2008:

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

Capital disclosures and financial instruments – disclosures and presentation

On December 1, 2006, the Canadian Institute of Chartered Accountants (“CICA”) issued three new accounting standards: Handbook Section 1535, “Capital Disclosures”; Handbook Section 3862, “Financial Instruments – Disclosures”; and Handbook Section 3863, “Financial Instruments – Presentation”.

Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. (See Note 15)

The new Sections 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosure and Presentation”, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks. (See Note 16)

3. INVESTMENTS, IMPAIRMENT AND MEASUREMENT UNCERTAINTY

As at December 31, 2007, the Company had \$170 million invested in Asset Backed Commercial Paper (“ABCP”) rated R1-high by Dominion Bond Rating Service. In mid August 2007 a number of non-bank sponsors of ABCP, including those with which the Company had invested, announced that they could not place ABCP due to unfavourable conditions in the Canadian capital markets. As a result, there is presently no active market for the ABCP held by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

As at March 31, 2008, the non-bank ABCP market remained the subject of a restructuring process with the expressed intention of replacing the ABCP with a number of long term floating rate notes. The restructuring plan would, if the restructuring plan is completed as currently planned, see the pooling of all of the underlying assets from all the ABCP trusts with the exception of those assets designated as ineligible for pooling ("Ineligible Assets") and those series of assets backed exclusively by traditional financial assets ("Traditional Series"). ABCP relating to the pooled assets will be replaced with four classes of notes named A1, A2, B, and C in declining order of seniority. ABCP relating to Ineligible Assets and Traditional Series would be replaced with new tracking notes whose characteristics are designed to track the performance of the particular assets of the series to which they correspond.

On April 25, 2008 the affected parties in the ABCP restructuring voted to approve the restructuring which has been conducted under the Companies' Creditors Arrangement Act. Subject to the court sanctioning of the plan, the restructuring is currently planned to be completed by the end of May 2008 at which point the Company should be able to sell all or part of the notes it will receive on the restructuring. However, numerous motions challenging several aspects of the restructuring terms, including the blanket legal releases remain before the court and there remains the possibility that future court decisions could impact the timing and ultimate issuance of the restructured notes. As a result, the Company continues to classify its holdings in ABCP as long-term investments.

Management has estimated the fair value impairment on ABCP held as prescribed by CICA Section 3855 by using a probability weighted cash flow approach. Management has used the following methodology and made the following assumptions:

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

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

Restructuring categories	\$ millions		Maturity date
	Face value	Fair value estimate*	
MAV 2 Notes			
A1 (provisionally rated AA **)	102.9	82.3	12/31/2016
A2 (provisionally rated AA **)	32.1	21.7	12/31/2016
B	5.5	1.0	12/31/2016
C	4.3	0.4	12/31/2016
Traditional asset tracking notes (provisionally rated AAA)	9.5	9.0	9/12/2015
Ineligible asset tracking notes			
Class 3/13/14 (Class 14 provisionally rated BBB **)	15.9	5.7	12/20/2012 to 10/24/2016
Total original investment	170.2	120.1	

* - the range of fair values estimated by the Company varied between \$113 million and \$128 million

** - provisional ratings as provisionally released by DBRS

- b) The A1, A2 and traditional asset tracking notes comprise the major categories of the notes contemplated to be received totaling 85% of the face value of the original investments made and 96% of the fair value estimate of the Company's holdings. In the case of the A1 and A2 notes it is estimated that they will pay interest at a rate 0.5% less than the Banker's Acceptance ("BA") rate and it is estimated that prospective buyers of these notes will require premium yields between 2.6% and 5% over the BA rate.
- c) The traditional assets notes are estimated to generate interest of 0.5% above the BA rate and a prospective buyer of those notes is estimated to require a premium of 1.5% over the BA rate.

Using these assumptions, the Company estimates that the A1, A2 and traditional asset tracking notes will generate returns between 3.8% and 4.6%. The Company has then applied its best estimate of prospective buyers' required yield and calculated the present value of the new notes using required yield as the discount factor. Using a range of potential discount factors allows the Company to estimate a range of recoverable values.

An identical procedure was performed for the B, C and ineligible tracking notes.

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

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

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

Based on this exercise the Company estimated that as at March 31, 2008 the range of recoverable amounts was between \$128 million and \$113 million (December 31, 2007 \$135 million and \$106 million). As a result, the Company believes that no additional impairment charge is required beyond the amount recorded at December 31, 2007 (\$50.1 million). There can be no assurance that this estimate will be realized or that it will be adequate. Subsequent adjustments, which could be material, may be required in future reporting periods.

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

4. MINERAL PROPERTIES

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 the 100% right to the mineral claims.

Under the terms of the Option agreement, the optionors retained a 10% net profit royalty (See Note 17(b)).

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 (See Note 17(e)).

5. PROPERTY AND EQUIPMENT

(in thousands)

	Cost	Accumulated Amortization	Net Book Value
Land	\$ 16,338	\$ -	\$ 16,338
Building	105	22	83
Transportation vehicles	791	164	627
Equipment	25,604	1,987	23,617
Office and computer equipment	492	184	308
Balance March 31, 2008	\$ 43,330	\$ 2,357	\$ 40,973

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

					<i>(in thousands)</i>
		Cost		Accumulated Amortization	Net Book Value
Land	\$	16,338	\$	-	\$ 16,338
Building		105		21	84
Transportation vehicles		663		134	529
Equipment		17,982		1,064	16,918
Office and computer equipment		465		161	304
Balance December 31, 2007	\$	35,553	\$	1,380	\$ 34,173

6. WAGES, BENEFITS AND STOCK-BASED COMPENSATION

(in thousands)

The following table details the amounts included:

		March 31 2008		March 31 2007
Salaries, wages and benefits	\$	2,029	\$	430
Stock-based compensation		75		224
Total	\$	2,104	\$	654

7. LONG-TERM DEBT

Long-term debt consists of the following:

		2008		2007
Series D units - debt portion	\$	224,521	\$	212,761
Subordinated convertible debentures - debt portion		35,676		35,189
		260,197		247,950
Less: Portion due within one year		(224,521)		(212,761)
Total	\$	35,676	\$	35,189

In 2007, the Company completed an offering (the "Offering"), through a syndicate of underwriters, pursuant to which the following securities were issued:

Series D units

The Company has issued in total 237,000 Series D units ("Units") for an aggregate principal amount of \$237 million. The Units, which were issued pursuant to a Note Indenture dated June 28, 2007 (the "Note Indenture"), consist of an unsecured note bearing interest at 10% per annum in the principal amount of \$1,000 (the "Note") and 100 common share purchase warrants (the "Warrants"). Each Warrant is exercisable to purchase one common share of

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

the Company at a price of \$15 per share until June 28, 2017. The Notes and Warrants detached upon their listing and are traded separately on the Toronto Stock Exchange.

The Company has allocated the net proceeds, after deducting \$10.1 million in transaction costs, of the Series D units as follows: \$191.7 million to the Notes based on the fair value of a similar debt instrument without associated common share purchase warrants; and \$35.2 million to the Warrants using the residual value method. The value of the Notes is being accreted to its face value over the expected term of the debt using the effective interest method. During the period ending March 31, 2008 accretion costs of \$11.8 million were added to the Series D units debt amount balance.

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, starting January 1, 2008. The Company has the right to redeem the Notes in whole or in part at any time and from time to time from June 28, 2007 to June 27, 2017 at a price ranging from 120% to 100% (decreasing based on the length of time the Notes are outstanding) of the principal amount of the Notes to be redeemed.

The Note Indenture provides that in the event of a change of control of the Company or in the ownership of the Project, as defined therein, the Company may or must offer, depending on the circumstances, to redeem the Notes.

In addition, in terms of the Note Indenture, if the Company has not obtained all the necessary permits for construction, development and conducting mining operations before June 28, 2008, it must offer to redeem the Notes then outstanding at 100% of the principal amount of \$237 million plus accrued and unpaid interest. While the principal permit was received on October 31, 2007, the Company continues to classify the Notes as a current liability in recognition of the provisions of the Note Indenture as discussed above. (See note 19)

The Notes rank senior to the Debentures described below. If the Company secures any subsequent indebtedness, the Notes are required to be secured in the same manner (See note 19). The Note Indenture subjects the Company to comply with certain reporting and other covenants that include limits on indebtedness and distributions subject to certain conditions.

Subordinated Convertible Debentures

In 2007, the Company issued 55,000 Convertible Subordinated Debentures (“Debentures”) for an aggregate principal amount of \$55 million. The Debentures, which were issued pursuant to a Debenture Indenture dated June 28, 2007 (the “Debenture Indenture”), each have a principal amount of \$1,000, bear interest at a rate of 5% per annum and are convertible by the holders into common shares of the Company at any time up to June 28, 2014 at a conversion price of \$9.35 per share. The Debentures do not allow forced conversion by the Company prior to January 1, 2012 but after that date the Company may redeem the Debentures if the market price of the Company’s shares is at least 125% of the conversion

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

price. The Debentures are classified as compound financial instruments for accounting purposes because of the holder conversion option.

Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year, starting January 1, 2008.

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 a conversion prices ranging from \$7.48 at inception to \$9.35, based on a time formula specified in the Debenture Indenture.

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

The Company has allocated \$34.2million of the \$52.6 million net proceeds, after deducting \$2.4 million in transaction costs, as a liability based on the fair value of a similar debt instrument without an associated conversion option. The fair value of the conversion option of the Debentures on June 28, 2007 was estimated using the residual value method at approximately \$18.4 million.

The debt component of the Debentures is being accreted over the expected term to maturity using the effective interest method. During the period, accretion costs of \$0.5 million were added to the convertible debt balance.

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

The Company has allocated the costs associated with the financing against the component parts of the instruments issued, being the Notes, Warrants, Debentures and the fair value of the conversion option of the Debentures.

As a result of the Notes and Debentures debt financings, the Company has incurred interest charges of \$6.7 million and recognized \$12.3 million in accretion costs for the period. These amounts were charged between the Statement of Operations and mineral properties in accordance with the Company's accounting policy as follows:

	<i>(in millions)</i>		
	Accretion	Interest	Total
Statement of Operations	6.1	3.3	9.4
Mineral Properties	6.2	3.4	9.6
	<u>12.3</u>	<u>6.7</u>	<u>19.0</u>

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

8. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value.

Issued and Outstanding

	Number of Shares	Amount
		<i>(in thousands)</i>
Balance, December 31, 2007	36,950	213,278
Tax effect for flow-through shares	-	(5,209)
Balance, March 31, 2008	36,950	\$ 208,069

In the first quarter of 2008, the Company renounced \$20.0 million in expenditures related to flow-through equity raisings completed in 2007 which resulted in the an increase in future income tax liabilities of \$5.2 million and a corresponding reduction to share capital.

9. SHARE PURCHASE WARRANTS

The following share purchase warrants were issued and outstanding:

	Number of Warrants	Amount
	<i>(in thousands)</i>	<i>(in thousands)</i>
Balance, December 31, 2007	27,867	41,122
Warrants expired	(4,167)	(5,959)
Balance, March 31, 2008	23,700	\$ 35,163

Each whole warrant is exercisable to purchase one common share at a price of \$15.00 per share until June 28, 2017. The warrants have been listed for trading on the Toronto Stock Exchange (see note 7 for fair value and assumptions).

On February 28, 2008, 4,167,000 warrants with strike price of \$12.00 expired unexercised. As a result, the fair value ascribed of \$6.0 million has been transferred to contributed surplus.

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

10. STOCK-BASED COMPENSATION

As at March 31, 2008, the stock options held by directors, consultants and employees are as follows:

	Options Outstanding <i>(in thousands)</i>		Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Balance, December 31, 2006	2,253	\$	7.43	3.6
Granted	676		6.28	4.6
Exercised	(50)		6.69	-
Expired/Terminated	(467)		7.79	-
Balance, December 31, 2007	2,412	\$	7.06	3.1
Granted	65		5.08	4.8
Expired/Terminated	(16)		6.84	4.3
Balance, March 31, 2008	2,461		7.00	2.8

Option Strike Price	Exercisable		Outstanding	
	Options <i>(in thousands)</i>	Weighted Average Remaining Life (Years)	Options <i>(in thousands)</i>	Weighted Average Remaining Life (Years)
\$4.60	600	1.5	600	1.5
\$4.61 to \$5.99	45	3.8	367	4.5
\$6.00 to \$6.99	528	2.8	685	3.1
\$7.00 to \$7.99	225	2.3	225	2.3
\$8.00 to \$11.00	584	3.1	584	3.1
	1,982	2.4	2,461	2.8

The compensation cost recorded for the period ended March 31, 2008 in respect of options granted in prior periods that have been expensed to the Statement of Operations was \$75 (2007 - \$524) and capitalized to mineral properties was \$240 (2007 - \$50).

The fair value was calculated with the following assumptions: weighted average risk free interest rate of 3.96%; volatility factor of the expected market price of the Company's common stock of 43.2%; and a weighted average expected life of the options of 3.5 years. There were no stock options grants in the comparative 2007 period.

The resulting weighted average cost per option granted was \$1.84. The estimated fair value of the options is expensed over the vesting period of 12 months.

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 THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

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

11. CONTRIBUTED SURPLUS

(in thousands)

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

	Stock Options	Warrants	Total
Balance, December 31, 2007	\$ 5,647	-	5,647
Additions:			
Charged to the Operations Statement	75	-	75
Capitalized to mineral properties	240	-	240
Warrant expiry	-	5,959	5,959
Balance, March 31, 2008	5,962	5,959	11,921

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

12. SUPPLEMENTARY CASH FLOW INFORMATION

(in thousands)

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

	2008	2007
Investing Activities		
Mineral property expenditures included in amounts receivable and accounts payable	\$ 712	1,782
Non-cash accretion costs included in mineral property expenditures	(9,486)	-
Property and equipment expenditures included in amounts receivable and accounts payable	(3,256)	(300)

- b) Net change in non-cash working capital:

	2008	2007
Net non-cash working capital changes		
Amounts receivable and interest receivable	1,031	\$ (128)
Prepaid expenses	28	(408)
Accounts payable and accrued liabilities	(465)	(849)
	<u>594</u>	<u>(1,385)</u>

13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, investments, amounts receivable, a reclamation deposit, accounts payable and accrued liabilities and debt. Cash and cash equivalents are recorded at their fair value and the carrying values of amounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of these instruments. The investments are recorded at their fair value (See Note 3) and the carrying value of the reclamation deposit is at fair value. The debt is a financial instrument, recorded at amortized cost, and the fair market value of the Note debt is approximately \$229.9 million while the Debenture fair market value is approximately \$55 million which includes the value of the conversion option. The debt fair market values were derived from their publicly traded prices.

14. SEGMENTED INFORMATION

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

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

15. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of the Project which will not commence operations until late in 2009 or early in 2010. The Company strives to maintain flexibility in our capital structure to optimize the cost of capital at an acceptable risk level.

The Company manages its capital, with capital including shareholders' equity plus debt less cash and cash equivalents and investments balances.

The Company does not have a specific debt to debt plus equity ratio, however, following the two debt issuances in mid 2007, the Company believes that further adjustments to its capital will be realized from the issuance of new equity or flow-through equity financings. The Company also announced a business combination (see Note 18) as an additional means to securing the additional capital required to complete the New Afton development funding requirements. Dividend payments are restricted under the current terms of the Company's note indenture.

The Company prepares annual expenditure budgets and updates these as required throughout the year which it uses as the primary tool for assessing its capital requirements. These budgets or revisions are approved by the Board of Directors. The capital requirements of the Project are evaluated on a longer horizon by looking at the expenditure requirements through to the commencement of full production of the future mining operation.

Under the current investment policy, which was amended in September 2008, the Company must invest the majority of its funds in short-term debt issued by Canada or the Provinces of British Columbia, Alberta or Ontario. The remainder must be held in Bankers' Acceptances, Bank Bearer Deposit Notes or Bank Term Deposits, issued by Authorized Canadian Banks, or in cash on deposit with any of these same banks subject to certain dollar limit tests.

Primarily, as a result of the permit test in the Note Indenture, the Company has included a going concern disclosure in these financial statements. At a meeting scheduled to take place on May 9, 2008, the Noteholders will consider and, if deemed advisable, approve a special resolution which will authorize certain amendments to the Note Indenture, including replacing the covenant requiring the Company to obtain all permits for the Project by June 28, 2008 with a requirement that the Company diligently work towards obtaining and, once obtained, maintain in good standing, all permits required for the operation of its properties. For it to be effective, the special resolution must be approved by Noteholders holding not less than two thirds in principal amount of Notes outstanding. If approved, the special resolution is conditional upon the business combination described below being completed

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

and if it is not so completed the special resolution and the proposed amendments to the Note Indenture will not be effective.

16. FINANCIAL RISK FACTORS

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, and liquidity risk.

(a) Currency risk

The Company presently has minimal exposure to foreign currencies as the Company operates solely in Canada and has not yet commenced commercial production at the Project where revenues will be denominated in US dollars. The Company raises its capital in Canadian dollars and the significant majority of the capital expenditures to build the Project will be denominated in Canadian dollars.

(b) Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is required to invest significant amounts of funds required for the development of the Project. The Company employs a restrictive investment policy (see Note 15) as detailed in the management of capital risk which was further restricted following the collapse of the non-bank sponsored ABCP market (see Note 3) in Canada despite these investments having had the highest investment grade available in Canada at the time. The new provisional credit ratings, for the restructured investments that are being rated, are detailed in Note 3.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure (see Note 15) and issuing debt with long dated terms of 7 and 10 years. However, the Note debt (face value of \$237 million) has on June 28, 2008, a permit test requiring the Company to offer to redeem the Notes if the test has not been met. The Company, having already received in October 2007 the primary permit enabling the project to be developed, is currently applying for the remaining permits on a schedule dictated by the availability of the engineering and scientific data to have the additional permits required to commence operations at the completion of the construction phase.

In addition, on April 25, 2008 the Company also mailed to the Noteholders a proposal to amend a number of the terms of the Note indenture including the removal of the permit test. The Noteholders will vote on the proposal on May 9, 2008. (See Note 19)

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

As noted in Note 1, the Company has included a Going Concern reference related to the above referenced permit test and the Company has investments involved in the ABCP restructuring in Canada (see Note 3).

(d) Interest rate risk

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

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

If the Company decides to hold its investments in ABCP (see Note 3) then it would be exposed to interest rate changes on those ABCP investments that are expected to pay interest. Interest is proposed to be set against the Canadian bankers' acceptance rate which may fluctuate. A 1% change in the bankers' acceptance rate would result in an annual difference of approximately \$1.6 million in the interest income to the Company.

17. COMMITMENTS AND CONTINGENT LIABILITIES (NOTE IN THOUSANDS OF CANADIAN DOLLARS UNLESS SPECIFIED)

Afton Project Commitments

- a) The Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment necessary to commence development of the Project. At March 31, 2008 these commitments totaled \$20.5 million and are expected to fall due over the next 12 months.
- b) 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 million in cash or common shares of the Company.
- c) On October 31, 2007 the Company received the main mining permit for the New Afton project under the Mines Act (B.C.) which provides the approval to construct, operate and reclaim the New Afton Mine. The permit obligates the Company to provide a total security deposit in the amount of \$9.5 million over a five year period. The first deposit of \$3.5 million was paid within 30 days of the receipt of the permit and the Company is obliged to fund an amount of \$1.5 million per year over the next four years.
- d) On March 20, 2008 the Company signed a Participation Agreement (the "Participation Agreement") with the Kamloops Division of the Secwepemc Nation ("the Bands") and

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

which provides the Bands with certain economic and social benefits and confirms the Bands' support for the New Afton Project. The Participation Agreement stipulates that the Company will pay to a socio-economic trust to be created for the benefit of Band members annual payments as follows:

- 1) 2009 - \$250,000;
- 2) for years after 2009 in which commercial production has commenced but the capital cost of developing and constructing the New Afton Project has not been repaid, an amount equal to the greater of a 0.5% Net Smelter Return ("NSR") or: (i) \$250,000 in respect of realized copper prices less than \$2.50 (US) a pound; or (ii) \$500,000 in respect of realized copper prices greater than \$2.50 (US) a pound;
- 3) for years after 2009 in which commercial production has commenced and the capital cost of developing and constructing the New Afton Project has been repaid, an amount equal to the greater of \$1,000,000 or (i) a 1.0% NSR in respect of realized copper prices less than \$2.50 (US) a pound; or (ii) a 1.5% NSR in respect of realized copper prices greater than \$2.50 (US) a pound; or (iii) a 2.0% NSR in respect of realized copper prices greater than \$3.00 (US) a pound.

The Participation Agreement also grants to the Bands a right of first refusal to purchase that portion of the Afton Surface Rights lying to the north of the Trans Canada Highway and south of Kamloops Lake in the event the Company decides to sell these lands in the future.

Other Royalties and Property Commitments

- e) 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.
- f) On October 25, 2007, the Company completed the acquisition of the Teck surface rights including the payment of \$16 million plus applicable transfer taxes. As part of the transaction, Teck has been granted a 2% Net Smelter Return over the Project, which the Company has the option to repurchase at any time for \$12 million.
- g) 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 \$50,000 to one optionor and \$43,020 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.

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

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

h) The Company is committed to operating leases in the aggregate of \$381,528. The future minimum lease payments as at March 31, 2008 are as follows:

	<i>(in thousands)</i>	
2008	\$	196
2009		126
2010		59
	<u>\$</u>	<u>381</u>

18. BUSINESS COMBINATION

On March 31, 2008 the Company signed a letter agreement (the "Letter Agreement") with Metallica Resources Inc. ("Metallica") and Peak Gold Ltd. ("Peak") to complete a business combination ("the Transaction") whereby the Company would be the surviving legal entity.

The Transaction is subject to the completion of confirmatory due diligence, definitive documentation, regulatory approvals and obtaining a minimum two-thirds shareholder approval at special meetings of the shareholders of each of Metallica and Peak and majority approval at a special meeting of the shareholders of the Company. The obligations of Metallica and Peak are also conditional upon the Company obtaining waivers or amendments to certain terms and conditions of its \$237 million unsecured series D notes. (See Note 19)

Under the terms of the Transaction, shareholders of Metallica will receive 0.9 common share of the Company for each common share of Metallica held (the "Metallica Resources Exchange Ratio"). Each outstanding Metallica convertible security will entitle the holder thereof to receive a convertible security of the Company which will, upon conversion, be converted into that number of common shares of the Company based on the Metallica Resources Exchange Ratio.

Shareholders of Peak will receive 0.1 common share of the Company for each common share of Peak held (the "Peak Gold Exchange Ratio"). Each outstanding Peak convertible security will entitle the holder thereof to receive a convertible security of the Company which will, upon conversion, be converted into that number of common shares of the Company based on the Peak Gold Exchange Ratio.

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

In the event that a party enters into an agreement to effect an acquisition proposal that is different from the Transaction, then such party is obligated to pay to the other parties an aggregate amount equal to \$22 million in the event Metallica is the terminating party, \$8 million in the event the Company is the terminating party, and \$18 million in the event Peak Gold is the terminating party as a termination payment. Each party has also been provided with certain other rights customary for a transaction of this nature, and the Company has the right to match competing offers made to Metallica or Peak.

The respective boards of directors have unanimously approved the Transaction.

The Transaction is expected to close in June 2008.

19. SUBSEQUENT EVENT

On April 25, 2008 the Company announced that it had mailed to the holders of its 10% Subordinated Notes an information circular in connection with the request for a Meeting of Noteholders on May 9, 2008 to approve certain amendments to the current Note Indenture dated as of June 27, 2007. The amendments are required to enable the Company to proceed with the proposed business combination announced on March 31, 2008. (See Note 18) The letter agreement of March 31, 2008 includes a condition precedent in favour of Metallica and Peak, pursuant to which Metallica and Peak will not be obligated to complete the Transaction if the terms of the Notes have not been amended to the satisfaction of Metallica and Peak. The directors of Metallica and Peak have approved the proposed amendments.

The proposed amendments include:

- Removing the permit test and replacing it with a more general covenant that the Company shall work diligently toward obtaining and, once obtained, maintaining in good standing, all permits required for the operation of its properties;
- Providing for security on the New Afton Project in favour of the Noteholders;
- Creating a mechanism for cash flow movement between the Company and the new subsidiaries including mandatory offers to redeem a portion of the Notes annually;
- Renaming the Notes as "Senior Secured Notes";
- Providing for the issue pro rata to the Noteholders of 4,150,000 warrants to purchase common shares of the Company prior to June 28, 2017 for the exercise price of \$15.00 per common share, subject to regulatory approval; and
- Certain other technical and housekeeping changes.

The changes are described in detail in the Circular mailed to Noteholders.

New Gold Inc.
(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

The amendments will be made pursuant to an Extraordinary Resolution of the Noteholders which requires a quorum of Noteholders representing more than 51% of the principal amounts of the Notes being represented at the Meeting and not less than 66 2/3% so represented voting in favour. The Company may seek approval by written resolution of holders of not less than 66 2/3% of the principal amount of the Notes. If written approval is obtained in advance of the meeting, the Company will cancel the Noteholders meeting. If approved, the Amended and Restated Indenture will become effective on the date of the closing of the Transaction. The Extraordinary Resolution includes a waiver of provisions of the indenture replaced in the Amended and Restated Indenture. The waiver will expire on the earlier of (A) September 30, 2008 or (B) seven days after the date on which shareholders of any of the companies do not approve the Transaction at any meeting called to approve the combination. Noteholders may, thereafter, exercise all of their rights and remedies under the original Note Indenture and the Amended and Restated Indenture will have no effect.

On May 8, 2008 the Company announced that the Extraordinary Resolution amending certain provisions of the Note Indenture dated as of June 27, 2007, has been approved by written resolution of holders of more than 66 2/3% of the principal amount of the Notes. Accordingly, the meeting of Noteholders scheduled for May 9, 2008 was cancelled. The Extraordinary Resolution will be effective only upon completion of the Transaction (see Note 18) and if the Transaction does not proceed the Extraordinary Resolution will be of no effect.

New Gold Inc.
(A Development Stage Company)

SCHEDULE OF MINERAL PROPERTIES

For the periods ended March 31, 2008 and December 31, 2007

(Unaudited and in thousands of Canadian Dollars)

			2008		2007	
ACQUISITION COSTS						
Kamloops Afton			\$	18,841	\$	18,841
Kamloops Ajax				49		49
			\$	18,890	\$	18,890
DEFERRED EXPLORATION COSTS						
		Afton		Ajax and Optioned Properties		
Balance, beginning	\$	96,038	\$	1,996	\$	98,034
Afton mine development costs						
Consultants and subcontractors		9,368		-		9,368
Other		9,654		-		9,654
		19,022		-		19,022
Feasibility study		-		-		-
Capitalized interest, accretion and future income taxes		11,724		-		11,724
Surface Exploration Costs						
Option payment		-		15		15
Drilling and assaying		1,033		83		1,116
Overhead and general		152		105		257
Wages and benefits		202		4		206
		1,387		207		1,594
Balance, end	\$	128,171	\$	2,203	\$	130,374
Mineral Properties					\$	149,264
					\$	116,924

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION
AT MARCH 31, 2008

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, 2008 (the "Statements") and compares the financial results for the three month periods ended March 31, 2008 with that of the comparative periods in 2007. The reader is encouraged to review the Statements in conjunction with this document and the audited financial statements and annual MD&A of the Company for the year ended December 31, 2007. This report is dated May 12, 2008 and the Company's public filings, including its most recent Annual Information Form, can be viewed on the SEDAR website (www.sedar.com).

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

BUSINESS OVERVIEW

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 (the "Project") located approximately 10 kilometres west of Kamloops, British Columbia.

The Company signed a letter agreement dated March 31, 2008 with Metallica Resources Inc. ("Metallica") and Peak Gold Ltd. ("Peak") to complete a business combination ("the Transaction") whereby New Gold would be the surviving legal company. The Transaction is subject to the completion of confirmatory due diligence, definitive documentation, regulatory approvals and obtaining a minimum two-thirds shareholder approval at special meetings of the shareholders of each of Metallica and Peak and majority approval at a general meeting of the shareholders of New Gold. The obligations of Metallica and Peak are also conditional upon New Gold obtaining waivers or amendments to certain terms and conditions of its Note Indenture dated June 27, 2007 (the "Note Indenture") including:

- Removing the permit test and replacing it with a more general covenant that the Company shall work diligently toward obtaining and, once obtained, maintaining in good standing, all permits required for the operation of its properties;
- Providing for security on the New Afton Project in favour of the Noteholders;
- Creating a mechanism for cash flow movement between the Company and the new subsidiaries including mandatory offers to redeem a portion of the Notes annually;
- Renaming the Notes as "Senior Secured Notes";

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

- Providing for the issue pro rata to the Noteholders of 4,150,000 warrants to purchase common shares of the Company prior to June 28, 2017 for the exercise price of \$15.00 per common share, subject to regulatory approval; and
- Certain other technical and housekeeping changes.

The changes are described in detail in the Circular mailed to Noteholders on April 25, 2008 in connection with the request for a meeting of Noteholders called for May 9, 2008 (the "Meeting") to consider the Extraordinary Resolution. To be effective, the Extraordinary Resolution must be approved by the holders of not less than 66 2/3% of the principal amount outstanding either: (a) present or represented by proxy at the Meeting; or (b) by written resolution. If written approval is obtained in advance of the meeting, the Meeting will be cancelled. If approved, the Amended and Restated Indenture will become effective on the date the Transaction closes. If the Extraordinary Resolution is not approved, the Amended and Restated Indenture will have no effect.

Subsequent to the quarter end on May 8, 2008, the Company announced that the Extraordinary Resolution amending certain provisions of the Note Indenture dated as of June 27, 2007, has been approved by written resolution of holders of more than 66 2/3% of the principal amount of the Notes. Accordingly, the meeting of Noteholders scheduled for May 9, 2008 was cancelled. The Extraordinary Resolution will be effective only upon completion of the Transaction (see Note 18) and if the Transaction does not proceed the Extraordinary Resolution will be of no effect.

The Transaction contemplates that shareholders of Metallica will receive 0.9 common share of New Gold for each common share of Metallica held (the "Metallica Exchange Ratio"). Each outstanding Metallica convertible security will entitle the holder thereof to receive a convertible security of New Gold which will, upon conversion, be converted into that number of common shares of New Gold based on the Metallica Exchange Ratio. Shareholders of Peak will receive 0.1 common share of New Gold for each common share of Peak held (the "Peak Exchange Ratio"). Each outstanding Peak convertible security will entitle the holder thereof to receive a convertible security of New Gold which will, upon conversion, be converted into that number of common shares of New Gold based on the Peak Exchange Ratio.

In the event that a party enters into an agreement to effect an acquisition proposal that is different from the Transaction, then such party is obligated to pay to the other parties an aggregate amount equal to \$22 million in the event Metallica is the terminating party, \$8 million in the event New Gold is the terminating party, and \$18 million in the event Peak is the terminating party as a termination payment. Each party has also been provided with certain other rights customary for a transaction of this nature, and New Gold has the right to match competing offers made to Metallica or Peak.

The respective boards of directors have unanimously approved the Transaction and the Transaction is expected to close in June 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

Ajax Project

On March 25, 2008 the Company announced the signing of an agreement between Abacus Mining and Exploration Corp. ("Abacus") intended to ensure that any economic mineralization within and surrounding the past producing Ajax pits, is explored, delineated and developed in the most effective manner. As a result the agreement grants Abacus an option to explore for, and potentially develop, mineralization in the area surrounding Abacus' Ajax mineral claims. Under this agreement Abacus must spend \$2.5 million over 2 years over a portion of the Company's mineral claims surrounding the Ajax pits, and complete a preliminary economic study within 6 months following the 2 year period. If economic mineralization is established in the area between the pits, it will be developed as a joint venture between the two companies. In the event of an open pit operation the interests will be 60:40 in favour of Abacus who will be the operator. In the event of an underground operation the interests will be 60:40 in favour of New Gold who will be the operator.

New Afton Copper-Gold Project

During 2008, the Company continued the underground development of the Project. The underground development is now proceeding on five development faces including commencement of the surface portal which began in early 2008. The Company completed 824 metres of underground development during the first quarter of 2008 and is currently averaging 90 to 100 metres per week.

Surface activities included the development of new surface roads and preparation of the construction office site in advance of the mill construction expected to commence late in the third quarter following site preparation and foundation completion for the mill in the second quarter of 2008.

The Company also commissioned, after the quarter end, the pit de-watering system and is now dewatering the New Afton pit into the previously mined Pothook pit where it will be stored and later used when milling commences.

The Company also continued its permitting processes for the remaining permits. In April 2008, the remaining key permits, focused on water use and tailings impoundment, were submitted with the authorities.

The procurement procedures for the mill site continued with the tendering and finalization of the mill structure, the vertimill and the floatation cells while the detailed engineering attained the 30% level. In addition, during the quarter, the Company announced that after a comprehensive review overseen by AMEC and including input from Cementation, Ledcor and AMC Consultants (Pty) Ltd., the Company's mining consultant, the construction costs for the Project are now projected to total \$592 million (which includes a contingency of \$48.6 million), 19.6% over the projected costs contained in the Feasibility Study. The primary reasons for the increase are attributed to higher labour and material costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

The Company also announced on March 24, 2008, the signing of a Participation Agreement with the Kamloops Division of the Secwepemc Nation, comprising the Kamloops Indian Band and the Skeetchestn Indian Band. The purpose of the Participation Agreement is to establish a co-operative and mutually beneficial relationship between the First Nations and the Company with respect to the Project and provide a long-term framework for communication, collaboration and cooperation. The Agreement will provide the Kamloops Division with economic opportunities and social and financial benefits, including employment, education, training and business opportunities. The Agreement secures the consent of the Kamloops Division to the Project and its support through all project phases.

During the quarter it was determined that the previously approach to exploration, which had been focused in and around the New Afton resource both at surface and at depth, would be curtailed on the basis that the mineralisation identified in this programme would not be mined in the first 5 years of the mine life. The Company will instead initially focus on a full evaluation of the previous drilling program results and re-direct the future program to an evaluation of the regional potential of the Company's mineral claim holdings including a geophysical survey. As a result, the extent of drilling expected in the near term will be significantly reduced.

SELECTED QUARTERLY INFORMATION

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

Comparative Periods

<i>\$Cdn</i>	2008 1 st Quarter	2007 4 th Quarter	2007 3 rd Quarter	2007 2 nd Quarter
Statements of Operation and Deficit				
Loss	\$ 9,221	\$ 42,576	\$ 16,448	\$ 1,962
Loss per share	0.25	1.15	0.45	0.08
Balance Sheets				
Working Capital	(76,592)	(29,600)	183,513	228,066
Total Assets	475,447	468,835	502,636	489,143
Statements of Cash Flows				
Payments for mineral properties exploration costs	20,103	20,406	5,957	7,046

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

<i>\$Cdn</i>	2007 1 st Quarter	2006 4 th Quarter	2006 3 rd Quarter	2006 2 nd Quarter
Statements of Operation and Deficit				
Loss	\$ 462	\$ 1,375	\$ 750	\$ 60
Loss per share	0.02	0.06	0.03	0.00
Balance Sheets				
Working Capital	56,783	65,471	71,442	76,460
Total Assets	133,238	132,656	131,040	130,531
Statements of Cash Flows				
Payments for mineral claim interest and exploration costs	5,867	5,449	4,544	5,442

During the first quarter of 2008, the Company invested approximately \$20.1 million on its mineral properties as compared to \$5.9 million in the comparative quarter in 2007. During the current quarter, expenditures on the New Afton project included \$18.0 million on underground development and infrastructure and \$1.3 million on surface exploration in and around the New Afton project and \$0.8 million on the Company's Ajax claims. In the comparative quarter, the Company spent \$3.7 million on development activities, principally related to the construction of a new pit road, \$1.8 million on the feasibility study and \$0.3 million on surface exploration programs in and around the current resource.

In addition, in 2008, the Company spent \$11.0 million on property, plant and equipment in the first quarter as compared to \$1.3 million in the comparative quarter in 2007. The significant increase relates to the acquisition of the initial mine development fleet plus sundry capital assets required for the development of the New Afton Mine. In 2007, the acquisitions related to the acquisition of the underground infrastructure equipment acquired from the then departing underground mining contractor.

For the first quarter of 2008, the Company incurred a loss of \$9.2 million or \$0.25 per share as compared to a loss of \$0.4 million or \$0.02 per share in the prior comparative three month period. The increase in the loss is primarily related to the expensing of \$9.4 million related to interest and accretion charges which do not qualify for capitalization to the Project costs. The Company allocates the interest and accretion charges arising as a result of the Note and Debenture debt financings between mineral properties and the Statement of Operations based upon the weighted average effective interest rate of the borrowings times the average capitalized value of the Project during the period. The accretion charge on a quarterly basis will reduce in future periods once the obligation of the Company to offer to redeem the Note prior to maturity is met; therefore the Company has been accreting the debt over a 12 month period to its face value. The Company expects to be changing the accretion period to the expected life of the debt in June 2008 once the remaining permits are received or the Note vote on the waiver is approved by the Noteholders. In addition, as the carrying value of the New Afton property

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

increases the proportionate amount of interest and accretion charged to mineral properties as compared to operations will increase. In addition, the Company incurred severance charges in the amount of \$1.3 million related to the departure of the then CEO during the quarter.

The loss was partially offset by an increase of \$1.0 million in higher interest income from the net proceeds from the June and July 2007 financings excluding those investments tied up in the ABCP restructuring for which no interest has been realized, or accrued for, pending clarification from the restructuring committee.

The Company also realized a future tax recovery of \$1.7 million primarily as a result of the recognition of \$1.5 million in non-capital losses incurred during the quarter.

Previous Eight Quarters

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

- Financings - On June 28, 2007 and subsequent agent's over allotment option on July 27, 2007, the Company completed a short form prospectus filing generating gross cash proceeds of \$392.3 million (net proceeds of \$374.5 million) (see Liquidity and Capital Resources). In February 2006 the Company raised \$75 million from the issuance of units comprised of one share with a half warrant. In addition, the Company raised approximately \$3 million in flow through financing during the fourth quarter of 2005.

As a result, total assets and working capital, until the fourth quarter of 2007, has increased significantly since the second quarter of 2007. Once the Company receives its remaining permits, working capital will improve further as the Note debt will be re-classified from a current to long-term liability.

- The Company commenced a Feasibility Study in December 2005 (the results of which were published in the second quarter 2007) at a total cost of \$9.3 million over the preceding six quarters.
- The Company has recognized an impairment charge against its ABCP investments in the third quarter of 2007 in the amount of \$17.2 million and an additional \$32.8 million in the fourth quarter of 2007, as management's best estimate of the likely loss that may be realized on its holdings on ABCP on the resolution of the ABCP restructuring.
- The Company also expensed \$9.4 million in the first quarter of 2008, \$11.4 million in the third quarter of 2007 and \$10.7 million in the fourth quarter of 2007 related to interest and accretion charges based on its interest capitalization policy.
- The Company has recorded a tax recovery of \$10.6 million at September 30, 2007 related to available loss carry forward amounts and share and debt issue costs as discussed in the 2007 third quarter comparative.

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

LIQUIDITY & CAPITAL RESOURCES

As at March 31, 2008, the Company had negative working capital of \$76.6 million versus negative working capital of \$29.6 million as at December 31, 2007. The primary reason for the negative working capital relates to the continued accounting for the Notes as current debt and categorizing the illiquid ABCP investments as long-term assets. Once the Company meets or secures a waiver on its permit test on the debt, the Company expects to return to a positive working capital position. The negative working capital increase has occurred because of the combined effective of an additional \$11.8 million being accreted to the value of the Notes plus the reduction in the Company's cash balances which were primarily used for funding the Project development, which totaled \$31.1 million in the quarter.

The Company's ability to continue as a going concern is dependent upon obtaining the remaining permits for its New Afton project or successfully acquiring a waiver for this test as has been applied and conditionally approved by the Noteholders, resolving the liquidity situation surrounding its ABCP investments or obtaining the necessary financing to fund its debt obligations over the next year which may be realized through the proposed three company merger.

The Company's continuing operations are also dependent on the raising of additional financing to finance the remainder of the Project construction. The amount and timing of these raisings may be materially impacted by the resolution of the Company's investments in ABCP. There can be no assurance it will be able to raise sufficient funds as and when such funds are required. There can furthermore be no assurance that the Company will obtain the necessary permits or resolve its ABCP issues or obtain the necessary funding to continue with its Project construction.

NEW ACCOUNTING POLICIES

During 2008 the Company adopted the following accounting policies:

Capital disclosures and financial instruments - disclosures and presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments - Disclosures", and Handbook Section 3863, "Financial Instruments - Presentation". These standards are effective for interim and annual financial statements for the Company's reporting period beginning on December 1, 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

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

COMMITMENTS AND CONTINGENT LIABILITIES

Afton Project Commitments

- a) The Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment necessary to commence development of the Project. At March 31, 2008, these commitments totaled \$20.5 million and are expected to fall due over the next 12 months.
- b) 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 million in cash or common shares of the Company.
- c) On October 31, 2007, the Company received the main mining permit for the New Afton project under the Mines Act (B.C.) which provides the approval to construct, operate and reclaim the New Afton Mine. The permit obligates the Company to provide a total security deposit in the amount of \$9.5 million over a five year period. The first deposit of \$3.5 million was paid within 30 days of the receipt of the permit and the Company is obliged to fund an amount of \$1.5 million per year over the next four years.
- a. On March 20, 2008, the Company signed a Participation Agreement (the "Participation Agreement") with the Kamloops Division of the Secwepemc Nation ("the Bands") and which provides the Bands with certain economic and social benefits and confirms the Bands' support for the New Afton Project. The Participation Agreement stipulates that the Company will pay to a socio-economic trust, to be created for the benefit of Band members, annual payments as follows:
 - 1) 2009 - \$250,000;
 - 2) for years after 2009 in which commercial production has commenced but the capital cost of developing and constructing the New Afton Project has not been repaid, an amount equal to the greater of a 0.5% Net Smelter Return ("NSR") or: (i) \$250,000 in respect of realized copper prices less than \$2.50 (US) a pound; or (ii) \$500,000 in respect of realized copper prices greater than \$2.50 (US) a pound;
 - 3) for years after 2009 in which commercial production has commenced and the capital cost of developing and constructing the New Afton Project has been repaid, an amount equal to the greater of \$1,000,000 or (i) a 1.0% NSR in respect of realized

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

copper prices less than \$2.50 (US) a pound; or (ii) a 1.5% NSR in respect of realized copper prices greater than \$2.50 (US) a pound; or (iii) a 2.0% NSR in respect of realized copper prices greater than \$3.00 (US) a pound.

The Participation Agreement also grants to the Bands a right of first refusal to purchase that portion of the Afton Surface Rights lying to the north of the Trans Canada Highway and south of Kamloops Lake in the event the Company decides to sell these lands in the future.

Other Royalties and Property Commitments

- e) 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.
- f) On October 25, 2007, the Company completed the acquisition of the Teck surface rights including the payment of \$16 million plus applicable transfer taxes. As part of the transaction, Teck has been granted a 2% Net Smelter Return over the Project, which the Company has the option to repurchase at any time for \$12 million.
- g) 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 \$50,000 to one optionor and \$43,020 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

- h) The Company is committed to operating leases in the aggregate of \$381,528. The future minimum lease payments as at March 31, 2008 are as follows:

	<i>(in thousands)</i>	
2008	\$	196
2009		126
2010		59
	\$	381

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

OFF-BALANCE SHEET ARRANGEMENTS AND RELATED PARTY TRANSACTIONS

The Company does not have any off-balance sheet arrangements or any material related party transactions.

OUTLOOK

In addition to completing the proposed three way merger which is expected to be voted on the shareholders of the two other companies in June 2008, the advancement of the Project remains the Company's primary focus. Management's operating efforts in this regard over the near-term will be primarily focused on:

Advancement of the development of the underground which is the critical path item on the project timeline;

Completion of detailed engineering of the Project plus securing the remaining permits necessary for the Project;

Continued procurement of the mill components and structures and development mobile fleet, for the Project; and

Continued expansion of the Company's work force to meet the personnel requirements of the Project.

The Company, however, faces significant financial challenges in the short to medium term. As at March 31, 2008, the Company has negative working capital of \$76.6 million due to the classification of the Company's Notes as a current liability because of a provision in the Note Indenture which requires the Company to comply with a permit test on or before June 28, 2008 as well as categorize its presently illiquid ABCP investments as long-term assets. Should the Company fail to meet the test, or be unsuccessful in acquiring the waiver it is seeking, it is then obligated to offer to redeem the Notes at par value (\$237 million). The Company also has \$170 million with a fair value estimated at \$120 million in illiquid Asset Backed Commercial Paper ("ABCP") and while the holders of these instruments voted in favour for the restructuring on April 25, 2008 there can be no assurance that the full restructuring will be completed pending a number of court motions challenging certain aspects are heard. In addition there are no assurances that the Company will ultimately realize a meaningful amount on its ABCP.

As at May 12, 2008, the Company's outstanding capital was:

Common shares	36,970,717
Warrants	23,700,000
Common stock options	2,863,500

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

FORWARD-LOOKING STATEMENT

Certain of the statements made and information contained herein is "forward- looking information" within the meaning of the Ontario Securities Act or "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 of the United States. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the interpretation of drill results and the estimation of mineral resources and reserves, the geology, grade and continuity of mineral deposits, the possibility that future exploration, development or mining results will not be consistent with the Company's expectations, metal recoveries, accidents, equipment 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's discussion and analysis. Forward-looking information is, in addition, based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of copper and gold, that the feasibility study will confirm that a technically viable and economic operation exists, that the Company will receive required permits and access to surface rights, that the Company can access financing, appropriate equipment and sufficient labour and that the political environment within British Columbia and Canada will continue to support the development of environmentally safe mining projects so that the Company will be able to commence the development of the Afton project within the timetable to be established by the feasibility study. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

Cautionary Note Concerning Reserves and Resource Estimates

United States investors are advised that while the terms "reserves" and "resources" are recognized and required by Canadian securities laws, the United States Securities and Exchange Commission (the "SEC") does not recognize them. 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 determination is made. Mineral resources that are not mineral reserves do not have demonstrated economic viability. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Inferred resources are in addition to measured and indicated resources. Further, inferred resources have a greater amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the inferred resources will ever be upgraded to a higher category. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically.

National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") is a rule developed by the Canadian Securities Administrators which established standards for all public disclosure of scientific and technical information concerning mineral projects. Unless otherwise indicated, all reserve and resource estimates have been or will be prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum Classification System. The requirements of NI 43-101 are not the same as those of the SEC, and reserves reported by New Gold Inc. in compliance with NI 43-101 may not qualify as reserves under the SEC's standards.