



NEW GOLD INC.
(An Exploration Stage Company)

2006

THIRD QUARTER REPORT

Letter to Shareholders

(All dollar amounts in Canadian dollars unless otherwise indicated)

I am pleased to report that during the third quarter of 2006, your Company continued to make positive progress in the development of its 100%-owned New Afton Copper-Gold (Cu-Au) Project, Kamloops, British Columbia.

Two major milestones were reached during the quarter, with the announcement (on September 21) of both the new resource estimation, and the conclusions of the mining method study. The new resource estimation incorporated the results of the previous (2000 – 2003) surface diamond drilling, with the results of the more recent (2005) underground diamond drill program. This resource, which will be used as a basis to calculate a reserve, has a higher degree of confidence than the earlier resource, with approximately 70% of the tonnage in the Measured category, and the remainder in the Indicated category. The most important feature of the new resource is a confirmation of the presence of a higher grade core to the mineralization, which contains the majority of the metal within the resource, and which will be the focus for estimating a reserve. The resource is compliant with National Instrument 43-101 and was independently estimated by Scott Wilson Roscoe Postle Associates as part of the ongoing Feasibility Study. The mining method study, after examining several mining methods, concluded that the mineralization would be most effectively mined, and the economic returns of the project maximized, using predominately block caving, with some minor sub-level caving.

We continued, during the quarter, to investigate the alternatives available to finance development of the project (assuming a positive Feasibility Study). As part of this process, Barclays Capital was appointed as the lead arranger for the debt portion of any project financing. We are very happy to have the support of Barclays Capital, and believe that their desire to take on the role of Lead Arranger provides a tremendous vote of confidence in the potential of the project. Barclays has significant experience in mine financing and we are pleased to have them as part of our team.

Our goal continues to be (assuming a positive Feasibility Study) to develop the project into a new underground mine as quickly as possible. In order to achieve this, the most important requirement is to initiate the underground development work as soon as possible. During the quarter, and recognizing this need, the Company initiated the process for selecting a mining contractor to complete all mine development and early production activities. Four candidates presented detailed proposals and the Company is presently finalizing the selection of the contractor. The mining contractor will participate in the finalization of the feasibility study to ensure a smooth transition of the project into the development stage.

The Feasibility Study continues to be scheduled for completion during the fourth quarter, 2006. Following a period of review, the final version should be publicly available in the first quarter, 2007. We also continue to advance the permitting process to ensure that development can commence as expeditiously as possible (assuming a positive Feasibility Study).

During the quarter, we continued to conduct underground exploration diamond drilling, testing for extensions of mineralization at depth, below the current resource outline.

Initial results from this work were released during the second quarter, and indicated the presence of mineralization below the resource outline. Additional results, announced subsequent to quarter end (November 8), confirmed the presence of a new zone of mineralization below the resource outline. This mineralization has a strike length of approximately 670 metres(m) and a vertical extent of approximately 300m. It has been identified to a depth of 1.1 kilometre and remains open at depth. The most significant of these recent results was 1.20% Cu, and 1.07g/t Au over 148m (62m horizontal thickness). Currently, we are conducting a program of deep diamond drilling, using a high capacity diamond drill rig at surface, which has the capacity to complete holes up to 3000m in length, and which is currently testing for the potential presence of mineralization at considerably greater depths.

Our capital structure is strong with only 24 million shares outstanding and 30.5 million shares fully diluted, and a cash balance at quarter end of more than \$72 million. Effective September 30, 2006 the Company retained PricewaterhouseCoopers ("PWC") as its auditors. PWC has considerable mining related experience, in addition to expertise in public company matters, including those dealing with the Securities and Exchange Commission. PWC's review of the 2005 audited financial statements, which was an aspect of its review of the third quarter unaudited financial statements, led it to the conclusion that the 2005 audited financial statements, as well as the most recently filed 2006 second quarter unaudited financial statements required restatement. The details of the matters related to the re-filing are contained in the re-filed documents which are available for review on SEDAR. All matters concerned in the restatements are of a non-cash nature and do not affect in any way the status of the Company or the balance of its cash and short term investments. The re-filing was done with the cooperation and assistance of the former auditors.

Once more I would 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 look forward to being able to report further progress at the end of the year.

On behalf of the board of directors,



Chris J. Bradbrook
President and CEO
New Gold Inc.
November 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION
AT SEPTEMBER 30, 2006

This Management Discussion and Analysis ("MD&A") is intended to supplement the Company's unaudited interim financial statements and notes thereto for the period ended September 30, 2006 (the "Statements") and compares the financial results of the three and nine month periods ended September 30, 2006 with those of the comparative restated periods in 2005. The reader is encouraged to review the Statements in conjunction with this document and the restated audited financial statements and restated MD&A of the Company for the year ended December 31, 2005. This report is dated November 9, 2006 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"). Note 17 to the restated annual audited financial statements for the year ended December 31, 2005 describes the difference between GAAP and United States Generally Accepted Accounting Principles ("USGAAP") and reconciles certain items contained in those audited financial statements. All amounts presented in this MD&A are in Canadian dollars unless otherwise indicated.

AMENDMENTS AND RESTATEMENTS

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 calculation of the weighted average number of shares. Management thereafter determined that the following amendments should be reflected in these restated financial statements:

- a) The Company has adopted the recommendations of EIC146 of the Emerging Issues Committee of the CICA with respect to its accounting for all flow-through share renunciations. Previously the Company had recognized the future income tax liability and corresponding reduction in share capital at the earlier of the renunciation date or the balance sheet date following the flow through share offering provided management had reasonable expectation of completing the expenditures. This practice has now been changed whereby the future income tax liability is recognized at the balance sheet date following the filing of the renunciations, provided management has a reasonable expectation of completing the expenditures. The Company has taken the same approach to account for flow-through shares in prior periods.

As a result, the future income liability for 2005 has been decreased and share capital increased by \$3.5 million from amounts previously recorded in 2005. These amounts have now been recognized in 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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- b) The Company previously valued the two million shares issued between July 2000 and August 2005 to purchase the Afton mineral claims at the price of the shares on the day the agreement was signed. This practice has been changed to value these payments at the fair market value of the shares at each issuance based upon the previous 5 day weighted average price.

As a result, mineral properties and share capital have been increased by \$11.8 million as at December 31, 2005. Future income tax liabilities have been adjusted to reflect the increase in temporary differences created as a result of the difference between the tax and book value of the option payment and the resultant amounts have been capitalized to mineral properties. As a result, mineral properties and future income tax liabilities have increased by \$6.5 million at December 31, 2005.

The Company's policy is to recognize income tax rate changes in the Statement of Operations in the period they are substantively enacted.

- c) The Company previously expensed all of its stock-based compensation to the Statement of Operations. In accordance with the revised accounting treatment a reduction in the stock-based compensation expense of \$139,188 in the first quarter and \$164,129 for the second quarter of 2006 has been made related to employees who work directly on the Company's mineral properties has been increased by corresponding amounts.
- d) During prior periods the Company incorrectly calculated the weighted average number of shares. The only reporting period where the loss per share calculation differed is the first quarter of 2006 where the previously reported loss was \$0.06 per share when it should have been \$0.07. As a result the reported amount for loss per share for that period has been restated as have the reported weighted average per share amounts for all interim periods.

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

BUSINESS OVERVIEW

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 in Kamloops, British Columbia.

During the third quarter of 2006, the Company continued to progress its efforts towards completion of the feasibility study on the Project while also continuing with its exploration efforts. In the comparative quarter in 2005, the primary focus was directed towards the underground exploration decline development which reached its initial planned depth to 1,919 metres as well progressing on the in-fill drill program on the Project resource. The Project feasibility study remains planned for completion late in the fourth quarter.

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September 30, 2006

The Company announced on September 21, 2006 that it had completed a new resource update compliant with National Instrument 43-101. The resource was independently estimated by qualified person David W. Rennie, P.Eng., of Scott Wilson Roscoe Postle Associates Inc., and is available on the Company's website for review. In addition, the Company confirmed that the technical mining review had concluded that the mineralization at New Afton would be most effectively mined using a combination of caving techniques, predominantly block caving, with some sublevel caving.

The principal remaining areas of focus for completion of the feasibility study are: finalizing capital and operating costs; completing metallurgical testwork to determine metal recoveries in each of the 3 zones of mineralization, and the resulting grade and composition of the concentrates produced from each of the zones including penalty elements; detailed engineering of all aspects of both surface and underground infrastructure; calculation of reserves; completion of an economic model; and permitting.

The Company also announced during the quarter that it had retained Barclays Capital as its Lead Arranger for the debt facility. Barclays efforts will focus on determining the level of debt which could be supported by the project including independent technical review, the extent of metal price protection which might be required to secure such financing and a syndication strategy for placing the debt. At this point in time, Barclays has not made a commitment to finance the project and will not be able to do so until the feasibility study is completed.

Afton and Ajax Exploration Properties

During the third quarter of 2006 the Company completed 2,258 metres of underground drilling at Afton, 2,871 metres of deep surface drilling at Afton. In addition, the Company drilled 3,907 metres of geo-technical drilling required to gain additional understanding required for the feasibility study.

The Company continued its exploration program for 2006 with drilling activities focused during the quarter on the existing resource and the new "C-zone" mineralization target identified and announced in May 2006. The C-zone is located at depth at New Afton.

SELECTED QUARTERLY INFORMATION (UNAUDITED)

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

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September 30, 2006

<i>\$Cdn</i>	2006 3 rd Quarter	2006 2 nd Quarter (Restated ⁽¹⁾)	2006 1 st Quarter (Restated ⁽¹⁾)	2005 4 th Quarter (Restated ⁽¹⁾)
Statements of Operation and Deficit				
Loss	\$ 750,064	\$ 60,550	\$ 1,318,415	\$ 1,231,587
Loss per share	0.03	0.00	0.07	0.08
Balance Sheets				
Working Capital ⁽²⁾	71,442,463	76,459,688	80,307,904	14,814,376
Total Assets	131,040,139	130,531,154	130,223,043	61,631,182
Statements of Cash Flows				
Payments for mineral properties exploration costs	4,543,568	5,441,823	4,775,593	3,154,268
Cash flow from (used for) financing activities	537,200	(25,720,622)	70,563,173	6,944,830

<i>\$Cdn</i>	2005 3 rd Quarter (Restated ⁽¹⁾)	2005 2 nd Quarter (Restated ⁽¹⁾)	2005 1 st Quarter (Restated ⁽¹⁾)	2004 4 th Quarter (Restated ⁽¹⁾)
Statements of Operation and Deficit				
Loss	\$ 140,125	\$ 662,113	\$ 825,121	\$ 1,115,097
Loss per share	0.01	0.05	0.06	0.08
Balance Sheets				
Working Capital ⁽²⁾	13,099,254	17,784,732	20,566,933	24,166,554
Total Assets	53,127,807	53,270,566	49,923,380	50,079,229
Statements of Cash Flows				
Payments for mineral claim interest and exploration costs	4,422,861	4,252,999	3,080,817	1,699,439
Cash flow from (used for) financing activities	(5,668)	2,967,941	(5,667)	169,323

(1) see amendments *section on pages 1 and 2*

(2) see Non-GAAP measure of working capital

Comparative Periods

During the third quarter of 2006, the Company invested approximately \$4.5 million on its mineral properties as compared to \$4.4 million in the comparative quarter in 2005. During the current quarter the Company spent \$0.9 million on underground exploration and support, \$2.2 million on the feasibility study and \$1.0 million on the surface exploration programs primarily related to the

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Afton deep target program. This compares to spending \$3.2 million on tunneling and decline development in 2005 and \$0.8 million on in-fill drilling and related assaying costs at the Afton Project. The remainder of the comparative quarter costs was spent on surface exploration and project overheads.

For the year to date period for 2006, the Company invested approximately \$14.8 million on its mineral properties as compared to \$11.8 million in the comparative period in 2005, for an increase of \$3.0 million. The increase is primarily the result of changing the focus to the feasibility study and spending \$3.9 million as well as \$7.1 million on exploration costs primarily related to the underground program while also incurring \$2.3 million in final payments related to the tunneling activity conducted in 2005 but paid in 2006. This compares to spending \$8.8 million on tunneling and decline development in 2005 and \$2.0 million primarily on in-fill drilling related assaying costs at the Afton Project. The remainder of the comparative quarter costs was spent on surface exploration and project overheads.

For the quarter, the Company incurred a loss of \$0.8 million or \$0.03 per share as compared to a loss of \$0.1 million or \$0.01 per share in the prior comparative three month period. The primary reason for the increase is an additional \$0.8 million in stock-based compensation being incurred in the 2006 period and in 2005 there was a tax recovery in the amount of \$0.3 million realized as a result of a reduction in tax rates which did not occur in the same period in 2006. These amounts were offset by realizing \$0.7 million in higher interest income as a result of higher cash balances and interest rates.

For the year to date, the Company incurred a loss of \$2.1million or \$0.10 per share as compared to a loss of \$1.6 million or \$0.11 per share in the prior comparative nine months. The primary reason for the increase is a result of an additional \$1.3 million in stock-based compensation charges related to option awards in 2006, which is included with wages and benefit costs, plus higher professional fees in the amount of \$0.4 million as a result of increased legal costs. In addition, there were minor increases in travel, wages and benefits, prior to stock-based compensation, and administration totaling \$0.5 million. The increased costs have been offset by the realization of an additional \$1.6 million in interest income generated as a result of the financing conducted in February 2006.

Previous Eight Quarters

Over the eight preceding quarters, the following significant events have occurred which has 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 attached (see Liquidity and Capital Resources)
- 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 feasibility study which started in December 2005 and is expected to be completed by the end of 2006.

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- As a result of the increased activities in the Company since the beginning of 2005, the Company has expanded the management and operational teams to correlate with the increased activities within the Company
- The Company's management and project team continues to expand as the Company moves towards its goal of developing the Afton project. As a result of the increase in personnel, which commenced in the fourth quarter of 2004, the number of option grants over the eight quarter period has been numerous as well as staggered depending upon new hires have occurred.
- During the second quarter of 2006 the Company invested its surplus in cash in greater than three month investments resulting in a use of cash in the amount \$26.2 million.

LIQUIDITY & CAPITAL RESOURCES

As at September 30, 2006, the Company had working capital of \$71.4 million versus \$14.8 million as at December 31, 2005. During the first quarter of 2006 the Company completed, by way of a short form prospectus, an offering of 8,334,000 units priced at \$9.00 per unit for gross cash proceeds of \$75 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. In addition, the Company has realized \$1.1 million in cash proceeds from the exercise of 158,000 stock options during the first nine months of the year.

The Company's current working capital level is sufficient to meet its presently planned funding requirements for this stage of the Project up to the end of 2006.

Related Party Transactions (Unaudited)

During the period ended September 30, 2006, the following related party transactions occurred:

	2006	2005 Restated
For wages and consulting services charged by a related person of a Director	-	72,000
For 100,000 shares issued in payment for the Afton mineral claim interest option agreement to a Director of the Company	-	537,000

Subsequent to December 31, 2005, the services provided ceased to be a related party.

New Accounting Policies

During 2006 the Company adopted the following policy for short-term investments.

Short-term investments are highly liquid investments including Canadian and U.S. dollar investments in treasury bills, Banker's Acceptances, bank bearer deposit notes, bank term

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September 30, 2006

investments and asset backed securities with maturities at the date of purchase of more than three months and less than a year. Short-term investments are stated at the lower of cost and net realizable value.

Critical Accounting Estimates

The Company has not yet determined whether the Project or the Ajax property contains economically recoverable reserves. The recoverability of the \$56.2 million project carrying value at September 30, 2006 is dependent upon the ultimate confirmation of economically recoverable reserves, the ability of the Company to obtain necessary permits, financing to complete the development and future profitable production there from or alternatively upon the Company's ability to dispose of its interests in the license on an advantageous basis. Changes in future conditions could require material write-downs of the Project.

Commitments and Contingent Liabilities

- a) 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 shares of the Company.
- b) As at September 30, 2006 the Company has approximately \$1.5 million remaining to spend under contractual arrangements related to the feasibility study.
- c) In February 2006, the Company completed an arm's length agreement with the owner ("optionor") of one mineral claim, located in the Kamloops Mining Division and contiguous to the Company's Ajax Property, to explore the property. As a result, the Company paid \$15,000 for the exclusive rights to explore this property for one year. The exclusive exploration rights may be extended by making payments of, respectively, \$15,000 and \$50,000 for successive one year periods to February 24th in each of the years 2007 and 2008. The Company may at any time during the option period purchase the property by paying \$100,000 and reserving to the optionor a 1.5% net smelter return royalty on production from the property. In the event the Company acquires the property, it holds the sole right, prior to production commencing, to purchase the 1.5% net smelter return royalty for \$100,000 per one-fifteenth (1/15th) of the royalty being purchased. All payments subsequent to the initial \$15,000 are payable in cash or equivalent value in shares of New Gold at the optionor's discretion. The Company received transfer of title, which will be retransferred if the Company does not exercise the purchase option.
- d) The Company is committed to an operating lease for office premise rentals in the aggregate of \$124,961.

Non-GAAP Measure of Working Capital

The working capital item is furnished to provide additional information and is not a generally accepted accounting principle (GAAP) measure. This measurement should not be considered in isolation as a substitute for measures of performance prepared in accordance with GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

This information is intended to provide investors with information about the Company's liquidity; the Company issues this information for the same purpose.

OTHER

During the quarter the Company changed its auditors to PricewaterhouseCoopers LLP from De Visser Gray Chartered Accountants.

2006 OUTLOOK

The Company continues to follow its previously stated priorities for 2006 focusing on the Afton Project, including the feasibility study completion, permitting, early development opportunities and financing, as well as on the overall exploration effort.

Successful development of the Afton Project is the key to the Company's success and if the Board of Directors approves the feasibility study presently being undertaken, significant activities could occur in 2007 which would have the effect of shifting the Company's focus from that of an exploration company to a development one. Managements' efforts in 2007 would therefore likely change and be directed at the key areas related to the ultimate development of the Project:

Remainder of 2006 and early 2007

Feasibility study completion— the Company is working with a group of engineering companies to complete a high accuracy study to determine the operating and economic parameters to enable the Company to make a decision on whether to develop the project. The study is expected to be completed by the end of the year and should be published early in 2007.

Permitting – the Company anticipates submitting the application for a mining permit shortly. As the site has been previously mined management believes and the regulations support a more direct process for permitting which is expected to take less time to receive approval.

Early Development Opportunities— with the current environment of high copper and gold prices, management is looking at opportunities to accelerate the development timeline should a decision to construct be made in early 2007. This may involve the Company engaging in development activities prior to the finalization of the feasibility study such as the ordering of long lead-time capital assets or the commencement of underground development. These items would be financed from the Company's existing cash position.

Financing – as previously reported, the Company has engaged a Lead Arranger to assist in developing a project debt facility. At present, the work is focused on technical due diligence and will accelerate once the feasibility study economic model is nearing completion. Depending on the final capital costs, metal price assumptions and production profile, the Company may also have to consider alternative financing strategies in conjunction with or as alternatives to a debt facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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As noted above, following the results of the Afton feasibility study, the Company may be required to enter into a number of contractual commitments related to such areas as underground development, surface and plant engineering and construction, contracts with smelters to enable smelting of the copper/gold concentrate and financing beyond the Company's current working capital position at September 30, 2006 of \$71.4 million. The planning for these areas is progressing in parallel with the feasibility study so that the least amount of time is lost between making a construction decision and commencing the work.

In addition the Company continues to assess its exploration opportunities on the Afton, Ajax and optioned Magnum property. At Afton, the major focus centres on the deep mineralization identified near the current Afton resource. At the Ajax property, the Company is in the process of evaluating the data compiled to date on the area to assess what strategy is best suited for following in the future.

As at November 9, 2006, the Company's outstanding capital was:

Common shares	24,124,717
Warrants	4,167,000
Common stock options	2,277,000

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 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

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

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. The Company does not intend to and assumes no obligations to up-date forward-looking statements and information.

US Investors Should Note

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.

(an Exploration Stage Company)

INTERIM FINANCIAL STATEMENTS

September 30, 2006

(Unaudited)

New Gold Inc.
(An Exploration Stage Company)

BALANCE SHEETS

As at September 30, 2006 and December 31, 2005

(Unaudited and Canadian dollars)

	September 30 2006	December 31 2005 Restated (Note 17)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 46,388,689	\$ 18,178,820
Short-term investments (Note 4)	26,240,854	-
Accrued interest receivable	437,067	19,763
Amounts receivable	179,937	305,810
Prepaid expenses	168,421	107,686
	73,414,968	18,612,079
Mineral Properties – Schedule (Note 5)	56,829,285	42,440,604
Property and Equipment (Note 6)	795,886	578,499
	\$ 131,040,139	\$ 61,631,182
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,972,505	\$ 3,767,475
Current portion of capital lease payable	-	30,228
	1,972,505	3,797,703
Future income taxes (Note 7)	10,004,440	7,346,588
	11,976,945	11,144,291
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	117,388,620	54,752,468
Share purchase warrants (Note 9)	5,958,810	-
Contributed surplus (Note 12)	3,837,954	1,727,584
Deficit	(8,122,190)	(5,993,161)
	119,063,194	50,486,891
	\$ 131,040,139	\$ 61,631,182
Commitments and Contingent Liabilities (Note 15)		<i>See accompanying notes.</i>

APPROVED BY THE BOARD

Christopher J. Bradbrook
Director

Paul B. Sweeney
Director

New Gold Inc.
(An Exploration Stage Company)

STATEMENTS OF OPERATIONS AND DEFICIT

For the three and nine month periods ended September 30, 2006 and 2005

(Unaudited and Canadian dollars)

	Three months ended		Nine months ended	
	Sep 30, 2006	Sep 30, 2005 Restated (Note 17)	Sep 30, 2006	Sep 30, 2005 Restated (Note 17)
Income				
Interest income	\$ 837,862	\$ 108,282	\$ 1,985,922	\$ 386,516
Expenses				
Administrative, office and miscellaneous	162,588	102,215	457,169	301,454
Amortization	33,005	25,951	90,920	69,943
Foreign exchange	599	9,192	6,044	1,186
Loss on disposal of equipment	-	-	8,122	-
Professional and regulatory fees	123,029	62,883	510,840	147,924
Travel, conferences and promotion	124,909	128,930	453,813	354,632
Wages, benefits and stock-based compensation (note 10)	1,143,796	261,531	3,229,316	1,703,955
	1,587,926	590,702	4,756,224	2,579,094
Loss before income taxes	(750,064)	(482,420)	(2,770,302)	(2,192,578)
Income tax recovery (note 7)	-	342,295	641,273	565,219
Loss for the period	(750,064)	(140,125)	(2,129,029)	(1,627,359)
Deficit, beginning of period before restatement	(9,812,014)	(5,849,816)	(7,620,170)	(4,220,830)
Restatement adjustment (note 17)	2,439,888	1,228,367	1,627,009	1,086,615
Deficit, end of period (2005 restated)	\$ (8,122,190)	(4,761,574)	\$ (8,122,190)	(4,761,574)
Weighted average number of shares				
Outstanding Restated (note 17)	24,067,119	14,468,592	22,204,629	14,227,180
Loss per share (basic and diluted)	\$ (0.03)	\$ (0.01)	\$ (0.10)	\$ (0.11)

See accompanying notes.

STATEMENTS OF CASH FLOWS

For the three and nine month periods ended September 30, 2006 and 2005

(Unaudited and Canadian dollars)

	Three months ended		Nine months ended	
	Sep 30, 2006	Sep 30, 2005 Restated (Note 17)	Sep 30, 2006	Sep 30, 2005 Restated (Note 17)
Cash provided by (used for)				
OPERATING ACTIVITIES				
Loss for the period	\$ (750,064)	\$ (140,125)	\$ (2,129,029)	\$ (1,627,359)
Items not involving cash:				
Amortization	33,005	25,951	90,920	69,943
Stock-based compensation	765,280	-	1,895,091	572,615
Loss on disposal of equipment	-	-	8,122	-
Income tax recovery (note 7)	-	(342,295)	(645,448)	(565,219)
	48,221	(456,469)	(780,344)	(1,550,020)
Net change in non-cash working capital items	(196,845)	(403,982)	(1,281,895)	(100,845)
Cash used for operating activities	(148,624)	(860,451)	(2,062,239)	(1,650,865)
INVESTING ACTIVITIES				
Payments for mineral properties and exploration costs	(4,543,568)	(4,422,861)	(14,760,986)	(11,756,677)
Acquisition of property and equipment	(143,943)	(27,086)	(346,657)	(65,494)
Cash used for investing activities	(4,687,511)	(4,449,947)	(15,107,643)	(11,822,171)
FINANCING ACTIVITIES				
Payments on capital lease	-	(5,668)	-	(17,003)
Cash used for short-term investments	-	-	(26,240,854)	-
Cash proceeds from shares and purchase warrants issued, net	537,200	-	71,620,605	2,973,609
Cash provided by (used for) financing activities	537,200	(5,668)	45,379,751	2,956,606
(Decrease)Increase in cash and cash equivalents	(4,298,935)	(5,316,066)	28,209,869	(10,516,430)
Cash and cash equivalents, beginning of period	50,687,624	19,829,221	18,178,820	25,029,585
Cash and cash equivalents, end of period	\$46,388,689	\$14,513,155	\$46,388,689	\$14,513,155
Cash and cash equivalents comprises:				
Cash	\$ 338,309	\$ 670,224	\$ 338,309	\$ 670,224
Term deposits and short-term discount notes	46,050,380	13,842,931	46,050,380	13,842,931
	\$46,388,689	\$14,513,155	\$46,388,689	\$14,513,155

See accompanying notes.

For supplemental disclosure of non-cash investing and financing activities, refer to Note 13.

New Gold Inc.
(An Exploration Stage Company)

SCHEDULES OF MINERAL PROPERTIES

As at September 30, 2006 and December 31, 2005

(Unaudited and Canadian Dollars)

	Sep 30, 2006	Dec 31, 2005 Restated (Note 17)	
ACQUISITION COSTS			
Kamloops Afton Claims	\$ 18,841,345	\$ 18,841,345	
Kamloops Ajax-Python Claims	48,732	48,732	
Timmins, Ontario Claims	1	1	
Balance, End of Period	\$ 18,890,078	\$ 18,890,078	
DEFERRED EXPLORATION COSTS			
	Afton Claims	Ajax-Python Claims	
Balance, Beginning of Period	\$ 23,323,424	\$ 227,102	\$ 23,550,526
Surface Exploration Costs			\$ 6,935,530
Option payment	-	15,000	15,000
Assays and testing	74,869	46,977	121,846
Drilling	1,429,562	352,618	1,782,180
Geological consulting	-	-	-
Miscellaneous	44,265	40,838	85,103
Staking and filing fees	29,794	18,703	48,497
Supplies and equipment rental	28,388	-	28,388
Travel and accommodation	9,575	-	9,575
Wages and benefits	155,633	57,166	212,799
	1,772,086	531,302	2,303,388
Underground Exploration Costs			674,110
Assays and testing	289,612	-	289,612
Drilling	4,971,996	-	4,971,996
Engineering	15,518	-	15,518
Geological consulting	22,590	-	22,590
Insurance	34,676	-	34,676
Office costs	84,794	-	84,794
Miscellaneous	155,404	-	155,404
Road construction and maintenance	31,078	-	31,078
Staking and filing fees	619	-	619
Supplies and equipment rental	29,122	-	29,122
Surveying	18,655	-	18,655
Travel and accommodation	45,924	-	45,924
Tunneling and decline costs	-	-	-
Utilities	114,267	-	114,267
Wages and benefits	1,370,730	-	1,370,730
	7,184,985	-	7,184,985
Feasibility Study	4,900,308	-	4,900,308
Balance, End of Period	\$ 37,180,803	\$ 758,404	\$ 37,939,207
Mineral Properties			\$ 42,440,604

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

1. NATURE OF OPERATIONS

New Gold Inc. (the "Company") is in the process of exploring and developing mineral properties. Its principal project, the Afton copper-gold project located in British Columbia, has previously been subject to exploration, an advanced scoping study and has not yet been confirmed to have economically viable copper/gold reserves. The Company is proceeding to complete a feasibility study in 2006 to confirm whether economical reserves exist.

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 and operation of the project. In addition, the investments may be subject to changes in government regulations 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 plus its funding requirement to complete the feasibility study for the Afton copper/gold project and related administration expenses while having surplus funds available for exploration. Management will have to pursue additional financing upon the completion of a positive feasibility to finance the projects construction. There can be no assurance it will be able to raise sufficient funds when these funds are required.

2. BASIS OF PRESENTATION

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 financial statements should be read in conjunction with the Company's restated audited annual financial statements, including the notes thereto, for the year ended 2005. With the exception of note 3, all accounting policies of the Company are described in the restated audited annual financial statements for the year ended December 31, 2005.

3. NEW ACCOUNTING POLICY

Short-Term Investments

Short-term investments are highly liquid investments including Canadian and U.S. dollar investments in treasury bills, Banker's Acceptances, bank bearer deposit notes, bank term investments and asset backed securities with maturities at the date of purchase of more than three months and less than a year. Short-term investments are stated at the lower of cost and net realizable value.

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

4. SHORT-TERM INVESTMENTS

	September 30, 2006	December 31, 2005
Asset backed securities	\$ 26,240,854	\$ -
Balance, end of period	\$ 26,240,854	\$ -

5. MINERAL PROPERTIES

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

The Afton mineral properties consist of 19 new mineral claims, converted from heritage, staked and amalgamated under the new mineral tenure system in British Columbia, and 14 heritage claims, covering a total area of 6,998 hectares. Four of the heritage claims, with an area of 947.9 hectares, will become a mining lease subsequent to the conclusion of the regulatory review period on November 14, 2006.

Under the terms of two option agreements ("Option") dated September 22, 1999 to acquire the Afton Mineral Claims, the Company issued, over several years, 2 million common shares and completed an aggregate work commitment totaling \$6.5 million to earn the rights to the mineral claims. Under the terms of the Option, the optionors retained a 10% net profit royalty. (see note 15(a))

The Company has a 100% interest in the mineral claims subject to the 10% net profit royalty maintained by the optionors, which can be purchased on or before December 1, 2010 for \$2 million in cash or shares of the Company.

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, consisting of 9 new mineral claims, converted from heritage or staked under the new mineral tenure system in British Columbia, and fifteen heritage claims, covering a total area of 3,330 hectares.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
Land	\$ 56,900	\$ -	\$ 56,900
Building	104,700	14,396	90,304
Transportation vehicles	100,210	76,847	23,363
Mining equipment	504,275	96,172	408,103
Office and computer equipment	292,824	75,608	217,216
Balance, September 30, 2006	\$ 1,058,909	\$ 263,023	\$ 795,886

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

	Cost	Accumulated Amortization	Net Book Value
Land	\$ 56,900	\$ -	\$ 56,900
Building	104,700	10,470	94,230
Transportation vehicles	130,071	58,434	71,637
Mining equipment	304,296	43,845	260,451
Office and computer equipment	146,146	50,865	95,281
Balance, December 31, 2005	\$ 742,113	\$ 163,614	\$ 578,499

7. INCOME TAXES

During 2006, the Company realized a tax recovery of \$645,448 as a result of a reduction in the federal income tax rates from 31% to 29%. In addition, the Company renounced \$10,010,000 in expenditures related to flow-through equity raisings completed in 2005 which resulted in an increase in future income tax liabilities of \$3,303,300 and a corresponding reduction to share capital.

8. SHARE CAPITAL (RESTATED – NOTE 17)

Authorized

Unlimited number of common shares without par value.

Issued and Outstanding

	Number of Shares	Amount Restated (Note 17)
Balance, December 31, 2004	13,941,766	\$ 43,754,361
Issued for cash		
Private placements, net of share issue costs (a)	1,330,000	9,254,319
Issued for finders' fee (a)	103,951	669,788
Issued for mineral properties (b)	200,000	1,074,000
Balance, December 31, 2005	15,575,717	\$ 54,752,468
Issued for cash		
Pursuant to a prospectus offering, net of share issue costs (c)	8,334,000	64,607,845
Exercise of stock options	158,000	1,053,950
Tax effect for flow-through shares (See note 7)	-	(3,303,300)
Transfer from contributed surplus (See note 12)	-	277,657
Balance, September 30, 2006	24,067,717	\$ 117,388,620

- a) On April 22, 2005, the Company completed a non-brokered private placement by issuing 400,000 flow-through common shares at a price of \$7.50 per share for gross proceeds of \$3 million (net proceeds \$3.0 million). The Company issued 29,000 common shares, at a market value of \$6.20 per share, as a finders' fee for the placement of common shares.

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

On October 6, 2005, the Company completed a non-brokered private placement by issuing 430,000 flow-through common shares at a price of \$7.00 per share for gross proceeds of \$3.01 million (net proceeds \$3.0 million). The Company issued 36,331 common shares, at a market value of \$5.78 per share, as a finders' fee for placement of the common shares.

On December 22, 2005, the Company completed a non-brokered private placement by issuing 500,000 flow-through common shares at a price of \$8.00 per share for gross proceeds of \$4.0 million (net proceeds \$3.97 million). The Company issued 38,620 common shares, at a market value of \$7.25 per share, as a finders' fee for placement of the common shares.

- b) The Company issued the final share commitment of 200,000 common shares at the fair market value of \$5.37 per share in accordance with the Afton mineral claim agreement.
- c) 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 to the share purchase warrants (note 9)). Each unit consisted of one common share and one-half of a share purchase warrant. A commission of 5.25% was paid to the underwriters. The gross proceeds have been allocated \$8.285 to each common shares 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 options of 2 years.

9. SHARE PURCHASE WARRANTS (RESTATED – NOTE 17)

As at September 30, 2006, the following share purchase warrants were issued and outstanding:

	Number of Shares	Amount Restated (Note 17)
Issued for cash		
Pursuant to a prospectus offering <i>(Note 8(c))</i>	4,167,000	\$ 5,958,810
Balance, September 30, 2006	4,167,000	\$ 5,958,810

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.

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

10. STOCK OPTIONS

- a) On May 4, 2005, at the Company's Annual General Meeting, the disinterested shareholders approved a change to the Company's Stock Option Plan ("Plan"). The approved change increased the number of options issuable from a fixed amount of 1,000,000 options to 10% of the outstanding capital of the Company on a reloading basis. The reloading basis allows the number of options eligible to be issued to increase to the current 10% level of the then present outstanding capital of the Company. In addition, exercised options are also automatically reloaded into the Plan. The Plan also requires disinterested shareholders to renew their approval every three years.

In addition, the Company has issued under the 2% inducement rules available under the TSX regulations, a total of 500,000 stock options to senior officers which are not included in the 10% allowable issuable amount.

Options issued subsequent to the approval of the new Plan primarily vest one half after six months and the remainder after one year from the date of issuance.

As at September 30, 2006, the stock options held by directors, consultants and employees are as follows:

Option Strike Price	<u>Exercisable</u>		<u>Outstanding</u>	
	Options	Weighted Average Remaining Life (Years)	Options	Weighted Average Remaining Life (Years)
\$4.60	600,000	3.0	600,000	3.0
\$4.61 to \$5.99	12,000	4.0	12,000	4.0
\$6.00 to \$6.99	524,500	3.7	692,000	3.8
\$7.00 to \$7.99	195,000	3.7	265,000	3.9
\$8.00 to \$8.99	-	-	60,000	4.5
\$9.00 to \$9.99	-	-	90,000	4.9
\$11.00	-	-	565,000	4.7
	1,331,500	3.4	2,284,000	3.9

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Balance, December 31, 2004	700,000	\$4.87	4.3
Granted	1,042,000	\$6.82	4.5
Terminated	(15,000)	\$(6.40)	-
Balance, December 31, 2005	1,727,000	\$6.04	4.5
Granted	715,000	\$10.64	4.1
Exercised	(158,000)	\$(6.46)	-
Balance, September 30, 2006	2,284,000	\$7.06	3.9

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

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.

The current period valuation was calculated with the following assumptions: weighted average risk free interest rate of 3.86% to 4.42% (2005 - 3.44%); volatility factor of the expected market price of the Company's common stock of 40% (2005 - 43%); and a weighted average expected life of the options of 2.5 years (2005 - 2.5 years). The resulting weighted average cost per option granted was \$3.07 (2005 - \$2.54). The estimated fair value of the options is expensed over the vesting period which ranges from zero to 12 months.

The fair value compensation recorded for the period ended September 30, 2006 in respect of options granted in 2006 and prior periods that were expensed to the Statement of Operations was \$1,895,091 (2005 - \$572,615) and capitalized to mineral properties was \$492,936 (2005 - \$nil).

b) Compensation Options

As at September 30, 2006, the following compensation options were issued and outstanding:

Expiry Date	Number of Compensation Options	Weighted Average Exercise Price
October 13, 2006	50,000	\$4.60

These compensation options were valued initially in 2004 using a Black-Scholes pricing model and the resultant amount expensed during that period.

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

11. RELATED PARTY TRANSACTIONS

	Nine months ended	
	September 30, 2006	September 30, 2005 Restated (Note 17)
a) For wages and consulting services charged by a related person of a Director. Effective January, 2006, these services ceased to be provided by the related party.	\$ -	\$ 72,000
b) For 100,000 shares issued in payment pursuant to the Afton mineral claim option agreement to a Director of the Company.	\$	\$ 537,000

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

12. CONTRIBUTED SURPLUS

The following table identifies the changes in contributed surplus for the period:

	Stock-Based Compensation
Balance – December 31, 2005	\$1,727,584
Stock-based compensation	2,388,027
Transfer of exercised options to share capital	(277,657)
Balance – September 30, 2006	3,837,954

13. SUPPLEMENTARY CASH FLOW INFORMATION (RESTATEd - NOTE 17)

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

	Nine months ended	
	Sep 30, 2006	Sep 30, 2005 Restated (Note 17)
Investing Activities		
Mineral property expenditures included in accounts payable	865,241	
Financing Activities		
Value of flow-through share renouncement	(3,303,300)	-
Shares issued for mineral properties	-	1,074,000

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable, accounts payable and accrued liabilities. 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. The fair values of these financial instruments approximates their carrying values due to the relatively short period to maturity of these instruments.

15. COMMITMENTS AND CONTINGENT LIABILITIES

- a) 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 shares of the Company.
- b) As at September 30, 2006 the Company has approximately \$1.5 million remaining to spend under contractual arrangements related to the feasibility study.
- c) In February 2006, the Company completed an arm's length agreement with the owner ("optionor") of one mineral claim, located in the Kamloops Mining Division and contiguous to the Company's Ajax Property, to explore the property. As a result, the Company paid \$15,000 for the exclusive rights to explore this property for one year. The exclusive exploration rights may be extended by making payments of, respectively,

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

\$15,000 and \$50,000 for successive one year periods to February 24th in each of the years 2007 and 2008. The Company may at any time during the option period purchase the property by paying \$100,000 and reserving to the optionor a 1.5% net smelter return royalty on production from the property. In the event the Company acquires the property, it holds the sole right, prior to production commencing, to purchase the 1.5% net smelter return royalty for \$100,000 per one-fifteenth (1/15th) of the royalty being purchased. All payments subsequent to the initial \$15,000 are payable in cash or equivalent value in shares of New Gold at the optionor's discretion. The Company received transfer of title, which will be retransferred if the Company does not exercise the purchase option.

- d) The Company is committed to an operating lease for office premise rentals in the aggregate of \$124,961. The future minimum lease payments as at September 30, 2006 are as follows:

2006	\$	15,156
2007		62,591
2008		40,542
2009		6,672
	\$	<u>124,961</u>

16. SEGMENTED INFORMATION

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

17. RESTATEMENT OF COMPARATIVE FINANCIAL STATEMENTS

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, the weighted average number of shares and the valuation of share purchase warrants. Management thereafter determined that the following amendments should be reflected in these restated financial statements:

- a) The Company has adopted the recommendations of EIC146 of the Emerging Issues Committee of the CICA with respect to its accounting for all flow-through share renunciations. Previously the Company had recognized the future income tax liability and corresponding reduction in share capital at the earlier of the renunciation date or the balance sheet date following the flow through share offering provided management had reasonable expectation of completing the expenditures. This practice has now been changed whereby the future income tax liability is recognized at the balance sheet date following the filing of the renunciations, provided management has a reasonable expectation of completing the expenditures. The Company has taken the same approach to account for flow-through shares in prior periods.

As a result, the future income liability for 2005 has been decreased and share capital increased by \$3.5 million from amounts previously recorded in 2005. These amounts have now been recognized in 2006.

NOTES TO FINANCIAL STATEMENTS

For the three and nine month period ended September 30, 2006

(Unaudited and Canadian dollars)

- b) The Company previously valued the two million shares issued between July 2000 and August 2005 to purchase the Afton mineral claims at the price of the shares on the day the agreement was signed. This practice has been changed to value these payments at the fair market value of the shares at each issuance based upon the previous 5 day weighted average price.

As a result, mineral properties and share capital have been increased by \$11.8 million as at December 31, 2005. Future income tax liabilities have been adjusted to reflect the increase in temporary differences created as a result of the difference between the tax and book value of the option payment and the resultant amounts have been capitalized to mineral properties. As a result, mineral properties and future income tax liabilities have increased by \$6.5 million at December 31, 2005.

- c) The Company previously expensed all of its stock-based compensation to the Statement of Operations. In accordance with the revised accounting treatment a reduction in the stock-based compensation expense of \$139,188 in the first quarter and \$164,129 for the second quarter of 2006 has been made related to employees who work directly on the Company's mineral properties has been increased by corresponding amounts.
- d) During prior periods the Company incorrectly calculated the weighted average number of shares. The only reporting period where the loss per share calculation differed is the first quarter of 2006 where the previously reported loss was \$0.06 per share when it should have been \$0.07. As a result the reported amount for loss per share for that period has been restated as have the reported weighted average per share amounts for all interim periods.

The effect of the restatement on these restated financial statements is summarized as:

Balance sheet				
December 31, 2005	Item	Previously reported	Adjustment	Restated
Mineral properties	b/c	\$22,561,015	\$19,879,589	\$42,440,604
Future income taxes	a/b	4,384,680	2,961,908	7,346,588
Share capital	A	39,461,796	15,290,672	54,752,468
Deficit	b/d/c	(7,620,170)	1,627,009	(5,993,161)
Statement of Operations				
	Item	Previously reported	Adjustment	Restated
Loss for the three months ended September 30, 2005	b	\$(490,854)	\$350,729	\$(140,125)
Loss for the nine months ended September 30, 2005	b	(2,119,840)	492,481	(1,627,359)

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



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