DELIVERING ON GROWTH

Third Quarter Report

SEPTEMBER 30, 2010

NEW GOLD INC.

Table of Contents

NEW GOLD INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED SEPTEMBER 30, 2010
(IN UNITED STATES DOLLARS, EXCEPT WHERE NOTED)

The following Management's Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of the consolidated financial condition and results of operations of New Gold Inc. ("New Gold" or the "Company") and its subsidiaries and including its predecessor entities. This MD&A should be read in conjunction with New Gold's unaudited consolidated financial statements for the quarters ended September 30, 2010 and 2009, New Gold's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and related notes thereto which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements. All figures are in United States dollars and tabular amounts are in thousands, unless otherwise noted. This Management's Discussion and Analysis has been prepared as of November 3, 2010. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

THIRD QUARTER 2010 FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Third quarter gold production of 91,332 ounces, up 15% from 79,531 ounces in the same period in 2009.
- Third quarter gold sales of 89,692 ounces, up 16% from 77,645 ounces in the same period in 2009.
- Cash flow from operations increased by 492% to $35.5 million from $6.0 million in the same period in 2009.
- Total cash cost(1) of $435 per ounce of gold sold in the third quarter 2010 compared to $470 per ounce in the same prior year period.
- Net earnings from continuing operations during the third quarter of $27.4 million or $0.07 (basic and diluted) per share compared to $6.1 million or $0.02 per share (basic and diluted) in the same period in 2009.
- Earnings from mine operations of $46.7 million, up from $22.6 million in the same period in 2009.
- Underground development advance at New Afton exceeded plan by 20% as 1,066 metres of development were completed against a plan of 885 metres, with the highest ever monthly advance achieved in the month of September.
- Cerro San Pedro fully operational achieving record quarterly performance, producing 37,473 ounces of gold at a total cash cost(1) of $151 per ounce, net of by-product sales.
- Cash and cash equivalents totaled $391.0 million at September 30, 2010, up 44% from $271.5 million (including restricted cash) at December 31, 2009.

BACKGROUND

New Gold Inc. is an intermediate gold producer with a portfolio of global assets in the United States, Mexico, Australia, Canada and Chile. The Company's operating assets consist of the Mesquite gold mine ("Mesquite Mine") in the United States, the Cerro San Pedro gold-silver mine ("Cerro San Pedro Mine") in Mexico, and the Peak gold-copper mines ("Peak Mine") in Australia. Significant development projects include the New Afton copper-gold project ("New Afton") in Canada and a 30% interest in the El Morro copper-gold project

(“El Morro”) in Chile. New Gold has an objective of continuing to grow, both organically and through acquisition, to become the leading intermediate gold producer. New Gold plans on achieving this vision through:

- Delivering on operational targets (safety, cost, production, environmental and social responsibility);
- Maintaining a strong financial position;
- Internal growth through project development and the continuous improvement of existing operations; and,
- External growth through additional value enhancing merger and acquisition opportunities.

New Gold is working towards maximizing shareholder value through diversified production, maintaining a reduced risk profile and enhancing growth potential.

CORPORATE RESPONSIBILITY

The Company’s commitment to disciplined growth is entrenched in the concept of growing responsibly. This underlies management’s belief that economic achievement, environmental performance and social contributions are indivisible components in the success of the Company.

The Company actively engages in meaningful dialogue with local community residents and organizations to identify economic, training, social and development priorities and contributes to the development of the communities surrounding its operations.

New Gold’s corporate responsibility objectives are to prevent pollution, minimize the impact the operations may cause to the environment and practice the progressive rehabilitation of areas impacted by its activities. The Company has a history of operating in a socially responsible and sustainable manner, and of meeting international standards in the three countries where it currently operates mines. The Company is a member of the Canadian Business for Social Responsibility and is a partner of the United Nations Global Compact.

CORPORATE DEVELOPMENTS

A. El MORRO TRANSACTION

On January 7, 2010, New Gold provided notice to Xstrata, a wholly-owned subsidiary of Xstrata Plc, of the exercise of its right of first refusal to acquire 70% of the El Morro copper-gold project in Chile for $463.0 million. On February 16, 2010, the Company completed the acquisition of Xstrata’s 70% interest in the El Morro property. Goldcorp loaned $463.0 million to New Gold to fund the exercise of the right of first refusal. After acquisition of the 70% interest by a New Gold subsidiary, New Gold sold that subsidiary to Goldcorp.

Concurrent with the sale of the New Gold subsidiary to Goldcorp, the Company received a $50.0 million payment to New Gold and the parties amended the terms of the existing El Morro Shareholders Agreement ("the Agreement").

As a result of these transactions, New Gold will continue its participation as a 30% partner in the El Morro project under the amended Agreement.

Goldcorp has agreed to fund 100% of the Company's share of the development and construction capital for the project, which was estimated in the El Morro feasibility study at approximately $2.5 billion. Under the former Xstrata carried funding arrangements, the Company would be required to fund approximately $225.0 million or 9% of the project capital prior to completion of the project, however under the new Goldcorp funding arrangement, New Gold will not need to fund any of project capital prior to completion of development and construction.

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

B. AMAPARI MINE SALE AGREEMENT

On January 27, 2010, the Company announced the signing of an agreement to sell its Brazilian subsidiary Mineracao Pedra Branca do Amapari Ltda. ("MPBA"), which holds the Amapari Mine and other related assets, to Beadell Resources Ltd. ("Beadell"). The transaction closed on April 13, 2010 and New Gold received gross proceeds of $37.0 million in cash and 115 million Beadell shares valued on the closing date of the transaction at $18.6 million. New Gold currently holds approximately 18.5% of Beadell shares outstanding. The Company has designated its investment in Beadell as an available for sale financial asset.

C. UPDATE ON CERRO SAN PEDRO MINE RECENT COURT DECISION

The Company has a history of legal challenges to its Cerro San Pedro Mine. In September 2009, a Federal Court of Fiscal and Administrative Justice (FCFAJ) ordered SEMARNAT, the Mexican environmental regulatory agency, to nullify the authorization of its 2006 Environmental Impact Statement ("EIS") for the Cerro San Pedro mine. The Company appealed the ruling. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. The Company has filed a further appeal to the Collegiate Appeals Court in Mexico City.

The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue while appeals are heard related to the September 2009 order to nullify the authorization of the Company's EIS. The latest injunction was received on October 4, 2010. In August 2010, the Company filed an expanded application for approval of an EIS with SEMARNAT. This application is currently under review.

New Gold remains in continuous discussions with both SEMARNAT and PROFEPA, the Mexican government's environmental enforcement agency, to work towards the uninterrupted operation of the Cerro San Pedro Mine.

ECONOMIC TRENDS

Overall, certain key trends seem to be starting or continuing to take shape, including heightened financial market volatility, asset diversification, U.S. economic softness and potential quantitative easing, credit easing activity, renewed global risk aversion and delayed monetary tightening in advanced economies.

In the third quarter of 2010, gold has surpassed its 2009 highs and continues to sell at a record high level averaging $1,227 per ounce. Gold continues to be considered a safe haven in global markets as investors and governments have concerns about fiat currencies, as well as sovereign debt in some countries. Gold has positioned itself as a monetary metal which is not a government's liability and is acting as a hedge against concerns over the integrity of the global monetary system. Additionally, as market confidence has faltered during recent months and the economic outlook is less certain, economists and market observers seem to be of the opinion that sluggish growth is likely in many parts of the world and that deflation, rather than inflation, is the more significant near term issue facing global economies. As a result, certain countries and particularly the U.S. seem to be headed towards revived quantitative easing programs (such as multi-billion dollar repurchases of U.S. Treasury securities), although there still is a call for austerity measures in certain countries. These issues continue to generate uncertainty over the strength and timing of economic recovery and have the potential to increase volatility and be supportive of gold prices.

The price of gold is the largest single factor affecting New Gold's profitability and operating cash flows. As such, the current and future financial performance of the Company will be closely correlated to the prevailing price of gold. During the third quarter of 2010, New Gold had an average realized gold price(2) of $1,181 per ounce (including monthly deliveries of 5,500 ounces of gold hedged at the Mesquite Mine at $801 per ounce) which was 4% below an average market gold price of $1,227 per ounce.

SELECTED QUARTERLY FINANCIAL INFORMATION

(U.S. dollars in thousands, except ounces, per ounce and per pound amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Operating Data (1)				
Tonnes of ore mined (000's)	6,186	7,521	16,445	14,514
Tonnes of waste mined (000's)	14,607	17,636	39,274	29,609
Ratio of waste to ore	2.36	2.34	2.39	2.04
Gold (ounces):				
Produced	91,332	79,531	258,466	190,101
Sold	89,692	77,645	252,113	185,932
Silver (ounces):				
Produced	733,463	342,633	1,487,247	1,184,110
Sold	748,704	382,278	1,447,560	1,177,210
Copper (000's of pounds):				
Produced	3,137	3,629	11,105	11,708
Sold	2,259	3,752	9,341	9,070
Realized prices(2):				
Gold ($/ounce)	1,181	959	1,137	935
Silver ($/ounce)	19.25	14.83	18.66	13.75
Copper ($/lb)	3.33	2.57	3.28	2.32
Total cash cost per gold ounce sold(3)	435	470	465	460
Financial Data				
Revenues	127,116	88,491	341,095	192,015
Earnings from mine operations	46,695	22,596	119,206	48,939
Net earnings from continuing operations	27,446	6,096	62,052	(181,139)
Earnings per share – basic:				
From continuing operations	0.07	0.02	0.16	(0.65)
From discontinued operations	-	(0.01)	0.11	(0.02)
Total	0.07	0.01	0.27	(0.67)
Operating cash flows from continuing operations	35,494	6,002	94,252	24,625

(1) The above table includes results for the Amapari Mine in the 2009 results which is presented as a discontinued operation for financial reporting purposes.

(2) Realized price is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 2 at the end of this MD&A.

(3) Total cash cost is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 1 at the end of this MD&A. The calculation of total cash cost per ounce of gold sold for the Peak Mine is net of by-product copper sales revenue. The calculation of total cash cost per ounce of gold for the Cerro San Pedro Mine is net of by-product silver sales revenue.

OVERVIEW OF 2010 THIRD QUARTER FINANCIAL RESULTS

In the third quarter of 2010, net earnings from continuing operations was $27.4 million, which increased from $6.1 million in the prior year period. The increase in net earnings from operations is attributed to higher realized commodity prices, increased production and related sales, lower cash cost per ounce and an unrealized gain on the mark to market value of the prepayment option on the senior secured notes. Offsetting these relative benefits is a higher loss on foreign exchange and increased tax expense relative to the prior period. Additionally, the Company had realized and unrealized gains on investments related to the mark to market of Asset Backed Notes of $5.3 million in the third quarter of 2009 compared to $2.1 million for the same period in 2010.

The Company sold 89,692 ounces of gold during the third quarter of 2010, compared to 77,645 ounces in the same prior year period. In addition to increased ounces sold, the increase in average realized price(2) of gold sold from $959 to $1,181 per ounce contributed to a 44% increase in revenues to $127.1 million. Coupled with the revenue increase, the reduction in cash cost(1) per ounce of gold sold to $435 per ounce from $470 in the same prior year period caused earnings from mine operations to increase from $22.6 in the third quarter of 2009 to $46.7 in the third quarter of 2010.

Cash flow from continuing operations for the third quarter of 2010 was $35.5 million compared to $6.0 million for the same period in 2009. The significant increase in quarterly cash flow is a direct result of the company's strong operating performance during the quarter coupled with higher realized commodity prices.

NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2009

In the first nine months of 2010, net earnings from continuing operations was $62.1 million compared to a net loss from continuing operations of $181.1 million in the prior year. Adjusted for the goodwill impairment, the prior period net earnings from continuing operations was $8.5 million. The increase in net earnings from operations is attributed to higher realized commodity prices, increased production and related sales, an unrealized gain on the mark to market value of the prepayment option on the senior secured notes and a considerably smaller exchange rate loss relative to the prior year period. Offsetting these relative benefits are $8.1 million of realized and unrealized gains related to derivative instruments recognized in the first nine months of 2009 compared to a loss of $12.7 million for the first nine months of 2010 which was recorded in revenue. The 2009 benefit relates to pre-hedge accounting gains on gold and fuel hedges. The Company also had realized and unrealized gains on investments related to the mark to market of Asset Backed Notes of $15.0 million in the first nine months of 2009 compared to $7.0 million for the same period in 2010. Additionally, a gain on redemption of long term debt of $14.2 million was realized in the first nine months of 2009 compared to $nil for the same period in the current year.

The Company sold 252,113 ounces of gold during the first nine months of 2010, compared to 185,932 ounces in the same prior year period. In addition to increased ounces sold, the increase in average realized price(2) of gold sold from $935 to $1,137 per ounce contributed to a 78% increase in revenues to $341.1 million. Corporate administration costs were higher at $23.7 million, compared to $15.3 million in the first nine months of 2009, as a result of a negative foreign exchange impact (as majority of general and administrative costs are denominated in Canadian dollars), higher stock compensation expense, additional legal fees incurred and an increased corporate salary base as the first nine months of 2009 only included four months of corporate overhead from Western Goldfields Inc. post acquisition.

OPERATIONS REVIEW

(tabular data in thousands of U.S. dollars unless otherwise stated)

A. MESQUITE MINE, CALIFORNIA, USA

The Company's Mesquite Mine is located in Imperial County, California, approximately 70 kilometres northwest of Yuma, Arizona and 230 kilometres east of San Diego, California. The Mesquite Mining District lies beneath alluvial pediment deposits at the base of the Chocolate Mountains. The mine was operated between 1985 – 2001 by Goldfields Mining Corporation, subsequently Santa Fe Minerals Corporation, and finally Newmont Mining Corporation with Western Goldfields Inc. acquiring the mine in 2003. New Gold acquired the Mesquite Mine as part of the acquisition of Western Goldfields Inc. on May 27, 2009. The mine resumed production in 2008. Over the last 23 years, the Mesquite Mine has been subject to significant exploration with over 6,000 reverse circulation drill holes having been completed during its life. Recent exploration has been focused on the areas surrounding the three existing pits: Rainbow, Big Chief and Vista.

The Mesquite operations are included in New Gold's operating results for the third quarter of 2010. Prior nine months information, presented below, is for comparative purposes only as New Gold acquired the Mesquite operations on May 27, 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Operating Data				
Tonnes of ore mined (000's)	2,545	3,870	8,027	8,675
Tonnes of waste removed (000's)	9,744	12,587	27,937	35,155
Ratio of waste to ore	3.83	3.25	3.48	4.05
Tonnes of ore to leach pad (000's)	2,545	3,870	8,027	8,675
Average gold grade (grams/tonne)	0.46	0.43	0.41	0.44
Gold (ounces):				
Produced (1)	30,150	29,012	113,033	88,757
Sold	30,890	27,594	119,178	87,647
Realized prices: (2)				
Gold ($/ ounce) (3)	1,079	947	1,067	888
Total cash cost per gold ounce sold (4)	708	662	619	624
Financial Data				
Revenues	33,318	26,137	127,153	78,846
Earnings from mine operations	6,326	1,448	34,964	9,550

(1) Tonnes of ore processed each quarter does not necessarily correspond to ounces produced during the quarter, as there is a time delay between placing tonnes on the leach pad and pouring ounces of gold.
(2) Realized price is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 2 at the end of this MD&A.
(3) Includes realized gains and losses from gold hedge settlements.
(4) Total cash cost is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 1 at the end of this MD&A.

THIRD QUARTER OF 2010 COMPARED TO THIRD QUARTER OF 2009

Gold production for the quarter ended September 30, 2010 was 30,150 ounces compared to 29,012 ounces produced in the same period in 2009. Gold production was higher in the third quarter of 2010 compared to third quarter of 2009 due to mining of higher grade ore as well as continued improvement on gold recoveries. Period over period, the average head grade increased to 0.46 g/t from 0.43 g/t. A mining contractor was used in the third quarter of 2009 contributing to the additional tonnes mined in the prior period relative to 2010.

Revenue for the quarter ended September 30, 2010 was $33.3 million compared to $26.1 million in the same period last year due largely to an increase in ounces sold to 30,890 ounces in 2010 from 27,594 ounces in 2009, an increase of 12%. The average realized gold price[2] during the third quarter of 2010 of $1,079 per ounce, including hedged gold ounce settlements at $801 per ounce, was lower than the average London Metals Exchange PM gold fix price of $1,227 per ounce. In the third quarter of 2009, the Mesquite Mine recognized an average realized gold price [2] of $947 per ounce of gold sold.

Total cash cost[1] per ounce of gold sold for the quarter ended September 30, 2010 was $708 per ounce compared to $662 per ounce in the same prior year period. The total cash cost[1] increase is attributable to three primary factors: lower truck operating efficiencies during the quarter as sequencing of the mine plan led to mining in a smaller working area of the pit; increased fuel costs as both the volume and price of diesel consumed have increased over the prior year period; and additional explosive costs.

As a result of increased gold sales and higher realized gold prices, Mesquite generated $6.3 million in earnings from mine operations in the third quarter of 2010 compared to $1.4 million in the same period of the prior year.

Cash flow relating to capital expenditures totaled $1.5 million and $0.8 million for the three month periods ended September 30, 2010 and 2009, respectively.

FIRST NINE MONTHS OF 2010 COMPARED TO FIRST NINE MONTHS OF 2009

Gold production for the nine months ended September 30, 2010 was 113,033 ounces compared to 88,757 ounces produced in the same period in 2009. Gold production was higher in the first nine months of 2010 compared to same period of 2009 due mainly to increased recoveries partially offset by lower tonnes mined. Total ore tonnes placed on the leach pad in the first nine months of 2010 decreased by 7% to 8.0 million compared to 8.7 million in the same period last year.

Revenue for the nine months ended September 30, 2010 was $127.2 million compared to $78.8 million in the same period last year due to a significant increase in ounces sold to 119,178 ounces in 2010 from 87,647 ounces in 2009, an increase of 36%. The average realized gold price[2] during the first nine months of 2010 of $1,067 per ounce, including hedged gold ounce settlements at $801 per ounce, was lower than the average London Metals Exchange PM gold fix price of $1,177 per ounce. In the first nine months of 2009, the Mesquite Mine recognized an average realized gold price [2] of $888 per ounce of gold sold.

Total cash cost[1] per ounce of gold sold for the nine months ended September 30, 2010 was $619 per ounce compared to $624 per ounce in the same prior year period. The decrease in cash cost [1] was driven primarily by a lower stripping ratio requiring fewer waste tonnes to be moved as well as the fixed portion of operating costs being distributed over increased gold ounces. These positive impacts were partially offset by the above noted cost increases and particularly those related to fuel costs.

As a result of the increased production and higher realized gold prices, Mesquite generated $35.0 million in earnings from mine operations in the first nine months of 2010 compared to $9.6 million in the same period of the prior year.

Cash flow relating to capital expenditures totaled $2.8 million and $1.0 million respectively for the nine months ended September 30, 2010 and 2009 and constituted run of mine capital expenditures.

B. CERRO SAN PEDRO MINE, MEXICO

The Cerro San Pedro Mine is located in the state of San Luis Potosí in central Mexico, approximately 20 kilometres east of the city of San Luis Potosí. The project property consists of 52 mining and exploration concessions totaling 78 square kilometres in the historic Cerro San Pedro mining district. The mine was acquired pursuant to the Metallica Resources Inc. acquisition on June 30, 2008. The current focus of exploration is on the southern half of a two-plus kilometre San Pedro trend of gold-silver-zinc-lead mineralization that extends south from beneath the Company’s current open pit mine operation.

The Cerro San Pedro Mine achieved ISO 14001 certification of its environmental management system. New Gold’s Cerro San Pedro Mine has a record of compliance with Mexican and international environmental standards. Despite the Company’s enviable record with Mexican and international environmental standards, the Company has a history of legal challenges to its Cerro San Pedro Mine. In September 2009, a Federal Court of Fiscal and Administrative Justice (FCFAJ) ordered SEMARNAT, the Mexican environmental regulatory agency, to nullify the authorization of its 2006 Environmental Impact Statement (“EIS”) for the Cerro San Pedro mine. The Company appealed the ruling. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. The Company has filed a further appeal to the Collegiate Appeals Court in Mexico City.

The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue while appeals are heard related to the September 2009 order to nullify the authorization of the Company’s EIS. The latest injunction was received on October 4, 2010. In August 2010, the Company filed an expanded application for approval of an EIS with SEMARNAT. This application is currently under review.

New Gold remains in continuous discussions with both SEMARNAT and PROFEPA, the Mexican government's environmental enforcement agency, to work towards the uninterrupted operation of the Cerro San Pedro Mine.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Operating Data				
Tonnes of ore mined (000's)	3,450	3,467	7,838	9,081
Tonnes of waste mined (000's)	4,863	5,050	11,337	13,669
Ratio of waste to ore	1.41	1.46	1.45	1.51
Tonnes of ore processed (000's)	3,450	3,467	7,838	9,081
Average gold grade (grams/tonne)	0.66	0.42	0.64	0.46
Average silver grade (grams/tonne)	45.71	30.33	40.31	31.47
Gold (ounces):				
Produced(1)	37,473	24,928	79,835	69,721
Sold	38,090	27,193	76,047	68,857
Silver (ounces):				
Produced(1)	733,463	342,633	1,487,247	1,184,110
Sold	748,704	382,278	1,447,560	1,177,210
Realized prices(3):				
Gold ($/ounce)	1,234	964	1,205	942
Silver ($/ounce)	19.25	14.83	18.66	13.75
Total cash cost per gold ounce sold(2)(4)	151	416	277	394
Financial Data				
Revenues	61,433	31,894	118,628	81,079
Earnings from mine operations	29,967	8,510	47,685	17,591

(1) Tonnes of ore processed each quarter do not necessarily correspond to ounces produced during the quarter, as there is a time delay between placing tonnes on the leach pad and pouring ounces of gold and silver.
(2) The calculation of total cash cost per ounce of gold is net of by-product silver revenue. If the silver revenues were treated as a co-product, average total cash cost at Cerro San Pedro Mine for the three months ended September 30, 2010, would be $405 per ounce of gold (2009 - $513) and $6.32 per ounce of silver (2009 - $7.89). For the nine months ended September 30, 2010 the average total cash cost at Cerro San Pedro Mine would be $488 per ounce of gold (2009 - $503) and $7.56 per ounce of silver (2009 - $7.34).
(3) Realized price is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 2 at the end of this MD&A.
(4) Total cash cost is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 1 at the end of this MD&A.

THIRD QUARTER OF 2010 COMPARED TO THIRD QUARTER OF 2009

Gold production for the third quarter of 2010 increased by 50% to 37,473 ounces, compared to 24,928 ounces produced in the same prior year period. The increased gold production was a result of mining of higher grade ore per the mine plan sequencing and leach pad recoveries returning to more steady-state levels during the third quarter of 2010. Silver production increased to 733,463 ounces compared to 342,633 ounces in the same prior year period. The increased production resulted from highly favourable ore grades quarter on quarter and improved silver recoveries from the leach pad.

Revenue for the third quarter of 2010 was $61.4 million, which was a 93% or $29.5 million increase over the same prior year period. The main driver for this was an increase in gold sales of 10,897 ounces and an increase in the average realized price. The average realized gold price per ounce during the third quarter 2010 and 2009 was $1,234 and $964 respectively, which corresponds well to the average London Metals Exchange PM gold fix price of $1,227 and $960 per ounce, respectively. The average realized silver price per ounce during the third quarter 2010 and 2009 was $19.25 and $14.83 respectively, which also correlates to the average London Metals Exchange silver fix price of $18.96 and $14.70 per ounce, respectively.

Total cash cost(1) per ounce of gold sold in the third quarter of 2010 was $151 per ounce compared to $416 per ounce in the same prior year period, representing a decrease of 64%. The decrease in total cash cost(1) is due to optimized mine planning, lower mining cost per tonne and the benefit of higher by-product revenues resulting from higher silver volumes and higher realized silver price during the third quarter of 2010 when compared to the same prior year period. These benefits were partially offset by the appreciation of the Mexican Peso as well as higher processing consumables costs, incurred in an effort to optimize recoveries, during the third quarter of 2010 when compared to the same period in 2009.

The increased gold sales, coupled with a significant reduction in total cash cost(1) per ounce of gold sold, net of by-product sales, resulted in Cerro San Pedro generating $30.0 million in earnings from mine operations in the third quarter of 2010 compared to $8.5 million in the same period of the prior year.

Cash flow relating to capital expenditures totaled $2.3 million and $0.7 million for the three month period ended September 30, 2010 and 2009, respectively. Capital expenditures in 2010 were primarily associated with a leach pad expansion.

FIRST NINE MONTHS OF 2010 COMPARED TO FIRST NINE MONTHS OF 2009

Gold production for the nine months ended September 30, 2010 was 79,835 ounces compared to 69,721 ounces produced in the same period in 2009. The increased gold sales and production in the first nine months of 2010 were attributable to the mining of higher average grade ore and improved leach pad recoveries and were partially offset by the mining of fewer ore tonnes as a result of the delayed receipt of the explosives permit in the first quarter of 2010.

Revenue for the nine months ended September 30, 2010 was $118.6 million compared to $81.1 million in the same prior year period. The average realized gold price[2] during the first nine months of 2010 of $1,205 per ounce compares favourably to the average London Metals Exchange PM gold fix price of $1,177 per ounce. In the first nine months of 2009, the Cerro San Pedro Mine recognized an average realized gold price[2] of $942 per ounce of gold sold. The average realized silver price per ounce during the first nine months of 2010 and 2009 was $18.66 and $13.75 respectively, which also correlates to the average London Metals Exchange silver fix price of $18.07 and $13.68 per ounce, respectively.

Total cash cost[1] per ounce of gold sold for the nine months ended September 30, 2010 was $277 per ounce compared to $394 per ounce in the same prior year period. The decrease in cash cost[1] was driven primarily by a combination of improved mining costs per tonne planning and higher by-product revenues in the first nine months of 2010. These benefits were partially offset by the appreciation of the Mexican Peso and higher consumables costs during the first nine months of 2010 when compared to the same period in 2009.

As a result of the lower costs and higher realized gold prices, Cerro San Pedro generated $47.7 million in earnings from mine operations in the first nine months of 2010 compared to $17.6 million in the same period of the prior year.

Cash flow relating to capital expenditures totaled $7.8 million and $1.7 million respectively for the nine months ended September 30, 2010 and 2009. Capital expenditures in 2010 were primarily associated with a leach pad expansion.

IMPACT OF FOREIGN EXCHANGE ON OPERATIONS

The Cerro San Pedro Mine was impacted by changes in the value of the Mexican peso against the U.S. dollar in the third quarter of 2010 relative to the third quarter of 2009. The value of the Mexican peso increased from an average of 13.27 to the U.S. dollar in the third quarter of 2009 to 12.81 to the U.S. dollar in the third quarter of 2010. This had a negative impact of approximately $18 per ounce of gold sold.

The value of the Mexican peso increased from an average of 13.66 to the U.S. dollar in the first nine months of 2009 compared to 12.73 to the U.S. dollar in the first nine months of 2010. This had a negative impact of approximately $43 per ounce of gold sold.

C. PEAK MINE, NEW SOUTH WALES, AUSTRALIA

The Company's 100% owned Peak Mine gold-copper mining operation is located in the Cobar Mineral Field near Cobar, New South Wales, Australia. Peak Mine consists of mining and exploration licenses totaling 845 square kilometres of prospective ground covering the mining operation and mineralized extensions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Operating Data				
Tonnes of ore processed (000's)	205	194	576	592
Average gold grade (grams/tonne)	4.01	4.56	3.89	3.99
Average copper grade (%)	0.80	0.95	0.98	1.00
Gold (ounces):				
Produced	23,709	25,591	65,598	68,601
Sold	20,712	22,858	56,888	61,653
Copper (thousands of pounds):				
Produced	3,137	3,629	11,105	11,708
Sold	2,259	3,752	9,341	9,070
Realized prices (1):				
Gold ($/ ounce)	1,234	968	1,194	933
Copper ($/ pound)	3.33	2.57	3.28	2.32
Total cash cost per gold ounce sold (2)	549	302	393	332
Financial Data				
Revenues	32,365	30,460	95,314	74,588
Earnings from mine operations	10,402	12,638	36,557	30,994

(1) Realized price is a non-GAAP financial performance measure with no standard meaning under U.S. GAAP. See Endnote 2 at the end of this MD&A.

(2) Total cash cost is a non-GAAP financial performance measure with no standard meaning under Canadian GAAP. See Endnote 1 at the end of this MD&A. The calculation of total cash cost per ounce of gold is net of by-product copper revenue. If the copper revenue was treated as a co-product, average total cash cost at Peak Mine for the three month period ended September 30, 2010 would be $674 per ounce of gold and $1.97 per pound of copper, as compared to $463 per ounce of gold and $1.41 per pound of copper for the period ended September 30, 2009. For the nine months ended September 30, 2010 the average cash cost at Peak Mine would be $595 per ounce of gold (2009 - $459) and $1.85 per pound of copper (2009 - $1.29).

THIRD QUARTER OF 2010 COMPARED TO THIRD QUARTER OF 2009

Peak Mine produced 23,709 ounces of gold and 3.1 million pounds of copper during the third quarter of 2010 compared to 25,591 ounces of gold and 3.6 million pounds of copper in the same prior year period. Gold production decreased, despite a 5.7% increase in ore milled and comparable recoveries, due to a decrease in the gold grade. Mill throughput was 204,539 tonnes in the third quarter 2010 compared to 193,683 tonnes in the comparable period in 2009. Mill feed grade was 12% lower in gold grade and 16% lower in copper grade. During the quarter of 2010 there were delays in bringing a relatively high grade Perseverance Zone D Stope on line.

Revenue for the third quarter of 2010 was higher than in the same quarter 2009 mainly due to higher realized gold prices(2) of $1,234 per ounce compared to $968 per ounce and the higher realized copper prices of $3.33 per pound compared to $2.57 per pound in the same prior year period. This compares to the average London Metals Exchange PM gold fix price of $1,227 and $960 per ounce for the third quarter of 2010 and 2009, respectively. The average London Metals Exchange copper fix price was $3.28 for the third quarter of 2010. Copper sales were negatively impacted by timing of concentrate shipments with significant copper sales anticipates in the fourth quarter.

Total cash cost(1) per ounce of gold sold, net of by-product sales, for the third quarter was $549 compared to $302 in the third quarter of 2009. The increase is attributable to the timing of concentrate shipments resulting in lower by-product revenues and the appreciation of the Australian dollar in the third quarter of 2010 when compared to the same period in the prior year.

The higher average realized price, offset by increased total cash cost[1] per ounce of gold sold, net of by-product sales and reduced sales volume resulted in Peak Mine generating $10.4 million in earnings from operations during the third quarter of 2010 compared to $12.6 million in the same period of the prior year.

Capital expenditures totaled $7.8 million and $5.6 million for the three month period ended September 30, 2010 and 2009, respectively. Capital expenditures in 2010 were primarily associated with a new truck, underground development projects and commencement of the copper conventional flotation cell project and Perseverance Zone D fresh air vent projects.

FIRST NINE MONTHS OF 2010 COMPARED TO FIRST NINE MONTHS OF 2009

Peak Mine produced 65,598 ounces of gold and 11.1 million pounds of copper during the first nine months of 2010 compared to 68,601 ounces of gold and 11.7 million pounds of copper for the same prior year period. These variances are largely due to the decreased processed ore with a scheduled mill shutdown in March 2010, offset by production from the higher ore grade Chesney ore body that commenced in the first six months of 2009. Mill throughput for the first nine months of 2010 was 3% below the same period in 2009. Mill feed grade was 3% lower in gold grade and 2% lower in copper grade.

Revenue for the first nine months of 2010 was higher than in the same nine months in 2009 mainly due to higher realized gold prices[2] of $1,194 per ounce compared to $933 per ounce and the higher realized copper prices of $3.28 per pound compared to $2.32 per pound in the same prior year period. This compares to the average London Metals Exchange PM gold fix price of $1,177 and $930 per ounce for the first nine months of 2010 and 2009, respectively. The average London Metals Exchange copper fix price was $3.25 for the first nine months of 2010. Copper sales were negatively impacted by timing of concentrate shipments with significant copper sales anticipated in the fourth quarter.

Total cash cost[1] per ounce of gold sold, net of by-product sales, for the first nine months was $393 compared to $332 in the same period of 2009. The increase in total cash cost[1] was mainly attributable to a higher by-product revenue being offset by higher operating costs and the appreciation of the Australian dollar in the first nine months of 2010 compared to the same period in 2009.

The higher average realized price, offset by increased total cash cost[1] per ounce of gold sold, net of by-product sales and reduced gold sales volume resulted in Peak Mine generating $36.6 million in earnings from operations during the third quarter of 2010 compared to $31.0 million in the same period of the prior year.

Capital expenditures totaled $18.0 million and $19.1 million for the nine month period ended September 30, 2010 and 2009, respectively. Capital expenditures in 2010 were primarily associated with a new truck, mobile fleet rebuilds, emergency egress, the copper conventional flotation cell project and Perseverance Zone D fresh air vent projects and underground development projects.

IMPACT OF FOREIGN EXCHANGE ON OPERATIONS

Peak Mine's operations continue to be impacted by fluctuations in the valuation of the Australian dollar against the U.S. dollar. The value of Australian dollar in the third quarter of 2010 averaged 1.11 compared to 1.20 in the third quarter of 2009 resulting in a negative impact on cash costs[1] of approximately $70 per gold ounce sold.

The value of Australian dollar in the first nine months of 2010 averaged 1.12 compared to 1.34 in the first nine months of 2009 resulting in a negative impact on cash costs[1] of approximately $157 per gold ounce sold.

PROJECT DEVELOPMENT REVIEW

A. MESQUITE MINE, CALIFORNIA, USA

During the third quarter of 2010, the Company continued its investigation of the economic viability of the sulphide mineral resource at the Mesquite gold mine. A program involving approximately 12,000 metres of exploration drilling as an initial test to confirm continuity and test for extensions to the sulphide mineral resource, in combination with metallurgical testing to confirm recovery estimates from previous metallurgical testing for the sulphide mineralization commenced during June. The current sulphide mineral resource, inclusive of reserves, contains approximately 1.98 million ounces of gold in the measured and indicated categories and 234,000 ounces in the inferred category. Approximately 1.03 million ounces of the sulphide mineral resource is included in the current proven and probable mineral reserve. The initial 12,000 metre drilling program is on track for completion during the fourth quarter and subject to positive results, is expected to be followed by a more comprehensive delineation drilling program during 2011. The metallurgical testing program will continue into 2011 with receipt of final results expected during the third quarter of 2011.

The scientific and technical information in this section has been prepared under the supervision of Mark Petersen, a qualified person under National Instrument 43-101 and an employee of the Company.

B. CERRO SAN PEDRO MINE, SAN LUIS POTOSÍ, MEXICO

During the third quarter of 2010, the Cerro San Pedro Sulphide exploration project continued with the commencement of a 10,000 metre core drilling program in combination with a deep penetrating IP-Resistivity geophysical survey. The objective of the current phase of work is to explore a zone of high grade manto-style sulphide mineralization as it extends from an area of historic underground mining south of the current open pit. Drilling during 2009 indicates the high grade sulphide mineralization remains open to the south and west of the area of historic mining. Drilling during the third quarter has confirmed the continuation of high grade manto zone another 300 metres south of the current resource. Highlights of the current manto drilling program include a 7.9 metre intercept averaging 9.3 g/t gold, 135 g/t silver, 4.37% zinc, and 2.15% lead located approximately 200 metres south of the currently defined inferred manto resource. Additionally, the recently completed geophysical survey has provided further confirmation that the San Pedro manto system remains open for an additional 600 to 800 metres south of the latter drill intercept. Exploration of the San Pedro sulphide manto is expected to continue during 2011.

The scientific and technical information in this section has been prepared under the supervision of Mark Petersen, a qualified person under National Instrument 43-101 and an employee of the Company.

C. PEAK MINE, NEW SOUTH WALES, AUSTRALIA

During the third quarter of 2010, the Company's ongoing mineral resource development program at Peak Mine's operations resulted in the completion of 18,148 metres of exploration and delineation diamond drilling to replace mine depletion. This total includes 11,172 metres of underground drilling to delineate and explore for additional reserves in the Perseverance deposit, 4,314 metres of underground drilling to delineate and explore for additional reserves in the New Cobar deposit, 388 metres of underground drilling to delineate and explore for additional reserves in the Chesney deposit, 59 metres of underground drilling to explore for extensions to the New Occidental deposit at depth, 1,196 metres of surface drilling to explore the Fortitude prospect south of the Company's Perseverance mine, 808 metres of surface drilling to explore the Fort Bourke North deposit north of the Company's New Cobar mine and 211 metres of surface drilling to explore under the historic Great Cobar workings. The Company's regional exploration initiative at Peak Mine likewise continues with geophysical surveys and geochemical sampling of targets identified within the Cobar mineral field. The Company has many underground targets and the exploration goal is to replace reserves consumed by mining activities in 2010.

D. NEW AFTON PROJECT, BRITISH COLUMBIA, CANADA

The Company's New Afton copper-gold development project is located in Kamloops, British Columbia, Canada. The New Afton project's property package consists of the nine square kilometre Afton mining lease which centres on the New Afton copper-gold mine currently under development as well as 111 square kilometres of exploration licenses covering multiple mineral prospects within the historic Iron Mask mining district.

Project spending for the third quarter of 2010 was $22.5 million compared to $8.7 million for the third quarter of 2009. Project spending for the first nine months of 2010 was $59.1 million, including $10.1 million of interest, compared to $52.6 million, including $9.2 million of interest, for the first nine months of 2009. The remaining capital required to complete New Afton project is approximately $365 million

Underground development advanced a total of 2,479 metres during the first nine months of 2010 compared to an advance of 1,072 metres during the first nine months of 2009. During the quarter, underground development advanced a total of 1,066 metres compared to an advance of 671 metres during the second quarter. Shotcrete support work during the period included the spraying of 2,198 cubic metres in the development headings compared to 1,570 cubic metres in the second quarter of 2010.

Excavation and ground support of the Conveyor Transfer Chamber, the second large bulk mining excavation at New Afton continued during the third quarter. Mining of Conveyor Leg 4 continued to be driven from the top and bottom during the quarter with 570 metres remaining to break through. Excavation began on the first extraction drift in the ore-body at the mining level horizon. Conveyor table anchor bolts and table installation continued in Leg 1 and 2 are 89% and 59% complete, respectively. Raise Boring of the first of three major internal underground ventilation raises that bring fresh air to the production area of the mine was completed to the lowest workings of the mine during the quarter.

Construction activities continued on the surface in the third quarter with the installation of buried services (utilities) throughout the mine site, installation of support pilings around the concentrator and ore stockpile area and the erection of the process and fresh water tanks.

Surface projects in the third quarter included preparation, clean-up and reorganization of materials storage areas, site preparation for a new warehouse building, clearing of stored materials from inside the concentrator building in advance of planned fill material removal, continued mine dry facility expansion, site road improvements and maintenance and crane, excavator, loader, and skid-steer work in support of construction and maintenance activities.

Electrical activities included installation, commissioning and maintenance of the permanent underground electrical substations and related 13.8 kV distribution systems and design and planning for the main substation switch house construction, permanent BC Hydro power connection and revised routing of the

13.8 kV power to the lower reaches of the mine. Additional work was also undertaken to supply power for the temporary contractors' facilities and work areas around the site.

Mechanical crews focused on several mobile equipment reliability issues, notably the reduced shotcrete sprayer availability due to the minor fire damage incurred in the second quarter and ongoing parts availability issues with supplier and quality issues with rebuilt transmixer transmissions and axles and gearbox problems with the underground haul trucks.

E. EL MORRO JOINT VENTURE, ATACAMA REGION, CHILE

The Company's 30% owned El Morro copper-gold project is located in the Atacama Region, Chile, approximately 80 kilometres east of the city of Vallenar. El Morro was acquired by the Company as part of the business combination with Metallica Resources Inc. on September 30, 2008. The project is a development stage asset initially managed under a shareholder agreement with Xstrata, the previous project operator and owner of a 70% interest.

During the third quarter of 2010, the El Morro project activities included the continued management of the EIS application review process, which commenced in November 2008, and detailed engineering and design work for the access road and related project infrastructure. New Gold's 70% joint venture partner on the El Morro Project, Goldcorp Inc., continues to work through the permit review process for the project with a target to begin construction in the first half of 2011.

The Company's share of total project expenditures from point of ownership to December 31, 2009 was $2.3 million, with no funding requirement in 2010.

On October 12, 2009, Barrick announced that it had entered into an agreement with Xstrata to acquire Xstrata's 70% interest in El Morro. New Gold held a right of first refusal over Xstrata's 70% interest which was triggered when the agreement with Barrick was announced. On January 7, 2010, the Company provided notice to Xstrata of the exercise of its right of first refusal to acquire 70% of the El Morro copper-gold project in Chile for $463.0 million. The Company completed this transaction on February 16, 2010. Goldcorp loaned the $463.0 million to the Company to fund the exercise of the right of first refusal. After acquisition of the 70% interest by a subsidiary of the Company, New Gold then completed a transaction with Goldcorp which resulted in a Goldcorp subsidiary now holding the 70% interest in El Morro. Through the subsequent transaction with Goldcorp, the Company received $50.0 million and the terms of the shareholder agreement were amended. The Company continues to hold a 30% interest in the El Morro copper-gold project.

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

REVIEW OF FINANCIAL RESULTS

THIRD QUARTER 2010 COMPARED TO THIRD QUARTER 2009

Revenues increased by 44% or $38.6 million to $127.1 million when comparing the third quarter of 2010 to 2009. The increase was attributed to an increase in average realized gold prices[(2)] from $959 per ounce in the third quarter of 2009 to $1,181 per ounce in 2010. Additionally, sales of gold ounces increased to 89,692 ounces compared to 77,645 ounces in the same prior year period and sales of silver ounces increased to 748,704 from 382,278 in the same prior year period, partially offset by a reduction in copper sales.

Operating expenses increased from $51.1 million in 2009 to $59.4 million in the third quarter of 2010. The increase is attributed to an increase in mining rate and related production levels, an adverse impact of foreign exchange as the U.S. dollar has weakened to the Australian dollar and Mexican peso and higher consumable prices.

Depreciation and depletion was $21.0 million for the third quarter of 2010 compared to $14.8 million for the third quarter of 2009 reflecting an increase in production and related depreciation expense on a unit of production basis, particularly at Cerro San Pedro.

For the three months ended September 30, 2010, New Gold had earnings from mine operations of $46.7 million compared with $22.6 million in the same prior year period.

Corporate administration costs of $7.0 million in the third quarter of 2010 compared to $5.5 million incurred in the same prior year period. Corporate administration was higher in the third quarter of 2010 primarily due to a negative foreign exchange impact as the majority of corporate administration costs are denominated in Canadian dollars, additional legal costs and an increased salary related costs. Stock-based compensation costs included within corporate administration were $1.8 million and $1.9 million in third quarters of 2010 and 2009, respectively.

Exploration expense is $4.8 for the third quarter of 2010 relative to $2.4 in the same prior year period. The increase is primarily related to $1.5 million of exploration expense related to the Mesquite Sulphide project and well as some increased exploration activity at Peak Mine.

On July 1, 2009, the Company met the criteria for hedge accounting under the Canadian Institute of Chartered Accountants' Handbook section 3865 – *Hedges* in accounting for its gold hedge and fuel contracts. Application of the accounting standards allows the Company to record realized gains and losses on gold hedge settlements within revenue. For settlements on the fuel hedges, the realized gains and losses are classified within operating expenses. Changes resulting from the mark-to-market of the gold hedge and fuel contracts are now recognized within other comprehensive income.

For the three month period ended September 30, 2010, the Company's Mesquite Mine realized losses of $5.1 million within revenues for settlement of three months of gold hedge contracts totaling 16,500 ounces. As a result of the increase in the spot price of gold from $1,244 per ounce to $1,307 per ounce between June 30, 2010 and September 30, 2010, the Mesquite Mine recognized $10.5 million of pre-tax unrealized losses in the mark-to-market of remaining contracts within other comprehensive income.

During the third quarter of 2010, the Company had realized and unrealized gains on investments related to the mark to market of remaining Asset Backed Notes of $2.1 million as the credit quality of these notes continues to improve. This compares to a gain of $5.3 million for the same prior year period.

The Company has a prepay option on the senior secured notes which was fair valued at $11.6 million at September 30, 2010 generating an unrealized gain of $10.9 million. As the Company's creditworthiness improves, there is a deemed benefit to exercising the prepay option on the senior secured notes and refinancing at lower rates. This is an accounting transaction and has no cash impact. The earnings impact in the prior year period is $nil.

The Company recognized a foreign exchange loss of $12.9 million in the third quarter of 2010 compared to a loss of $8.9 million in the same prior year period. During the third quarter of 2010, the U.S. dollar weakened against the foreign currencies that the Company operates in. The Canadian and Australian dollars strengthened 3% and 13% respectively against the U.S. dollar since June 30, 2010. The foreign exchange loss arose due to the revaluation of monetary assets and liabilities and future income tax liabilities recorded on the business combination between New Gold, Metallica, and Peak Gold. The sum of the monetary items represents a net liability position which increased on a U.S. dollar basis as a result of the relative strength of the Canadian and Australian dollars.

Income and mining tax expense in the third quarter of 2010 was $8.6 million compared to $3.5 million in the same prior year period, reflecting an effective tax rate of 24% for the third quarter of 2010.

For the three months ended September 30, 2010, New Gold had net earnings from continuing operations of $27.4 million, or $0.07 per basic and diluted share. This compares with a net earnings from continuing operations of $6.1 million, or $0.02 per basic and diluted share in the same prior year period. In the third quarter of 2010, net earnings, including earnings from discontinued operations, was $27.4 million, or $0.07 per basic and diluted share. This compares with net earnings of $4.1 million, or $0.01 per basic and diluted share in 2009.

NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2009

Revenues increased by 78% or by 149.1 million when compared to $192.0 million in the same prior year period. The increase is attributed to an increase in average realized gold prices[(2)] from $935 per ounce during the first nine months of 2009 to $1,137 per ounce in 2010. Additionally, the first nine months of 2010 includes the full nine months of gold sales for the Mesquite Mine compared to four post acquisition months for 2009. The Mesquite Mine sold 119,178 ounces of gold in in the first nine months of 2010 compared to 39,195 in the same prior year period representing the four-month period of ownership.

Operating expenses increased from $109.1 million in the first nine months of 2009 to $169.5 million during the first nine months of 2010. The addition of the Mesquite Mine to the Company's operating mines contributed an incremental $44.9 million to operating expenses. Increased production, higher consumable costs and adverse foreign exchange movements further impacted operating cost year on year.

Depreciation and depletion for the nine months ended September 30, 2010 was $52.3 million compared to $34.0 million for the same prior year period. This was primarily attributed to the addition of the Mesquite Mine to the Company's operating mine portfolio on May 27, 2009. For the first nine months of 2010, the Mesquite Mine incurred incremental depreciation and depletion expense of $11.3 million. Further increase result from an increase in production and related depreciation expense on a unit of production basis.

For the nine months ended September 30, 2010, New Gold had earnings from mine operations of $119.2 million compared with $48.9 million in the same prior year period.

Corporate administration costs of $23.7 million in the first nine months of 2010 were 55% higher than $15.3 million incurred in the same prior year period. Corporate administration was higher in the first nine months of 2010 primarily due to a negative foreign exchange impact, additional legal costs, increase stock based compensation and an increased corporate salary base following the business combination with Western Goldfields Inc. Nearly all corporate costs are incurred in Canadian dollars, which has appreciated 11% to the U.S. dollar relative to the first nine months of 2009. This generates a negative foreign exchange impact of approximately $2.5 million. Stock-based compensation costs included within corporate administration were $6.4 million and $4.8 million in first nine months of 2010 and 2009, respectively.

Exploration costs of $9.4 million in the first nine months of 2010 were higher than $5.1 million for the same prior year period. The increase was driven by the Peak Mine where exploration activity has increased significantly relative to the first nine months of 2009 which is primarily planning and evaluation. Additionally, the Mesquite Sulphide project has incurred $1.5 million of exploration expense in 2010.

On July 1, 2009, the Company met the criteria for hedge accounting under the Canadian Institute of Chartered Accountants' Handbook section 3865 – *Hedges* in accounting for its gold hedge and fuel contracts. Application of the accounting standards allows the Company to record realized gains and losses on gold hedge settlements within revenue. For settlements on the fuel hedges, the realized gains and losses are classified within operating expenses. Changes resulting from the mark-to-market of the gold hedge and fuel contracts are now recognized within Other Comprehensive Income.

For the nine month period ended September 30, 2010, the Company's Mesquite Mine realized losses of $12.7 million within revenues for settlement of nine months of gold hedge contracts totaling 49,500 ounces. As a result of the increase in the spot price of gold from $1,088 per ounce to $1,307 per ounce between December 31, 2009 and September 30, 2010, the Mesquite Mine recognized $43.6 million of pre-tax unrealized losses in the mark-to-market of remaining contracts within Other Comprehensive Income.

Following the acquisition of Mesquite Mine and prior to the Company meeting the criteria for hedge accounting, a gain of $8.0 million was recorded in the first nine months of 2009 for realized and unrealized gain on fuel and hedge contracts. The 2010 period has no comparative as realized losses of $12.7 million on hedge settlement are recorded in revenue and unrealized mark to market gains or losses are recorded in Other Comprehensive Income.

During the first nine months of 2010, the Company had realized and unrealized gains on investments related to the mark to market of remaining Asset Backed Notes of $7.0 million. This compares to a gain of $15.0 million for the same prior year period. Additionally, a gain on redemption of long term debt of $14.2 million was realized in the first nine months of 2009 compared to $nil for the same period in the current year.

The Company has a prepay option on the senior secured notes which was fair valued at $11.6 million at September 30, 2010 generating an unrealized gain equal to that value in the first nine months of 2010. As the Company's creditworthiness improves, there is a deemed benefit to exercising the prepay option on the senior secured notes and refinancing at lower rates. This is an accounting transaction and has no cash impact. The earnings impact in the prior year period is $nil.

The Company recognized a foreign exchange loss of $12.2 million in the first nine months of 2010 compared to a loss of $41.5 million in the same prior year period. The foreign exchange losses arise due to the revaluation of monetary assets and liabilities and future income tax liabilities recorded on the business combination between New Gold, Metallica, and Peak Gold. The sum of the monetary items represents a net liability position which decreased on a U.S. dollar basis as a result of the relative weakness of the Canadian and Australian dollars. The prior year period loss of $41.5 million arose as the U.S. dollar significantly weakened to all foreign currencies that New Gold operates in during the first nine months of 2009. The loss for the nine months ended September 30, 2010 is lower than the prior comparative since the Company now holds a significant portion of its cash in Canadian dollars which offsets the Canadian dollar denominated debt.

Income and mining tax expense in the first nine months of 2010 was $29.9 million compared to a $10.4 million in the same prior year period, reflecting an effective tax rate of 32% for the first nine months of 2010.

For the nine months ended September 30, 2010, New Gold had net earnings from continuing operations of $62.1 million, or $0.16 per basic and diluted share. This compares with a net loss from continuing operations of $181.1 million, or $(0.65) per basic and diluted share in the same prior year period. In the first nine months of 2010, net earnings, including earnings from discontinued operations, was $104.1 million, or $0.27 per basic share. This compares with a net loss of $186.7 million, or $(0.67) per basic and diluted share in 2009.

QUARTERLY INFORMATION

(tabular data in thousands of U.S. dollars, except per share amounts)

	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4
Gold sales (ounces)	89,692	82,402	80,020	106,475	77,645	52,890	55,397	78,194
Revenues	127,116	112,359	101,620	131,765	88,491	59,199	44,325	36,736
Net earnings (loss) from continuing operations	27,446	17,418	17,188	(2,295)	6,096	(199,304)	12,069	39,412
Earnings (loss) per share from continuing operations								
Basic	0.07	0.04	0.04	(0.01)	0.02	(0.77)	0.06	0.18
Diluted	0.07	0.04	0.04	(0.01)	0.02	(0.77)	0.06	0.18
Net earnings (loss)	27,446	59,136	17,493	(7,650)	4,101	(202,846)	12,079	41,135
Earnings (loss) per share								
Basic	0.07	0.15	0.04	(0.02)	0.01	(0.79)	0.06	0.19
Diluted	0.07	0.15	0.04	(0.02)	0.01	(0.79)	0.06	0.19

BALANCE SHEET REVIEW

A. ASSETS

At September 30, 2010, New Gold held cash and cash equivalents of $391.0 million. This compared to $376.1 million held at June 30, 2010. As at September 30, 2010 $292.2 million of the cash is in Canadian dollars. Of the Company's holdings, $139.6 million is held in Canadian federal and provincial treasury bills and $120.1 million in cash. The remainder is held in the following liquid forms: banker's acceptances, term deposits, and guaranteed investment certificates.

B. ASSET BACKED NOTES

At September 30, 2010, the Company owned long-term Asset Backed Notes ("AB Notes") with a face value of $20.3 million (Cdn$20.9 million). These AB Notes were issued in replacement of asset backed commercial paper ("ABCP") formerly held by the Company. When the ABCP matured but was not redeemed in 2007, it became the subject of a restructuring process that replaced the ABCP with long-term asset backed securities. The restructuring was completed and the AB Notes were issued on January 21, 2009.

The Company has estimated the fair value of the remaining AB Notes at September 30, 2010 based on market bid prices. As a result of this analysis, the Company has estimated the fair market value of its AB Notes investment to be $5.2 million as at September 30, 2010.

While the Company believes that it has utilized an appropriate methodology to estimate fair value, given the current state and ongoing volatility of global credit markets, there can be no assurance that management's estimate of potential recovery as at September 30, 2010 is accurate. Subsequent adjustments, either materially higher or lower, may be required in future reporting periods. The Company will continue to manage the process to recover the maximum value from the original investments and interest due.

The secondary market for the Company's remaining AB Notes is relatively illiquid; however management will continue to monitor developments in order to maximize value.

C. INVESTMENT IN BEADELL SHARES

At September 30, 2010, the Company owned 115 million shares in Beadell that were acquired as partial consideration in the Amapari transaction. On the closing date of the transaction, April 13, 2010, the shares were valued at $18.6 million (Aud$20.1 million). The Company has designated its investment in Beadell as an available for sale financial asset with changes in fair value being included in other comprehensive income. At September 30, 2010, the shares were valued at $41.6 million resulting in a gain of $20.1 million (net of tax of $2.9 million) in Other Comprehensive Income.

D. FUEL CONTRACTS

New Gold's wholly-owned subsidiary, Western Mesquite Mines Inc. ("WMMI"), entered into fuel hedge contracts with financial institutions in December 2008 and January 2009. As at September 30, 2010, the hedging contracts represent a total commitment of 0.75 million gallons of diesel at a weighted average price of $1.94 per gallon in 2010. New Gold assumed the liability upon acquisition of Western Goldfields on May 27, 2009. The Company is financially settling 252,000 gallons of diesel per month related to these contracts until December 31, 2010.

The Company's fuel hedge contracts did not initially meet the criterion in Section 3865 - *Hedges*, and therefore were not designated as cash flow hedges. Accordingly, period-end mark to market adjustments related to these contracts were immediately reflected on the statement of operations of the Company as unrealized gains or losses on fuel hedging contracts and the cumulative effect was reflected as an asset or liability on the balance sheet.

On July 1, 2009, the Company's fuel contracts met the requirements under Section 3865 - *Hedges* and were therefore designated as cash flow hedges against forecasted purchases of fuel for expected consumption at the Mesquite Mine. Prospective and retrospective hedge effectiveness is assessed using the hypothetical derivative method. The prospective test is based on regression analysis of the month-on-month change in fair value of both the actual derivative and a hypothetical derivative caused by actual historic changes in commodity prices over prior periods. The retrospective test involves comparing the effect of historic changes in fuel prices each period on the fair value of both the actual and hypothetical derivative using a hypothetical derivative method. The effective portion of changes in fair value of the commodity contracts is recorded in Other Comprehensive Income ("OCI") until the forecasted transaction impacts earnings. Where applicable, the fair value of the derivative has been evaluated to account for the Company's credit risk.

The cumulative fuel hedge asset as at September 30, 2010 was $0.3 million.

E. GOLD HEDGE CONTRACTS

Under the terms of the term loan facility entered into by WMMI, as a condition precedent to drawdown of the loan, WMMI entered into a gold hedging program required by the banking syndicate. As such, at the time of the agreement, the Company had executed gold forward sales contracts for 429,000 ounces of gold at a price of $801 per ounce. New Gold assumed the liability upon acquisition of Western Goldfields Inc. on May 27, 2009. As at September 30, 2010, the remaining gold contracts represent a commitment of 5,500 ounces per month for 51 months with the last commitment deliverable in December 2014 for a total of 280,500 ounces.

The Company's gold hedge contracts did not initially meet the criterion in Section 3865 - *Hedges*, and therefore were not designated as cash flow hedges. Accordingly, the period-end mark to market adjustments related to these contracts were immediately reflected on the statement of operations of the Company as unrealized gains or losses on gold forward sales contracts and the cumulative effect was reflected as an asset or liability on the balance sheet.

On July 1, 2009, the Company's gold hedging contracts met the requirements for cash flow hedges under Section 3865 - *Hedges*. Prospective hedge effectiveness is assessed on these hedges using the hypothetical derivative method. The hypothetical derivative assessment involves comparing the effect of theoretical shifts in forward gold prices on the fair value of both the actual hedging derivative and a hypothetical derivative. The retrospective assessment involves comparing the effect of historic changes in gold prices each period on the fair value of both the actual and hypothetical derivative. The effective portion of the gold contracts is recorded in OCI until the forecasted gold sale impacts earnings. Where applicable, the fair value of the derivative has been evaluated to account for the Company's credit risk.

The remaining contracts were marked to market as at September 30, 2010 using the September 30, 2010 spot price of $1,307 per ounce, resulting in a cumulative unrealized pre-tax loss of $133.3 million that has been disclosed as a liability and a pre-tax adjustment of $43.6 million to OCI for the nine month period ending September 30, 2010.

F. LONG-TERM DEBT

The majority of the Company's contractual obligations consist of long-term debt and interest payable. At September 30, 2010, the Company had $217.1 million in long-term debt.

Long-term debt obligations are comprised primarily of senior secured notes and subordinated convertible debentures. The senior secured notes ("Notes"), which were originally issued by New Gold pursuant to a note indenture dated June 28, 2007, mature and become payable on June 28, 2017 and bear interest at a rate of 10% per annum. At September 30, 2010 the face value of the Notes totalled $181.6 million (Cdn$187.0 million). Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year. Once the New Afton project is in commercial production, the Company will be obligated to offer to repay a face value amount equal to 50% of excess cash flow each year, at the option of the note holders. The Company also has the option to prepay the Notes at a price ranging from 120% to 100% (decreasing rates based on the length of time the Notes are outstanding). At September 30, 2010 the redemption price was 110%, which is scheduled to decrease to 105% on June 28, 2011. These Notes are secured on the New Afton Project assets. Capitalized interest relating to the Notes was $4.8 million in the third quarter of 2010 compared to $5.2 million during the third quarter of 2009.

The Company has 55,000 subordinated convertible debentures ("Debentures") that bear interest at a rate of 5% per annum and are convertible by the holders into common shares of the Company at any time up to June 28, 2014 at a conversion price of Cdn$9.35 per share. At September 30, 2010, the aggregate principal of the Debentures was $53.4 million (Cdn$55.0 million). The Debentures are accounted for as compound financial instruments comprised of a liability and an equity component. At September 30, 2010, the carrying amount of the liability of $40.4 million will be accreted to the face value of the Debentures over their term to maturity. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year.

Capitalized interest relating to the Debentures was $1.4 million in the third quarter of 2010 compared to $1.1 million during the third quarter of 2009.

New Gold's wholly-owned subsidiary Western Goldfields Inc. had a term loan facility with a syndicate of banks under which $86.3 million was borrowed in connection with the development of the Mesquite Mine. The facility was secured by all of the assets of WMMI and a pledge of the shares of WMMI owned by the Company. The loan was assumed upon completion of the Western Goldfields Inc. acquisition on May 27, 2009.

The remaining loan balance of $27.2 million was fully repaid on February 26, 2010 which allows the Company the flexibility to monetize the remaining hedges outstanding at its discretion. The gold hedge extends to the end of 2014 and the related security and covenants remain in place until the hedge is monetized or delivered over this period at 5,500 ounces per month at $801 per ounce.

G. FUTURE INCOME AND MINING TAXES

The net future income tax liability increased slightly from $287.4 million on June 30, 2010 to $297.2 million on September 30, 2010. The change was primarily attributed to the following factors:

- The Company recognized foreign exchange gains associated with future income tax balances of $16.3 million related to exchange movements in the U.S. dollar against other foreign currencies.
- The recognition of future income tax assets in Canada, Mexico, and the United States associated with operations.

The current income tax liability increased from $14.9 million on June 30, 2010 to $20.6 million on September 30, 2010. The change in the current income tax liability is a primarily a function of profitability, tax installment payments, and the impact of foreign exchange.

NON-GAAP MEASURE – TOTAL CASH COST(1) PER GOLD OUNCE CALCULATION

New Gold reports total cash cost(1) on a sales basis. In the gold mining industry, this is a common performance measure but does not have any standardized meaning, and is a non-GAAP measure. The Company follows the recommendations of the Gold Institute Standard. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The following table provides a reconciliation of total cash cost (1) per ounce of gold sold to the financial statements:

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	**2009**	**2010**	**2009**
Operating expenses from continuing operations	59,437	51,075	169,548	109,122
Operating expenses from discontinued operations	-	-	-	11,296
Treatment and refining charges on concentrate sales	1,137	1,996	4,769	5,269
By-product copper and silver sales	(22,364)	(15,992)	(59,176)	(38,537)
Non-cash adjustments	782	(596)	1,993	(1,606)
Total cash cost	38,992	36,483	117,134	85,544
Ounces of gold sold	89,692	77,645	252,113	185,932
Total cash cost(1) per ounce of gold sold	**435**	**470**	**465**	**460**

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2010, the Company had cash and cash equivalents held by continuing operations of $391.0 million compared to $376.1 million at June 30, 2010. These balances exclude $6.3 million and $9.0 million of reclamation deposits for the New Afton project and Mesquite Mine, respectively, which are included in Reclamation Deposits and Other on the balance sheet. The increase in cash in the three month period was attributed to the following key items:

- Strong cash flows from gold sales at the Company's Peak Mine, Cerro San Pedro Mine, and Mesquite operating mines which benefited from prevailing average market gold prices of $1,227 per ounce during the quarter;

- Project spending at the New Afton project for the quarter ended September 30, 2010 of $22.5 million;

- Investment in increased copper concentrate inventory at Peak Mine, which a significant portion is anticipated to be monetized during the fourth quarter of 2010.

The Company's cash and cash equivalents are invested in highly liquid, low risk, interest-bearing investments with maturities of 90 days or less from the original date of investment. The surplus corporate funds are only invested with approved government or bank counterparties. This does not include the AB Notes (refer to AB Notes section in *Critical Accounting Policies and Estimates* for further discussion).

As at September 30, 2010, the Company had working capital of $415.2 million. In the opinion of management, the working capital at September 30, 2010, together with cash flows from operations, are sufficient to support the Company's normal operating requirements on an ongoing basis. However, taking into consideration volatile equity markets, global uncertainty in the capital markets and cost pressures, the Company is continually reviewing expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining or increasing production levels at its current operations. At current metal prices, it is expected that the Company's existing assets coupled with the cash flow from current operations will be sufficient to fully fund the construction of the New Afton and El Morro projects.

During the quarter ended September 30, 2010, the Company had positive operating cash flows from continuing operations of $35.5 million and invested a total of $34.2 million in mining interests, including $1.5 million at the Mesquite Mine, $2.3 million at the Cerro San Pedro Mine, $7.8 million at the Peak Mine, $22.5 million at the New Afton project and $0.1 million at other projects.

LIQUIDITY AND CAPITAL RESOURCES OUTLOOK

The Company's future profits and cash position are highly dependent on metal prices, including gold, silver and copper. Copper will become increasingly important when the New Afton and El Morro projects are completed, which is expected after 2011. In addition to these internal growth opportunities, the Company has other prospective properties which include, but are not limited to, Cerro San Pedro Mine Sulphides, Mesquite Sulphides, Rio Figueroa in Chile. Internal growth will focus on the New Afton and El Morro projects; however there are other potential development properties that may become high priorities as further exploration and assessment is completed. In order to supplement this internal growth, the Company considers expansion opportunities through mergers and acquisitions.

Capital expenditures for 2010 are expected to be in line with previous guidance allowing for foreign exchange adjustments. In addition, Peak Mine expects to reduce its inventory and investment in working capital during the fourth quarter of 2010, which should positively impact operating cash flows.

At the end of the third quarter of 2010 the Company has a significant cash balance of $391.0 million with more than three-quarters of the funds in Canadian dollars in order to fund the significant spending on New Afton during the period from 2010 to 2012. There is a general expectation from economists and market observers that the Canadian dollar will continue to remain strong compared to the U.S. dollar over the mid-term and during the construction phase at New Afton. Management believes the Company will not need external financing to complete its major development projects and will continue to seek opportunities to effectively utilize its cash funds. With current and forecast metal prices, it is expected that the Company's existing assets coupled with the cash flow from current operations will be sufficient to fully fund the construction of the New Afton and El Morro projects.

The Company expects it will not need external financing to repay its remaining debt in 2014 and 2017 and the El Morro carried funding loan with Goldcorp will be repaid directly out of the Company's share of cash flows from El Morro. These statements are based on the current financial position of the Company and are subject to change if any acquisitions or external growth opportunities are realized.

OUTLOOK

A recent very high level of macro uncertainty has led to regular changes to economists near term outlooks resulting in significant metal price forecast swings. Gold prices increased strongly during the third quarter and have been supported by low real interest rates and speculative and investment buying of gold. Furthermore, jewelry demand has held up to a greater degree than many observers had been expecting. In addition, U.S. policies and spending are expected to increase with a period of quantitative easing, including potential for government purchases of U.S. Treasury securities of up to one trillion dollars or more according to some economists. Furthermore, market sentiment is supported by the shift in the official sector (i.e. governments) to net purchasing in the first half of 2010, which is attributable to the lack of selling by signatories to the Central Bank Gold Agreement. Economic research is starting to suggest there may even be negative real interest rates in the short to mid term, with longer term inflationary pressures as governments continue to at least drip feed economies with fiscal stimulus for years. Both these factors tend support gold prices, as the cost of holding gold is lower when real interest rates are low and gold acts as a stable alternative to fiat currencies during periods of higher inflation.

The recovery in the global economy and stock markets seen during 2009 and into early 2010 has continued to falter somewhat in the third quarter of 2010, however copper prices have been increasing from $2.95 per pound at the end of June 30, 2010 to $3.65 per pound at the end of September 30, 2010. Copper averaged $3.28 per pound during the quarter ended September 30, 2010 compared to $3.19 per pound in the second quarter of 2010. Copper has been well supported by emerging market demand and expectations of supportive policy shifts in China and the U.S. which will lead to further tightening in commodity fundamentals. Some economists suggest that copper inventory levels may decrease over the next year along with a shift in focus to near term balances rather than trend growth earlier this year, which may lead to greater support of the strong prices currently. In addition, gold and silver prices have increased from the June 30, 2010 closing prices of $1,244 per ounce and $18.74 per ounce to $1,307 and $22.07 respectively, at the end of September 2010. The average gold and silver prices for the third quarter were $1,227 and $18.96 per ounce, respectively compared to the second quarter ended June 30, 2010 when prices averaged $1,196 per ounce and $18.32 per ounce. Key factors influencing the price of gold include currency rate fluctuations and the relative strength of the U.S. dollar (less of an influence recently), the supply of, and demand for, gold and macroeconomic factors such as the level of interest rates and inflation expectations. Global liquidity, slowly improving economic fundamentals and the related uncertainties and a weaker U.S dollar over the midterm should broadly support gold and silver prices. However, the Company believes there could be a short period of strength in the U.S. dollar attributed to its “safe-haven” status during periods of uncertainty while governments in Europe and elsewhere continue to work through issues related to high sovereign debt levels. Forecasting metal prices and demand has been difficult, however management believes the long term environment and prospects for our business are favourable and many investors and interested parties are viewing gold as a store of value in a world with increasingly less confidence in fiat currencies that generally do not have an intrinsic value and are a liability of a government. The Company has not hedged foreign exchange rates and metal prices, except to meet the lenders’ requirements related to the Mesquite Mine’s term loan facility (which has been fully repaid in early 2010).

In addition to the above factors, the Company believes that the outlook for global gold (and copper) mine production continues to be one of declining supply due to limited global exploration success, a trend of lower grade production by producers, a lack of promising regions for gold exploration and production, and challenges in bringing projects to the production stage. The significant market interest in the El Morro copper-gold project is further evidence of the limited pure gold projects of significant size available to support demand and ambitious growth plans of any scale. The Company believes mid to long term gold prices will benefit from these trends and copper will also be supported by potential under-investment in new capacity during the last cycle. Some industry observers believe new mine development will be needed by 2012, which coincides well with the expected timing of commercial production at the New Afton project in mid-2012.

In the current improving global economic environment, the Company intends to preserve capital and optimize cash balances while maintaining flexibility and a strong balance sheet. New Gold is committed to optimizing cash balances by increasing operating cash flow, containing costs and controlling expansion capital.

New Gold’s growth plan is focused on organic and acquisition-led growth, and the Company is seeking to be flexible in the current environment to be able to respond to opportunities as they arise, such as acquisitions, debt buybacks, gold hedge monetization and other transactions. At current metal prices and after the recent completion of the Amapari transaction, it is expected that the Company’s existing cash and assets coupled with the cash flow from current operations will be sufficient to fully fund the construction of the New Afton project. In addition, New Gold is not required to fund any of the development capital for the El Morro project, as Goldcorp has agreed to fund our 30% share and will be repaid (principal and interest) solely out of future cash generated from New Gold’s share of the El Morro project’s distributable cash flows.

New Gold’s 2010 guidance for gold production is 330,000 to 360,000 ounces at a total cash cost(1) of $445 to $465 per ounce of gold sold, net of by-product sales.

COMMITMENTS

The Company has entered into a number of contractual commitments related to purchases of equipment with long lead times or critical pieces of mining equipment related to the New Afton project. At September 30, 2010, these commitments totaled $55.5 million and are expected to be paid over the next 12 months.

In addition to the above, the Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment at its operating mines.

At September 30, 2010, these commitments totaled $46.6 million and are expected to be paid over the next 12 months.

CONTINGENCIES

In assessing the loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. If the assessment of a contingency suggests that a loss is probable, and the amount can easily be estimated, then a loss is recorded. When a contingent loss is not probable but if reasonably possible, or is probable but the amount of the loss cannot be reliably estimated, then details of the contingent loss are disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the Company discloses the nature of the guarantees. Legal fees incurred in connection with pending legal proceedings are expensed as incurred.

A. NEW AFTON

The Company terminated various employment, consulting and service agreements at the New Afton project in 2008. Certain of the affected parties have or may in the future make legal claims in response to such terminations. The Company cannot reasonably predict the likelihood or outcome of any such actions, but would vigorously defend against them.

B. AMAPARI MINE

The company completed the sale of the Amapari Mine to Beadell on April 13, 2010. As part of the agreement selling the Amapari Mine, the Company provided general indemnity for one year in connection with the representations and obligations of the Company under the sale agreement. The indemnity is limited to claims in excess of an amount equal to $5.0 million and in no event shall the aggregate amount of all claims exceed $10.0 million.

C. EL MORRO TRANSACTION

On January 13, 2010, the Company received a Statement of Claim filed by Barrick in the Ontario Superior Court of Justice, against New Gold, Goldcorp and affiliated subsidiaries. A Fresh Amended Statement of Claim was received in August 2010 which included Xstrata and its affiliated subsidiaries as defendants. The claim relates to New Gold's exercise of its right of first refusal on the El Morro copper-gold project. New Gold intends to defend the action vigorously. No amounts have been accrued for any potential loss under this claim.

D. CERRO SAN PEDRO MINE

The Company has a history of legal challenges to its Cerro San Pedro Mine. In September 2009, a Federal Court of Fiscal and Administrative Justice (FCFAJ) ordered SEMARNAT, the Mexican environmental regulatory agency, to nullify the authorization of its 2006 Environmental Impact Statement ("EIS") for the Cerro San Pedro mine. The Company appealed the ruling. A hearing was held in the Third Federal District Court in Mexico City in April 2010 and a negative decision was issued by the court in July 2010. The Company has filed a further appeal to the Collegiate Appeals Court in Mexico City.

The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue while appeals are heard related to the September 2009 order to nullify the authorization of the Company's EIS. The latest injunction was received on October 4, 2010. In August 2010, the Company filed an expanded application for approval of an EIS with SEMARNAT. This application is currently under review.

New Gold remains in continuous discussions with both SEMARNAT and PROFEPA, the Mexican government's environmental enforcement agency, to work towards the uninterrupted operation of the Cerro San Pedro Mine.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Certain directors and officers of New Gold are also directors of a company to which the Company pays royalties in the normal course of business. Royalty payments were $1.8 million and $3.9 million for the three and nine months ended September 30, 2010 (2009 - $0.5 million and $1.7 million). At September 30, 2010, the Company had $1.5 million included as accrued liabilities related to this company (December 31, 2009 - $1.3 million). These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.

A director of New Gold is also a director of the company that purchased from New Gold an interest in the El Morro project.

RISK FACTORS

Readers of this Management's Discussion and Analysis should give careful consideration to the information included or incorporated by reference in this document and the Company's audited consolidated financial statements and related notes. Significant risk factors for the Company are metal prices, government regulations, foreign operations, environmental compliance, asset backed commercial paper, the ability to obtain additional financing, risk relating to recent acquisitions, dependence on management, title to the Company's mineral properties, and litigation. For details of risk factors, please refer to the 2009 year-end audited consolidated financial statements, Management Discussion and Analysis and Annual Information Form filed on SEDAR at www.sedar.com.

FINANCIAL RISK MANAGEMENT

A. CREDIT RISK

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations. The Company's financial assets are primarily composed of cash and cash equivalents, investments and accounts receivable. Credit risk is primarily associated with trade receivables and investments; however, it also arises on cash and cash equivalents. To mitigate exposure to credit risk, the Company has established policies to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable credit worthiness, and to ensure liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk. The Company sells its gold exclusively to large international organizations with strong credit ratings. The Company's revenue is comprised of gold sales to primarily five customers.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold and copper concentrate trade receivables at September 30, 2010 is not considered to be high. The Company's maximum exposure to credit risk at September 30, 2010, is as follows:

	2010	2009
	$	$
Cash and cash equivalents	391,004	262,325
Restricted cash	-	9,201
Accounts receivable	8,528	10,345
Mark-to-market gain on fuel contracts	256	706
Investments	46,851	45,890
Reclamation deposits and other	29,227	17,646
	475,866	346,113

The aging of accounts receivable at September 30, 2010 was as follows:

(U.S. dollars in thousands)	0-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	September 30, 2010 Total	December 31, 2010 Total
	$	$	$	$	$	$	$
Mesquite mine	336	11	246	2	-	595	170
Cerro San Pedro	2,162	157	-	-	82	2,401	273
Peak Mines	3,248	-	-	-	10	3,258	3,922
New Afton	1,928	-	-	6	-	1,934	632
Corporate	340	-	-	-	-	340	5,348
	8,014	168	246	8	92	8,528	10,345

A significant portion of the Company's cash and cash equivalents are held in large Canadian financial institutions. Short-term investments (including those presented as part of cash and cash equivalents) are composed of financial instruments issued by Canadian banks with high investment-grade ratings and the governments of Canada and the U.S.

The Company has a bonding and insurance program, primarily with Chartis, formerly American International Specialty Lines Insurance Company ("AIG Insurance") in respect of the operations and closure liabilities of the Mesquite Mine. At September 30, 2010, the Company had $9.0 million in the account. In September 2008, AIG Insurance's parent company, American International Group, Inc. ("AIG"), suffered a liquidity crisis following the downgrade of its credit rating. The United States Federal Reserve loaned money to AIG in order for the company to meet its obligations to post additional collateral to trading partners. As a result of federal and state laws governing the operation of AIG Insurance and segregation of funds, it is not believed that the Company's funds are at risk. During 2009, AIG has been working through its restructuring under the supervision of the Federal Reserve Bank of New York and the U.S. Department of the Treasury. The U.S. Department of the Treasury has a 78% stake in the equity of AIG. Chartis is advancing towards the goal of becoming an independent property-casualty and general insurance company in 2010.

The Company sells all of its copper concentrate production to a customer under an off-take contract. The loss of this customer or unexpected termination of the off-take contract could have a material adverse effect on the Company's results of operations, financial condition and cash flows. However, there are alternative customers in the market.

The Company is not economically dependent on a limited number of customers for the sale of its gold because gold can be sold through numerous commodity market traders worldwide. The Company has five customers (2009, four customers) that account for over 95% (2009, 76%) of the concentrate and doré sales revenue.

Metal sales	Three months ended September 30	Nine months ended September 30
Customer	2010	2010
	$	$
1	61,433	118,628
2	21,204	91,343
3	13,355	50,951
4	19,009	44,225
5	5,847	17,314
Total	120,848	322,461
% of total metal sales	95%	95%

B. LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage.

The following are the contractual maturities of debt commitments. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying amounts on the consolidated balance sheet.

(U.S. dollars in thousands)	Less than 1 year	1-3 years	4-5 years	After 5 years	**September 30, 2010 Total**	December 31, 2009 Total
	$	$	$	$	**$**	$
Accounts payable and accrued liabilities	56,001	-	-	-	**56,001**	36,033
Long-term debt	-	-	53,410	181,596	**235,006**	258,467
Interest payable on long-term debt	- 20,830	41,660	- 38,964	- 36,319	**-** **137,773**	- 147,352
Gold contracts	32,833	62,598	37,882	-	**133,313**	95,986
	109,664	104,258	130,256	217,915	**562,093**	537,838

In the opinion of management, the working capital of $415.2 million at September 30, 2010, together with cash flows from operations, are sufficient to support the Company's normal operating requirements through its current reporting period. However, taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations.

The Company believes that external financing (which may include bank borrowings and future debt and equity offerings) will not be required to complete its major development projects. A period of continuous low copper prices may necessitate the deferral of capital expenditures which may impact production from mining operations. In addition, management believes it will not need external financing to repay its long-term debt in 2014 and 2017.

C. CURRENCY RISK

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

i. Transaction exposure

The Company's operations sell commodities and incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

ii. Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, investments, accounts receivable, reclamation deposits, accounts payable and accruals, reclamation and closure cost obligations and long-term debt. The significant cash and cash equivalents held in Canadian dollars provides a natural hedge for the project spend for New Afton (the vast majority of which will be in Canadian dollars) during the period from 2010 to 2012. The currencies of the Company's financial instruments and other foreign currency denominated liabilities, based on notional amounts, were as follows:

				September 30, 2010
(in thousands)	**Canadian dollar**	**Australian dollar**	**Mexican peso**	**Chilean peso**
Cash and cash equivalents	**292,631**	**28,072**	**878**	**38**
Investments	**5,221**	**41,630**	**-**	**-**
Accounts receivable	**1,970**	**3,258**	**2,679**	**39**
Reclamation deposit	**6,312**	**-**	**-**	**-**
Prepayment option	**11,568**	**-**	**-**	**-**
Accounts payable and accruals	**(16,705)**	**(15,851)**	**(29,265)**	**-**
Reclamation and closure cost obligations	**(1,983)**	**(9,424)**	**(5,568)**	**-**
Share award units	**(3,742)**	**-**	**-**	**-**
Long-term debt	**(213,176)**	**-**	**-**	**-**
Gross balance sheet exposure	**82,096**	**47,685**	**(31,276)**	**77**

				December 31,2009
	Canadian dollar	**Australian dollar**	**Mexican peso**	**Chilean peso**
Cash and cash equivalents	**165,147**	**32,008**	**2,670**	**18**
Investments	**45,890**	**-**	**-**	**-**
Accounts receivable	**549**	**3,922**	**5,674**	**-**
Reclamation deposit	**6,211**	**-**	**-**	**-**
Prepayment option	**-**	**-**	**-**	**-**
Accounts payable and accruals	**(6,529)**	**(11,566)**	**(8,806)**	**(94)**
Reclamation and closure cost obligations	**(1,846)**	**(8,330)**	**(4,314)**	**-**
Share award units		**-**	**-**	**-**
Long-term debt	**(206,653)**	**-**	**-**	**-**
Gross balance sheet exposure	**2,769**	**16,034**	**(4,776)**	**(76)**

iii. Translation exposure

The Company's functional and reporting currency is U.S. dollars. The Company's operations translate their operating results from the host currency to U.S. dollars. Therefore, exchange rate movements in the Canadian dollar, Australian dollar, Mexican peso and Chilean peso can have a significant impact on the Company's consolidated operating results. Some of the Company's earnings translation exposure to financial instruments is offset by interest on foreign currency denominated loans and debt.

A 10% strengthening (weakening) of the U.S. dollar against the following currencies would have decreased (increased) the Company's net earnings (loss) from the financial instruments presented by the amounts shown below.

(in thousands)	**2010**	2009
	$	$
Canadian dollar	**8,210**	277
Australian dollar	**4,769**	1,603
Mexican peso	**(3,128)**	(478)
Chilean peso	**8**	-
	9,859	1,402

D. INTEREST RATE RISK

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

The Company is exposed to interest rate risk on its short-term investments. All of the Company's debt obligations are fixed and therefore there is no exposure to changes in market interest rates. The Company is exposed to interest rate changes on and short term investments included in cash and cash equivalents. The short term investment interest earned is based on prevailing one to 90 days money market interest rates which may fluctuate. A 1.0% change in the interest rate would result in an annual difference of approximately $3.9 million in interest earned by the Company on cash and short term investments. The Company has not entered into any derivative contracts to manage this risk.

Where possible and depending on market conditions, the Company follows the policy of issuing fixed interest rate debt to avoid future fluctuations in its debt service costs.

E. COMMODITY PRICE RISK

The Company's earnings and cash flows are subject to price risk due to fluctuations in the market price of gold, silver and copper. World gold prices have historically fluctuated widely and are affected by numerous factors beyond our control, including:

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

As part of the Western Goldfields Inc. acquisition, the Company acquired gold contracts which mitigate the effects of price changes. The Company designated these contracts as an accounting cash flow hedge effective July 1, 2009. At September 30, 2010, the Company had remaining gold forward sales contracts for 280,500 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 51 months.

In the third quarter of 2010, the Company's revenues and cash flows were somewhat impacted by the variation in copper prices in the range of $2.76 and $3.61 per pound. There is a time lag between the time of shipment for copper and final pricing, and changes in copper pricing can significantly impact the Company's revenue and working capital position. As of September 30, 2010, working capital includes copper concentrate receivables totaling 0.4 million pounds. A $0.10 change in the copper price would have an impact of $0.1 million on the Company's working capital position.

The Company is also subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by the prices of commodities it consumes or uses in its operations, such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control. The Company has entered into fuel contracts to mitigate these price risks. At September 30, 2010, the Company had a remaining commitment to purchase 0.75 million gallons of diesel over the next three months.

The Company is also subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, a share award unit plan that the Company is required to satisfy in cash upon vesting. The amount of cash the Company will be required to expend is dependent upon the price per common share at the time of vesting. The Company considers this plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in compensation expense each period.

A 10% change in commodity prices would impact the Company's net earnings before taxes and other comprehensive income before taxes as follows:

(U.S. dollars in thousands)	Three Months ended September 30,			
	2010	**2010**	2009	2009
	Net Earnings	**Other Comprehensive Income**	Net Earnings	Other Comprehensive Income
	$	**$**	$	$
Gold price	**10,589**	**32,843**	7,447	-
Copper price	**752**	**-**	964	-
Silver price	**1,442**	**-**	567	-
Fuel price	**963**	**225**	1,252	-
Share Award Unit	**374**	**-**	-	-

(U.S. dollars in thousands)			Nine Months ended September 30,	
	2010	**2010**	2009	2009
	Net Earnings	**Other Comprehensive Income**	Net Earnings	Other Comprehensive Income
	$	**$**	$	$
Gold price	**28,672**	**32,843**	15,872	-
Copper price	**3,055**	**-**	2,104	-
Silver price	**2,775**	**-**	1,619	-
Fuel price	**2,603**	**225**	2,024	-
Share Award Unit	**374**	**-**	-	-

CONTRACTUAL OBLIGATIONS

(U.S. dollars in thousands)	Payments due by period				
Contractual obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt	235,007	-	-	53,411	181,596
Interest payable on long-term debt	137,773	20,830	41,660	38,964	36,319
Commitments & permits	164,294	102,118	29,351	32,825	-
Asset retirement obligations	31,266	725	3,035	2,989	24,517
Total contractual obligations	568,340	123,673	74,046	128,189	242,432

The majority of the Company's contractual obligations consist of long-term debt and interest payable. Long-term debt obligations are comprised of senior secured notes and subordinated convertible debentures. The Notes, which were originally issued by New Gold pursuant to a note indenture dated June 28, 2007, mature and become payable on June 28, 2017 and bear interest at a rate of 10% per annum. At September 30, 2010, the face value of the Notes totaled $181.6 million (Cdn$187.0 million) with remaining interest payable totaling $127.1 million (Cdn$130.9 million). Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year. Once the New Afton project is in commercial production, the Company is obligated to offer to repay a face value amount equal to 50% of excess cash flow each year, at the option of the noteholders. The Company also has the option to prepay the Notes at a premium ranging from 110% to 101% (decreasing rates based on the length of time the Notes are outstanding). These Notes are secured on the New Afton project assets and do not have recourse to other assets of New Gold.

The Company has 55,000 subordinated convertible debentures that bear interest at a rate of 5% per annum and are convertible by the holders into common shares of the Company at any time up to June 28, 2014. At September 30, 2010, the aggregate principal of the subordinated convertible debentures was $53.4 million (Cdn$55.0 million) with remaining interest payable totaling $10.7 million (Cdn$11.0 million). Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 each year.

OUTSTANDING SHARES

As at November 4, 2010, there were 391,939,000 common shares of the Company outstanding. The Company had 13,233,000 stock options outstanding under its share option plan, exercisable for 13,233,000 common shares. In addition, the Company had 325,268,000 common share purchase warrants outstanding exercisable for 63,042,000 common shares.

ACCOUNTING POLICIES TO BE IMPLEMENTED SUBSEQUENT TO SEPTEMBER 30, 2010

i. International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace current Canadian GAAP for publicly accountable enterprises. This will result in the Company reporting under IFRS starting with the interim period ending June 30, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP. The Company expects the transition to IFRS to impact accounting policies, financing reporting, IT systems and processes, as well as certain business activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current market conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. The following have been identified as critical accounting policies and estimates and a change in these policies or estimates could materially impact the consolidated financial statements. The Company's complete accounting policies are described in Note 2 to the consolidated annual financial statements for the year ended December 31, 2009.

A. INVENTORIES

Heap leach ore, work-in-process, finished goods, and stockpile ore are valued at the lower of average production costs or net realizable value.

Costs are added to ore on leach pad based on current mining costs, including applicable amortization and depletion relating to mining operations. Costs are removed from ore on leach pad as ounces are recovered based on the average cost per estimated recoverable ounce of gold on the leach pad. The estimates of recoverable gold on the leach pad are calculated from the quantities of ore placed on the leach pad (based on measured tonnage), the grade of ore placed on the leach pad (based on assay results), and a recovery percentage (based on ore type).

Under the heap leaching process, ore on leach pad is treated with a chemical solution which dissolves the gold contained in the ore. The solution is further processed in a plant where the gold is recovered. Metal-in-process inventories represent metal in solution or in subsequent stages of the refining process. In-process inventories are measured based on assays of the solution and projected recoveries from the refining circuit and are valued at average production cost or net realizable value. Average production cost is based on the average cost of material fed into the process from the leach pad plus the in-process conversion costs, including applicable amortization relating to the process facilities. Metal-in-process inventories are valued at the lower of average cost or net realizable value and any adjustment to net realizable value is reflected in the statement of operations as a component of mine operating costs.

Although the amount of recoverable gold ounces placed on the leach pad, based on tonnage and grade of ore, is reconciled to the gold ounces actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and estimates are refined based on actual results over time. The determination of both the ultimate recovery percentage and the quantity of metal expected over time requires the use of estimates, which are subject to revision since they are based upon metallurgical test work. The Company expects to continue to process and recover metal from leach pads until no longer considered economically feasible.

Bullion (metal refined to industry purity standards) inventory, which includes metal held on our behalf by third parties, is valued at the lower of average production cost or net realizable value.

B. MINERAL PROPERTIES

The Company records mineral property acquisition expenditures and mine development expenditures at cost. The Company capitalizes pre-production expenditures net of revenues received until the commencement of commercial production in accordance with GAAP.

A significant portion of the Company's mineral property, plant and equipment is depreciated and amortized on a unit-of-production basis. Under the unit-of-production method, the calculation of depreciation, depletion and amortization of mineral property, plant and equipment is based on the amount of reserves expected to be recovered from each location. If these estimates of reserve prices turn out to be inaccurate, or if the Company revises its mining plan for a location due to reductions in the price of gold or otherwise to reduce the amount of reserves expected to be recovered, the Company could be required to write-down the recorded value of the mineral property, plant and equipment or to increase the amount of future depreciation, depletion and amortization expense, both of which would reduce the Company's earnings and net assets.

In addition, GAAP requires the Company to consider at the end of each accounting period whether or not there has been an impairment of capitalized mineral property, plant and equipment. For producing properties, this assessment is based on whether factors are present that may indicate a need for a write-down. If the Company determines there has been an impairment because its prior estimates of future cash flows have proven to be inaccurate, due to reductions in the price of gold, increases in the costs of production, reductions in the amount of reserves expected to be received or otherwise, or because the Company has determined that the deferred costs of non-producing properties may not be recovered based on current economics or permitting considerations, the Company would be required to write down the recorded value of its mineral property, plant and equipment, which would reduce the Company's earnings and net assets. Volatility in equity and commodity markets could have a significant impact on the valuation of our mineral properties.

C. RECLAMATION OBLIGATIONS

The Company has an obligation to reclaim its properties after the minerals have been mined from the site and has estimated the costs necessary to comply with existing reclamation standards. Generally accepted accounting principles require the Company to recognize the fair value of a liability for an asset retirement obligation, such as site closure and reclamation costs, in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a liability when the liability is incurred and increases the carrying value of the related assets by the same amount. Subsequently, these asset retirement costs are amortized to expense over the life of the related assets using the units-of-production method. At the end of each period the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs). If these estimates of costs or recoverable mineral resources prove to be inaccurate, the Company could be required to write down the recorded value of its mineral property or increase the amount of future depreciation and accretion expense, or both, all of which would reduce the Company's earnings and net assets.

D. FUTURE TAX ASSETS AND LIABILITIES

The Company recognizes the future tax benefit related to future income tax assets and sets up a valuation allowance against any portion of those assets that it believes will, more likely than not, fail to be realized. Assessing the recoverability of future income tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. The Company has reviewed its tax assets at December 31, 2009 and based on management's current view of future metal prices and exchange rates have determined that the tax assets are still recoverable.

In circumstances where the applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that the changes in these estimates could occur and materially affect the amount of future income tax liabilities recorded at the balance sheet date.

E. REVENUE RECOGNITION

Revenue from the sale of metals is recognized in the accounts when persuasive evidence of an arrangement exists, title and risk passes to buyer, collection is reasonably assured and the price is reasonably determinable. Revenue from the sale of metals in concentrate may be subject to adjustment upon final settlement of estimated metal prices, weights and assays. Adjustments to revenue for metal prices are recorded monthly and other adjustments are recorded on final settlement. These types of adjustments can have a material impact on revenues.

F. STOCK-BASED COMPENSATION

CICA Handbook, Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. Compensation expense is determined using the Black-Scholes option pricing model based on estimated fair values of all stock-based awards at the date of grant and is expensed to operations over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the date International Financial Reporting Standards ("IFRS") will replace current Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises. This will result in the Company reporting under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP.

New Gold's IFRS conversion plan consists of three phases: Scoping and Diagnostic, Detailed Evaluation, and Implementation and Review. The Scoping and Diagnostic phase included the completion of a high-level impact assessment to identify key areas that may be affected by the conversion and the development of a detailed implementation plan. The Detailed Evaluation phase included a detailed analysis of the IFRS – Canadian GAAP differences and accounting policy choices under IFRS, and the initial assessment of the non-financial reporting related impacts. The Scoping and Diagnostic and Detailed Evaluation phases have been completed.

The Implementation and Review phase is in progress and is on schedule to be completed by December 31, 2010. To date, the Company has completed its initial determination of all significant accounting policies and the IFRS 1 elective exemptions expected to be applied in the IFRS opening balance sheet. The quantification of the IFRS opening balance sheet is in progress and is expected to be completed by December 31, 2010.

Based on the work completed to date, the Company does not expect significant impacts to its business activities or its covenants, capital requirements or compensation arrangements. The Company does not expect significant changes to key controls during or after its transition to IFRS. Changes to financial reporting processes and data systems are required as a result of changes in accounting policies, and internal control and disclosure control documentation is being updated accordingly. Training of finance personnel has commenced, and will be ongoing during the remainder of 2010.

The International Accounting Standards Board responsible for the development and publication of IFRS has a significant number of projects underway, many of which could impact the differences between Canadian GAAP and IFRS applicable to the Company. Changes in IFRS could result in additional adjustments and/or changes to the adjustments currently being recognized in the IFRS opening balance sheet. Accordingly, management continues to monitor changes in IFRS and updates the conversion plan, as required.

The Company is in the process of quantifying the financial statement impacts of differences between Canadian GAAP accounting policies and the accounting policies expected to be applied under IFRS. Areas with significant differences have been noted below. These areas may not represent a complete list of expected changes, as changes or additional impacts may be arise as the Company further progresses through the Implementation and Review phase and/or new developments in IFRS occur as noted above.

IFRS ACCOUNTING POLICY CHANGES

Convertible debt

IFRS requires the liability component of convertible financial instruments to be measured first and the residual amount assigned to the equity component. Canadian GAAP does not prescribe a method for assigning value to the liability and equity elements contained in a single instrument, but suggests three acceptable approaches: the method as described for IFRS; the use of the relative fair values of the debt and equity elements; or valuing the equity component and assigning the residual to the debt.

The Company's convertible debentures were bifurcated into a principal and conversion option feature using the relative fair values at the date of issue. The principal component was recorded as debt with a portion, representing the estimated fair value of the conversion option feature at the date of issue, being allocated to equity. This difference required the Company to recalculate the debt and equity components of its convertible debentures.

As a result of the different allocation between debt and equity, the opening balance sheet adjustment is expected to increase long term debt by approximately $9.0 million, reduce the equity portion of convertible debt by $14.0 million, decrease mining interests by $3.0 million, increase deferred income taxes by $1.0 million and result in a net adjustment of $1.0 million to deficit.

Share purchase warrants

Under IFRS, share purchase warrants with an exercise price denominated in a currency other than the Company's functional currency are required to be classified and accounted for as financial liabilities at their fair values with changes in fair values being included in net earnings. Under Canadian GAAP, all the Company's outstanding share purchase warrants are classified and accounted for as equity. This difference will result in a reclassification of the Company's share purchase warrants from equity to financial liability, and the remeasurement to fair value at the date of transition to IFRS and thereafter.

The opening balance sheet adjustment is expected to result in an increase in financial liabilities of approximately $30.0 million, and a reduction in share purchase warrants included in the equity of $139.0 million. The income taxes impact of this reclassification is currently being reviewed by the Company. The net result of the adjustment is expected to reduce the deficit balance on the opening balance sheet.

Impairment of assets

Under IFRS, previous impairment losses recognized must be reversed where circumstances have changed such that the impairments have been reduced (other than for impairments of goodwill). Under Canadian GAAP, reversals of impairment losses are not permitted.

The Company expects to increase the carrying value by approximately $50.0 million for the Amapari property to reverse an impairment charge that was recognized in 2008. The increase results in an impairment reversal to the property's fair value, less estimated costs to sell at January 1, 2010.

As the Amapari property was held for sale at January 1, 2010, the adjustment will result in an increase to assets of operations held for sale, with the offset to the deficit balance.

Foreign currency translation

IFRS does not have the concept of group functional currency and requires a separate functional currency assessment for each entity within the group. Under Canadian GAAP, all the Company's entities have USD functional currencies.

Under IFRS, the Company intends to continue with USD functional currencies for all entities, with the exception of the New Afton project which was considered an integrated operation under Canadian GAAP. The impact is that New Afton will have a Canadian dollar functional currency and the ongoing impact will be that the financial statement translation gains/losses for the New Afton project will be recognized to CTA after initial adoption, rather than as foreign exchange gains/losses on the statement of operations.

Decommissioning liabilities (Reclamation and closure cost obligations)

IFRS requires provisions to be updated at each balance sheet date using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability). Canadian GAAP requires the use of a current credit-adjusted, risk-free rate for upward adjustments, and the original credit-adjusted, risk-free rate for downward revisions. This difference resulted in different discount rates being applicable for IFRS purposes than the discount rates used for Canadian GAAP. Accordingly, the Company will be required to recalculate its reclamation and closure costs obligations and related asset amounts.

The impact to the Company's opening balance sheet is discussed in the IFRS 1 section below.

Income taxes

Under IFRS, deferred income taxes for temporary differences that arise from differences between the fair values and tax bases of assets acquired in transactions other than a business combination are not recognized. Under Canadian GAAP, future income taxes are recognized on these differences as an increase or decrease in carrying value of the related asset.

The expected impact of the derecognition of the deferred income taxes at January 1, 2010 is a reduction of $75.0 million in deferred income tax liabilities, a reduction of mining interests of $77.0 million and an adjustment to deficit of $2.0 million.

The Company is in the process of reviewing other impacts related to income taxes and other adjustments may be required on the opening balance sheet.

Property, plant and equipment

IFRS requires identifying and measuring the cost of significant individual components of assets which have different useful lives than the core asset. Significant components are then separately depreciated based on their individual useful lives.

The Company is currently finalizing the impact of this difference, and does not expect it to result in a significant adjustment to the opening balance sheet. The ongoing impact is currently being assessed and process changes are being implemented as required.

Share-based payment

Under Canadian GAAP, the Company is recognizing each award as a single pool with a fair value based on the specified vesting period for the overall arrangement. Under IFRS the fair value of each tranche of the award is considered a separate grant based on the vesting period with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period. In addition, IFRS requires that forfeitures be estimated in advance, whereas a policy choice exists under Canadian GAAP.

The Company is currently finalizing the impact of these differences, and does not expect them to result in an adjustment to the opening balance sheet. The ongoing impact is currently being assessed and process changes are being implemented as required.

Financial statement presentation

The Company expects to have other reclassifications between financial statement line items under IFRS.

IFRS 1 ELECTIONS

IFRS 1 - *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1") provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. A summary of each of the elective exemptions and their expected impact on the Company's IFRS opening balance sheet at January 1, 2010 is as follows:

Business combinations

Under IFRS 1, the Company can elect to not restate business combinations that occurred prior to the transition date or to only restate business combinations that occurred after a designated date prior to the transition date. The Company has elected to apply this exemption to all business combinations that occurred prior to January 1, 2010. As a result, all prior business combinations will continue to be accounted for as they were under Canadian GAAP.

This election has not resulted in an impact on the opening balance sheet.

Fair value as deemed cost

IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value on the transition date or at an event-driven fair value (i.e. a fair value determined through a business combination or initial public offering). This elective exemption can be applied on an individual asset basis. The Company has elected to apply this exemption for certain items of property, plant and equipment.

The Company has elected to measure the New Afton project at January 1, 2010 at fair value and use that fair value as its deemed cost. Under IFRS, the Company has calculated the fair value of the project using a discounted cash flow methodology. Under Canadian GAAP, the estimates of future cash flows used to test the recoverability were on an undiscounted basis. The fair value is currently being reviewed by management and the Company estimates the write down on the project to be within the range of $200.0 to $250.0 million. The write-down will result in a reduction in mining interests with an offsetting adjustment to deficit on the opening balance sheet. The use of the fair value as deemed cost election will result in setting the historical cost base of the property from which potential future impairment losses and reversals will be measured.

The Company is currently reviewing the application of this election to other items of property, plant and equipment, which could result in further adjustments to mining interests and to the deficit balance on the opening balance sheet.

Cumulative translation account ("CTA")

IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from prior to the date of transition to IFRS. The Company has elected to apply this exemption, and accordingly will reset the CTA to zero on transition to IFRS.

The result of this election is the transfer of $1.6 million that existed at December 31, 2009, as well as the impact of the IFRS 1 opening balance sheet adjustments on the CTA, to the deficit balance on the opening balance sheet.

Decommissioning liabilities

Under IFRS 1, an entity can elect to not apply the provisions of IFRIC 1 - *Changes in Existing Decommission, Restoration and Similar Liabilities*, as they relate to changes in such liabilities before the date of transition to IFRS.

When applying this exemption, an entity determines its decommissioning liabilities at the transition date, discounts the liabilities back to the dates when they were first incurred using management's best estimate of the historical risk-adjusted discount rates, and depreciates these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets. The Company has elected to apply this exemption and in doing so, has applied it to all its decommissioning liabilities.

The Company is in the process of determining the impact on the opening balance sheet. The adjustment is not expected to be significant and will likely result in an increase of less than $5.0 million to the reclamation obligations with a corresponding increase in mining interests.

Share-based payment

IFRS 1 encourages, but does not require a first time adopter to apply IFRS 2 – *Share-based Payment* ("IFRS 2") to equity instruments that were granted on or before November 7, 2002, or were granted after November 7, 2002 but vested before the Company's IFRS transition date. Accordingly, an entity may elect not to retrospectively apply IFRS 2 to these equity instruments.

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

There was no impact on the opening balance sheet as a result of this election.

Borrowing costs

IFRS 1 permits an entity to apply the transitional provisions of IAS 23 - *Borrowing Costs* ("IAS 23") as an alternative to full retrospective application. Under these provisions, the Company may elect to only apply IAS 23 to qualifying assets for which the commencement date for capitalization is on or after the date of transition (or an elected earlier date).

The Company has elected to apply this exemption from its transition date of January 1, 2010, and as a result, will apply IAS 23 from this date onwards to properties for which the commencement date for capitalization is January 1, 2010 or later.

There was no impact on the opening balance sheet as a result of this election.

CONTROLS AND PROCEDURES

A. DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods.

B. MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detections of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, believe that any internal controls and procedures for financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented and or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management has concluded that, as of December 31, 2009, the Company's internal control over financial reporting is effective based on those criteria.

The Company’s internal control over financial reporting as of December 31, 2009 has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants who also audited the Company’s Consolidated Financial Statements for the year ended December 31, 2009. Deloitte & Touche LLP as stated in their report, that immediately precedes the Company's audited consolidated financial statements for the year ended December 31, 2009, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

C. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no change in the Company’s design of internal controls and procedures over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting during the period covered by this Management’s Discussion and Analysis.

ENDNOTES

1. “Total cash cost” figures are calculated in accordance with a standard developed by The Gold Institute, which was a worldwide association of suppliers of gold and gold products and included leading North American gold producers. The Gold Institute ceased operations in 2002, but the standard is the accepted standard of reporting cash cost of production in North America. Adoption of the standard is voluntary and the cost measures presented may not be comparable to other similarly titled measures of other companies. The Company reports total cash cost on a sales basis. Total cash cost includes mine site operating costs such as mining, processing, administration, royalties and production taxes, realized gains and losses on fuel contracts, but is exclusive of amortization, reclamation, capital and exploration costs and net of by-product sales. Total cash cost is then divided by gold ounces sold to arrive at the total cash cost per ounce sold. The measure, along with sales, is considered to be a key indicator of a company’s ability to generate operating earnings and cash flow from its mining operations. This data is

furnished to provide additional information and is a non-GAAP measure. It should not be considered in isolation as a substitute for measures of performance prepared in accordance with GAAP and is not necessarily indicative of operating costs presented under GAAP.

2. Average realized price per ounce of gold sold is a non-GAAP financial measure which:
   - excludes from revenues unrealized gains and losses on non-hedge derivative contracts; and,
   - includes revenues from the Amapari Mine which has been presented as a discontinued operation.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information contained in this news release, including any information relating to New Gold's future financial or operating performance may be deemed "forward looking". All statements in this news release, other than statements of historical fact, that address events or developments that New Gold expects to occur, are "forward-looking statements". Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "does not expect", "plans", "anticipates", "does not anticipate", "believes", "intends", "estimates", "projects", "potential", "scheduled", "forecast", "budget" and similar expressions, or that events or conditions "will", "would", "may", "could", "should" or "might" occur. All such forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and are subject to important risk factors and uncertainties, many of which are beyond New Gold's ability to control or predict. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to known and unknown risks, uncertainties and other factors that may cause New Gold's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Such factors include, without limitation: significant capital requirements; fluctuations in the international currency markets and in the rates of exchange of the currencies of Canada, the United States, Australia, Brazil, Mexico and Chile; price volatility in the spot and forward markets for commodities; impact of any hedging activities, including margin limits and margin calls; discrepancies between actual and estimated production, between actual and estimated reserves and resources and between actual and estimated metallurgical recoveries; changes in national and local government legislation in Canada, the United States, Australia, Brazil, Mexico and Chile or any other country in which New Gold currently or may in the future carry on business; taxation; controls, regulations and political or economic developments in the countries in which New Gold does or may carry on business; the speculative nature of mineral exploration and development, including the risks of obtaining and maintaining the validity and enforceability of the necessary licenses and permits and complying with the permitting requirements of each jurisdiction that New Gold operates, including, but not limited to, Mexico, where New Gold is involved with ongoing challenges relating to its environmental impact statement for the Cerro San Pedro Mine; the lack of certainty with respect to the Mexican and other foreign legal systems, which may not be immune from the influence of political pressure, corruption or other factors that are inconsistent with the rule of law; the uncertainties inherent to current and future legal challenges the company is or may become a party to, including the third party claim related to the El Morro transaction with respect to New Gold's exercise of its right of first refusal on the El Morro copper-gold project in Chile and its partnership with Goldcorp Inc., which transaction and third party claim were announced by New Gold in January 2010; diminishing quantities or grades of reserves; competition; loss of key employees; additional funding requirements; actual results of current exploration or reclamation activities; changes in project parameters as plans continue to be refined; accidents; labour disputes; defective title to mineral claims or property or contests over claims to mineral properties. In addition, there are risks and hazards associated with the business of mineral exploration, development and mining, including environmental hazards, industrial accidents, unusual or unexpected formations, pressures, cave-ins, flooding and gold bullion losses (and the risk of inadequate insurance or inability to obtain insurance to cover these risks) as well as "Risks Factors" included in New Gold's Annual Information Form filed on March 26, 2010 and Management's Discussion and Analysis for the year ended December 31, 2009, both available at www.sedar.com. Forward-looking statements are not guarantees of future performance, and actual results and future events could materially differ from those anticipated in such statements. All of the forward-looking statements contained in this news release are qualified by these cautionary statements. New Gold expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except in accordance with applicable securities laws.

Interim unaudited consolidated financial statements of

New Gold Inc.

September 30, 2010
(unaudited)

New Gold Inc.
September 30, 2010

Table of contents

New Gold Inc.

Interim consolidated statements of operations
Three and nine month periods ended September 30,

(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Revenues	**127,116**	88,491	**341,095**	192,015
Operating expenses	**(59,437)**	(51,075)	**(169,548)**	(109,122)
Depreciation and depletion	**(20,984)**	(14,820)	**(52,341)**	(33,954)
Earnings from mine operations	**46,695**	22,596	**119,206**	48,939
Corporate administration	**(7,009)**	(5,527)	**(23,689)**	(15,299)
Business combination transaction costs	**-**	-	**-**	(6,583)
Exploration	**(4,764)**	(2,416)	**(9,400)**	(5,095)
Goodwill impairment charge	**-**	-	**-**	(189,634)
Income (loss) from operations	**34,922**	14,653	**86,117**	(167,672)
Other income (expense)				
Realized and unrealized (loss) gain on gold contracts (Note 11 (a))	**-**	(905)	**-**	7,256
Realized and unrealized gain on fuel contracts (Note 11 (b))	**-**	-	**-**	797
Realized and unrealized gain on investments	**2,126**	5,288	**7,018**	14,987
Unrealized gain on prepayment option (Note 11)	**10,916**	-	**11,568**	-
Interest and other income	**1,078**	629	**1,840**	2,637
Gain on redemption of long-term debt	**-**	-	**-**	14,236
Interest and finance fees (Note 10(e))	**(72)**	(476)	**(360)**	(768)
Other expense	**2**	(715)	**(2,063)**	(715)
Loss on foreign exchange	**(12,897)**	(8,895)	**(12,200)**	(41,486)
Earnings (loss) before taxes	**36,075**	9,579	**91,920**	(170,728)
Income and mining taxes (Note 13)	**(8,629)**	(3,483)	**(29,868)**	(10,411)
Net earnings (loss) from continuing operations	**27,446**	6,096	**62,052**	(181,139)
Earnings (loss) from discontinued operations, (Note 8)	**-**	(1,995)	**42,023**	(5,527)
Net earnings (loss)	**27,446**	4,101	**104,075**	(186,666)
Earnings per share from continuing operations				
Basic	**0.07**	0.02	**0.16**	(0.65)
Diluted	**0.07**	0.02	**0.16**	(0.65)
Earnings per share from discontinued operations				
Basic	**-**	(0.01)	**0.11**	(0.02)
Diluted	**-**	(0.01)	**0.10**	(0.02)
Earnings per share				
Basic	**0.07**	0.01	**0.27**	(0.67)
Diluted	**0.07**	0.01	**0.26**	(0.67)
Weighted average number of shares outstanding (Note 12(e)) (in thousands)				
Basic	**391,686**	362,791	**390,186**	278,551
Diluted	**401,564**	370,727	**399,628**	278,551
(i) Stock option expense (a non-cash item included in corporate administration)	**1,779**	1,909	**6,379**	4,846

See accompanying notes to the consolidated financial statements.

New Gold Inc.

Interim consolidated statements of comprehensive income (loss)
Three and nine month periods ended September 30

(Expressed in thousands of U.S. dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Net earnings (loss)	**27,446**	4,101	**104,075**	(186,666)
Other comprehensive income (loss)				
Unrealized losses on mark-to-market of gold contracts	(10,490)	(23,447)	(43,606)	(23,447)
Unrealized gains (losses) on mark-to-market of fuel contracts	228	(724)	(110)	(724)
Gain on available-for-sale securities (net of tax of $2,872)	23,118	-	20,104	-
Future income tax	3,760	9,427	17,826	9,427
Total other comprehensive income (loss)	**16,616**	(14,744)	**(5,786)**	(14,744)
Total comprehensive income (loss)	**44,062**	(10,643)	**98,289**	(201,410)

See accompanying notes to the consolidated financial statements.

New Gold Inc.

Interim consolidated balance sheets

(Expressed in thousands of U.S. dollars)
(Unaudited)

	September 30, 2010	December 31, 2009
	$	$
Assets		
Current assets		
Cash and cash equivalents	**391,004**	262,325
Restricted cash (Note 5)	**-**	9,201
Accounts receivable	**8,528**	10,345
Inventories (Note 6)	**108,422**	86,299
Future income and mining taxes	**10,026**	8,848
Current portion of mark-to-market gain on fuel contracts (Note 11)	**256**	706
Prepaid expenses and other	**6,390**	6,933
Current assets of operations held for sale (Note 8)	**-**	10,298
Total current assets	**524,626**	394,955
Investments (Note 7)	**46,851**	45,890
Mining interests (Note 9)	**2,054,663**	2,000,438
Future income tax asset	**1,428**	2,250
Reclamation deposits and other assets	**29,227**	17,646
Assets of operations held for sale (Note 8)	**-**	27,080
Total assets	**2,656,795**	2,488,259
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**56,001**	36,033
Current portion of long-term debt (Note 10)	**-**	12,088
Current portion of mark-to-market loss on gold contracts (Note 11)	**32,832**	19,206
Income and mining taxes payable	**20,575**	15,677
Current liabilities of operations held for sale (Note 8)	**-**	10,414
Total current liabilities	**109,408**	93,418
Reclamation and closure cost obligations (Note 14)	**22,639**	19,889
Mark-to-market loss on gold contracts (Note 11)	**100,481**	76,780
Future income and mining taxes	**308,633**	316,426
Long-term debt (Note 10)	**217,088**	225,456
Deferred benefit (Note 9 (a))	**46,276**	-
Employee benefits and other	**9,775**	5,355
Liabilities of operations held for sale (Note 8)	**-**	19,890
Total liabilities	**814,300**	757,214
Shareholders' equity		
Common shares (Note 12 (a))	**1,822,785**	1,810,865
Contributed surplus	**84,225**	82,984
Share purchase warrants (Note 12 (d))	**150,656**	150,656
Equity component of convertible debentures	**21,604**	21,604
Accumulated other comprehensive loss	**(34,991)**	(29,205)
Deficit	**(201,784)**	(305,859)
	(236,775)	(335,064)
Total shareholders' equity	**1,842,495**	1,731,045
Total liabilities and shareholders' equity	**2,656,795**	2,488,259

Commitments and contingencies (Note 21)

Approved by the Board

Robert Gallagher, Director

James Estey, Director

See accompanying notes to the consolidated financial statements.

New Gold Inc.

Interim consolidated statements of shareholders' equity
Nine month periods ended September 30,

(Expressed in thousands of U.S. dollars, except share amounts)
(Unaudited)

	September 30, 2010	September 30, 2009
	$	$
Common shares		
Balance, beginning of period	**1,810,865**	1,321,110
Share issue costs	**-**	103,318
Shares issued for mineral properties	**-**	63
Acquisition of Western Goldfields	**-**	375,367
Exercise of options	**11,920**	4,599
Balance, end of period	**1,822,785**	1,804,457
Contributed surplus		
Balance, beginning of period	**82,984**	65,409
Exercise of options	**(5,138)**	(2,776)
Acquisition of Western Goldfields (Note 4)	**-**	9,749
Stock-based compensation	**6,379**	4,846
Balance, end of period	**84,225**	77,228
Share purchase warrants		
Balance, beginning of period	**150,656**	145,614
Acquisition of Western Goldfields (Note 4)	**-**	11,850
Balance, end of period	**150,656**	157,464
Equity component of convertible debentures	**21,604**	21,604
Accumulated other comprehensive loss		
Balance, beginning of period	**(29,205)**	(406)
Net change in fair value of hedging instruments (Note 11)	**(25,890)**	(14,744)
Gain (loss) on available-for-sale investments	**20,104**	(1,160)
Balance, end of period	**(34,991)**	(16,310)
Deficit		
Balance, beginning of period	**(305,859)**	(111,543)
Net earnings (loss)	**104,075**	(186,666)
Balance, end of period	**(201,784)**	(298,209)
Total shareholders' equity	**1,842,495**	1,746,234

See accompanying notes to the consolidated financial statements.

New Gold Inc.

Interim consolidated statements of cash flows
Three and nine month periods ended September 30,
(Unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	$	$	**$**	$
Operating activities				
Net earnings (loss)	**27,446**	4,101	**104,075**	(186,666)
Loss (earnings) from discontinued operations	**-**	1,995	**(42,023)**	5,527
Items not involving cash				
Goodwill impairment charge	**-**	-	**-**	189,634
Unrealized gain on gold contracts	**(2,013)**	(1,177)	**(6,178)**	(9,338)
Unrealized (gain) loss on fuel contracts	**55**	104	**238**	(679)
Unrealized foreign exchange loss	**12,897**	4,427	**12,200**	36,361
Unrealized and realized gain on investments	**(2,126)**	(5,288)	**(7,018)**	(14,616)
Loss on disposal of assets	**3**	-	**1,046**	**-**
Depreciation and depletion	**20,906**	14,701	**52,356**	34,207
Stock option expense	**1,779**	1,909	**6,379**	4,846
Unrealized gain on prepayment option	**(10,916)**	-	**(11,568)**	-
Remediation costs incurred	**(18)**	**-**	**(44)**	**-**
Future income and mining taxes	**(5,736)**	(3,461)	**(4,484)**	(211)
Gain on redemption of long-term debt	**-**	-	**-**	(14,236)
Other	**-**	1,310	**-**	2,657
Change in non-cash working capital (Note 15)	**(6,783)**	(12,619)	**(10,727)**	(22,861)
Cash provided by continuing operations	**35,494**	6,002	**94,252**	24,625
Cash provided by (used in) discontinued operations	**-**	352	**(1,696)**	5,982
Investing activities				
Mining interests	**(34,244)**	(16,470)	**(87,980)**	(76,353)
Purchase of short term investment	**-**	-	**-**	(5,996)
Cash acquired in business combination and asset acquisition (Note 4)	**-**	-	**-**	20,735
Reclamation deposits	**(2)**	-	**(45)**	-
Receipt of accrued interest on investments	**-**	-	**-**	4,716
Reduction of restricted cash	**-**	-	**9,201**	-
Proceeds from disposal of assets	**78**	-	**272**	-
Cash received in El Morro transaction, net of transaction costs	**-**	-	**46,276**	-
Investment in El Morro	**-**	-	**(463,000)**	-
Proceeds from settlement of investments	**-**	5,996	**48,112**	13,285
Cash used in continuing operations	**(34,168)**	(10,474)	**(447,164)**	(43,613)
Cash provided by (used in) discontinued operations	**-**	(788)	**34,410**	(2,054)
Financing activities				
Common shares issued	**-**	103,826	**-**	103,982
Repayment of short-term borrowings	**-**	(3,092)	**-**	(7,841)
Exercise of options to purchase common stock	**379**	-	**6,789**	-
El Morro loan	**-**	-	**463,000**	-
Repayment of long-term debt	**-**	-	**(27,235)**	(25,575)
Cash provided by continuing operations	**379**	100,734	**442,554**	70,566
Cash used in discontinued operations	**-**	-	**-**	(7,000)
Effect of exchange rate changes on cash and cash equivalents	**13,207**	6,255	**5,497**	8,995
Increase in cash and cash equivalents	**14,912**	102,081	**127,853**	57,501
Cash and cash equivalents, beginning of period	**376,092**	141,088	**263,151**	185,668
Cash and cash equivalents, end of period	**391,004**	243,169	**391,004**	243,169
Comprised of				
Cash and cash equivalents of continuing operations	**391,004**	242,586	**391,004**	242,586
Cash and cash equivalents of discontinued operations	**-**	583	**-**	583
	391,004	243,169	**391,004**	243,169
Cash and cash equivalents are comprised of				
Cash	**120,133**	63,496	**120,133**	63,496
Short-term money market instruments	**270,871**	179,673	**270,871**	179,673
	391,004	243,169	**391,004**	243,169

Supplemental cash flow information (Note 15)

See accompanying notes to the consolidated financial statements.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

1. Description of business and nature of operations

New Gold Inc. (the "Company") and its wholly owned subsidiaries are gold producers engaged in gold mining and related activities including acquisition, exploration, extraction, processing and reclamation. The Company's assets are comprised of the Mesquite Mine in the United States ("U.S."), the Cerro San Pedro Mine in Mexico, and the Peak Mine in Australia. Significant development projects include the New Afton copper-gold project in Canada and a 30% interest in the El Morro copper-gold project in Chile. On April 13, 2010, New Gold Inc. disposed of its interest in the Amapari Mine in Brazil as described in Note 8.

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

In 2009, the Amapari Mine was classified as a discontinued operation and therefore all financial results for this mine have been presented separately from continuing operations for current and comparative periods (see Note 8). Prior period comparative figures have been reclassed to conform to current period presentation. As described in Note 8, on April 13, 2010, the Company disposed of its interest in the Amapari Mine.

2. Summary of significant accounting policies

These unaudited interim consolidated financial statements have been fairly presented prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of interim financial information is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements. The accompanying unaudited interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009, as they do not contain all disclosures required by Canadian GAAP for annual statements.

(a) Basis of presentation and principles of consolidation

These interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. In the opinion of management, all adjustments (including normal recurring adjustments) necessary to present fairly the financial position as at September 30, 2010 and December 31, 2009 and results of operations and comprehensive income, shareholders' equity and cash flows for the three and nine months ended September 30, 2010 and 2009, have been made.

The principal subsidiaries of the Company as of September 30, 2010 are as follows:

Subsidiary	Interest
Metallica Resources Inc.	100%
Metallica Resources Alaska Inc.	100%
Minera Metallica Resources Chile Limitada	100%
Minera San Xavier, S.A. de C.V.	100%
Peak Gold Mines Pty Ltd	100%
Inversiones El Morro Limitada	100%
Western Goldfields Inc.	100%
Western Goldfields (USA) Inc.	100%
Western Mesquite Mines Inc.	100%

2. Summary of significant accounting policies (continued)

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

Variable interest entities ("VIE's") as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, *Consolidation of Variable Interest Entities*, are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. The Company has determined that it does not have any investments that qualify as VIE's. All intercompany transactions and balances are eliminated.

(b) Use of estimates

The preparation of interim consolidated financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions about future events that affect the amounts reported in the interim consolidated financial statements and related notes to the financial statements. Actual results may differ from those estimates.

The preparation of interim consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used in the preparation of these interim consolidated financial statements include, but are not limited to, the recoverability of accounts receivable and investments, measurement of revenue and accounts receivable, the quantities of material on leach pads and in circuit and the recoverable gold in this material used in determining the estimated net realizable value of inventories, the proven and probable ore reserves and resources and the related depletion and amortization, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the assumptions used in the accounting for stock-based compensation, valuation of warrants, valuation of embedded derivatives, valuation of derivative instruments, valuation of investments, the provision for income and mining taxes and composition of future income and mining tax assets and liabilities, the expected economic lives of and the estimated future operating results and net cash flows from mining interests, the anticipated costs of reclamation and closure cost obligations, and the fair value of assets and liabilities acquired in business combinations.

3. Future changes in accounting policies

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace current Canadian GAAP for publicly accountable enterprises. This will result in the Company reporting under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP. The Company expects the transition to IFRS to impact accounting policies, financing reporting, IT systems and processes, as well as certain business activities.

4. Business combination

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

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

4. Business combination (continued)

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

Certain prior year figures represent the preliminary allocation of the purchase price as the final allocation was not complete at that time. The final allocation of the purchase price based on the consideration paid and on Western Goldfields net assets acquired is as follows:

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

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

5. Restricted cash

On February 26, 2010, the Company repaid the Mesquite Mine term loan facility as described in Note 10(c). Under the terms of that term loan facility, the Company was required to set aside an amount equal to the debt service amounts (principal and interest) payable on the next repayment date as set out in the amended credit agreement dated October 7, 2009. Interest earned on the debt service reserve account was for the account of the Company. As a result of the repayment of the term loan, the restricted cash balance was released to the Company for its general use resulting in restricted cash of $nil at September 30, 2010 (December 31, 2009 - $9.2 million).

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

6. Inventories

	September 30, 2010	December 31 2009
	$	$
Heap leach ore	**64,233**	58,169
Work-in-process	**20,099**	13,907
Finished goods	**6,127**	4,819
Stockpiled ore	**54**	55
Supplies	**17,909**	9,349
	108,422	86,299

The amount of inventories recognized in operating expenses for the three and nine months ended September 30, 2010 is $56.5 million and $160.4 million (2009 - $50.1 million and $100.7 million). There were no write-downs or reversals of write-downs during the periods.

7. Investments

(a) Available for Sale Securities

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

The fair value of the Beadell shares received on the transaction date of April 13, 2010 was $18.6 million. The shares were valued using the Beadell ask price on April 13, 2010. The fair value of the Beadell shares at September 30, 2010 was $41.6 million, resulting in an unrealized gain of $23.1 million (net of tax of $2.9 million) for the three months ended September 30, 2010 and an unrealized gain of $20.1 million (net of tax of $2.9 million) for the nine months ended September 30, 2010. This gain was recorded in other comprehensive income.

(b) Asset Backed Commercial Paper

The Company owns $20.3 million (Cdn$20.9 million) (December 31, 2009 – $99.4 million (Cdn$104.0 million)) of face value of long-term asset backed notes (“AB Notes”). These AB Notes were issued as replacement of asset backed commercial paper (“ABCP”) formerly held by the Company. When the ABCP matured but was not redeemed in 2007, it became the subject of a restructuring process that replaced the ABCP with long-term asset backed securities. The restructuring was completed and the AB Notes were issued on January 21, 2009. The Company has designated the investments as held-for-trading financial instruments.

The table below summarizes the Company’s valuations at September 30, 2010 and December 31, 2009.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

7. Investments (continued)

(b) Asset Backed Commercial Paper (continued)

Restructuring categories	**September 30, 2010** Face value	**September 30, 2010** Fair value estimate	December 31 2009 Face value	December 31 2009 Fair value estimate	Expected maturity date
	$ (millions)	**$ (millions)**	$ (millions)	$ (millions)	
MAV 2 Notes					
A1 (rated A)	**-**	**-**	66.7	39.3	
A2 (rated A)	**-**	**-**	12.7	5.9	
B	**5.6**	**1.9**	5.5	0.5	December 31, 2016
C	**4.2**	**0.2**	4.1	-	December 31, 2016
Traditional asset tracking notes					
MAV3 - Class 9	**0.1**	**0.1**	0.1	0.1	September 12, 2015
Ineligible asset tracking notes					
MAV2 - Class 3/13	**10.4**	**3.0**	10.3	0.1	December 20, 2012 to October 24, 2016
	20.3	**5.2**	99.4	45.9	

At September 30, 2010, the AB Notes have been valued based on bid prices for these assets received from dealers and brokers active in the AB Notes market. The Company receives the bid prices on a regular and recurring basis from a number of sources. The bid prices received for the MAV 2 B notes have ranged from 33% to 35% of face value. The Company believes that 34% is the best estimate of fair value for these notes. The bid prices received for the MAV 2 C notes have been approximately 5% of the face value which the Company has used to fair value these notes. The MAV 2 Class 3 and 13 tracking notes are valued using the same methodology and are valued at approximately 0.25% and 33% respectively.

8. Discontinued operations

On January 2, 2009, the Company placed the Amapari Mine on care and maintenance. Mining at the Amapari Mine was suspended and leaching of stacked material continued until April 2009 at which time leaching operations were suspended. On January 27, 2010, the Company announced the signing of an agreement to sell its Brazilian subsidiary Mineracao Pedra Branca do Amapari Ltda., which holds the Amapari Mine and other related assets, to Beadell. Beadell is an Australian listed gold-focused company with exploration and development assets in Western Australia and Brazil. The transaction closed on April 13, 2010. Proceeds to the Company were $37.0 million in cash and 115.0 million Beadell shares valued at $18.6 million. New Gold currently holds approximately 18.5% of Beadell shares outstanding. The Company has designated its investment in Beadell as an available for sale financial asset with the changes in the fair value being included in other comprehensive income. The Company recorded an after tax gain of $41.7 million on disposition of its interest in Amapari, net of pre-tax transaction costs of $1.5 million.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

8. Discontinued operations (continued)

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

	September 30, 2010	December 31 2009
	$	$
Current assets	**-**	10,298
Non-current assets	**-**	27,080
Current liabilities	**-**	(10,414)
Long-term liabilities	**-**	(19,890)
	-	7,074

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

The consolidated statements of operations have separately presented the net earnings from discontinued operations for the three and nine months ended September 30, 2010 and 2009. Revenues, earnings before taxes and net earnings for the three and nine months ended are as follows:

	Three months ended, September 30,		Nine months ended, September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Revenue	**-**	359	**2,746**	17,287
Earnings before taxes	**-**	(1,995)	**42,023**	(5,527)
Net earnings	**-**	(1,995)	**42,023**	(5,527)

The cash flows from discontinued operations for the three and nine months ended September 30, 2010 and 2009 are as follows:

	Three months ended, September 30,		Nine months ended, September 30,	
	2010	2009	**2010**	2009
	$	$		$
Operating activities	**-**	352	**(1,696)**	5,982
Investing activities	**-**	(788)	**34,410**	(2,054)
Financing activities	**-**	-	**-**	(7,000)
Decrease in cash and cash equivalents from discontinued operations	**-**	(436)	**32,714**	(3,072)

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

9. Mining interests

Mining interests consists of the following:

			September 30, 2010
	Cost	**Accumulated depreciation and depletion**	**Net book value**
	$	**$**	**$**
Mining properties	**1,819,590**	**74,140**	**1,745,450**
Plant and equipment	**381,108**	**71,895**	**309,213**
	2,200,698	**146,035**	**2,054,663**

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

The Company capitalized $6.3 million and $18.7 million of interest for the three and nine months ended September 30, 2010 (2009 - $6.3 million and $17.2 million) related to the New Afton project.

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

	Mining properties					
	Depletable	Non-depletable	Total	Plant and equipment	**September 30 2010**	December 31 2009
	$	$	$	$	**$**	$
Mesquite Mine	170,352	45,313	215,665	97,901	**313,566**	322,426
Cerro San Pedro Mine	213,628	84,822	298,450	70,464	**368,914**	383,860
Peak Mine	62,415	61,506	123,921	61,094	**185,015**	178,203
New Afton Project	-	698,424	698,424	78,712	**777,136**	706,307
El Morro Project (a)	-	383,602	383,602	-	**383,602**	383,347
Other projects	-	25,388	25,388	-	**25,388**	25,273
Corporate	-	-	-	1,042	**1,042**	1,022
	446,395	1,299,055	1,745,450	309,213	**2,054,663**	2,000,438

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

The Company owns a 30% interest in the El Morro copper-gold project which is an advanced stage copper-gold project located in the Atacama region of north-central Chile. Goldcorp Inc. ("Goldcorp") holds the remaining 70% interest in the project after completion of the Acquisition and Funding Agreement (the "Agreement") with the Company on February 16, 2010. Prior to this date, Xstrata Copper Chile S.A. ("Xstrata") was the 70% owner in the project.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

9. Mining interests (continued)

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

On October 12, 2009, Barrick Gold Corporation ("Barrick") and Xstrata entered into a sale agreement for Xstrata's 70% interest in the El Morro Project for a total cash consideration of $463.0 million subject to the expiry or cancellation of the right of first refusal held by the Company. On January 7, 2010 the Company provided notice to Xstrata of the exercise of its right of first refusal to acquire 70% of the El Morro Project for $463.0 million.

On February 16, 2010, the 70% interest in the El Morro Project was acquired by a wholly owned subsidiary of the Company and the acquisition was funded by a $463.0 million loan from Goldcorp as contemplated under the Agreement. The completion of the remaining transactions under the Agreement with Goldcorp resulted in a Goldcorp subsidiary now holding the 70% interest in the El Morro Project with the Company retaining its original 30% interest in the project.

The Agreement with Goldcorp also modified the terms of the shareholders agreement between the 70% interest holder and the 30% interest holder. The modified terms include:

- The Company received $50.0 million and Goldcorp assumed the loan upon completion of this transaction. The Company has recorded the $50.0 million, net of $3.7 million of transaction costs, as a deferred benefit which will be amortized into income over the life of the revised terms of the shareholders' agreement.
- A change to the funding agreement whereby Goldcorp will fund 100% of the Company's program funding share until commercial production is reached. The Goldcorp funding will be interest bearing at U.S. 7-year Treasury Rate plus 1.87% and is compounded monthly;
- The Company will be entitled to a penalty payment of $1.5 million per month up to a maximum of $36.0 million if the construction on the El Morro Project does not commence within 60 days of receipt of required permits and approvals.

10. Long-term debt

Long-term debt consists of the following:

	September 30, 2010	December 31 2009
	$	$
Senior secured notes (a)	**172,761**	169,044
Subordinated convertible debentures (b)	**40,415**	37,609
Term loan facility (c)	**-**	27,235
El Morro project funding loan (d)	**3,912**	3,656
	217,088	237,544
Less: Current portion of term loan facility	**-**	(12,088)
	217,088	225,456

(a) Senior secured notes

The face value of the senior secured notes ("Notes") at September 30, 2010 was $181.6 million (Cdn$187.0 million) (2009 - $174.4 million (Cdn$187.0 million)).

10. Long-term debt (continued)

(a) Senior secured notes (continued)

The Company has the right to redeem the Notes in whole or in part at any time prior to June 27, 2017 at a price ranging from 120% to 100% (decreasing based on the length of time the Notes are outstanding) of the principal amount of the Notes to be redeemed. At September 30, 2010 the redemption price was 110% and is scheduled to decrease to 105% on June 28, 2011. The early redemption feature in the Notes qualifies as an embedded derivative that must be bifurcated for reporting purposes. At September 30, 2010, the fair value of the derivative asset was determined to be $11.6 million (2009 - $nil). The Company has recorded the fair value of the derivative asset in other assets. The change in the fair value has resulted in a gain of $10.9 million and $11.6 million for the three and nine months ended September 30, 2010 respectively.

(b) Subordinated convertible debentures

The face value of the subordinated convertible debentures (“Debentures”) at September 30, 2010 was $53.4 million (Cdn$55.0 million) (2009 - $51.3 million (Cdn$55.0 million)).

In 2007, NGI issued 55,000 Debentures for an aggregate principal amount of Cdn$55.0 million. The Debentures, which were issued pursuant to a Debenture Indenture dated June 28, 2007 (the “Debenture Indenture”), each have a principal amount of $1,000, bear interest at a rate of 5% per annum and are convertible by the holders into common shares of the Company at any time up to June 28, 2014 at a conversion price of Cdn$9.35 per share. The Debentures do not allow forced conversion by the Company prior to January 1, 2012 but after that date, the Company may redeem the Debentures if the market price of the Company’s shares is at least 125% of the conversion price.

The Debentures are classified as compound financial instruments for accounting purposes because of the holder conversion option. Interest is payable in arrears in equal semi-annual installments on January 1 and July 1 in each year. The Debenture Indenture provides that in the event of a change of control of the Company, as defined therein, where 10% or more of the aggregate purchase consideration is cash, the Company must offer to either: (i) redeem the outstanding Debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest up to but excluding the date of redemption; or, (ii) convert the outstanding Debentures into common shares at conversion prices ranging from Cdn$7.48 at inception to Cdn$9.35, based on a time formula specified in the Debenture Indenture. The Debentures are subordinate to the Notes and any secured indebtedness incurred subsequent to the issue of the Debentures.

At the time of acquisition by the Company, the Company allocated $34.5 million of the $56.2 million fair value as a liability based on the fair value of a similar debt instrument without an associated conversion option. The similar debt instrument was assumed to have an interest rate of 8% at the time of acquisition. The equity component was valued using the Black-Scholes model with the following assumptions: no dividends paid, volatility of 60%, risk free interest rate of 3.45% and expected life of six years. The debt component of the Debentures will be accreted over the expected term to maturity using the effective interest method.

The Debenture Indenture requires the Company to comply with certain reporting and other non-financial covenants. The debentures are unsecured and subordinate to the notes and any secured indebtedness incurred subsequent to the issue of the debentures.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

10. Long-term debt (continued)

(c) Term loan facility

As part of the Business Combination (Note 4) in 2009, the Company acquired a term loan facility with a syndicate of banks under which the Company could borrow up to $105.0 million in connection with the development of the Mesquite Mine. The term of the facility was until December 31, 2014 and comprised a multiple-draw term loan of which $86.3 million was drawn for the development of the Mesquite Mine. The facility was secured by all of the assets of the Company's wholly-owned subsidiary, Western Mesquite Mines Inc. ("WMMI"), and a pledge of the shares of WMMI owned by the Company. In addition, until reaching a defined completion point, the facility was guaranteed by Western Goldfields.
On February 26, 2010 the Company retired the term loan facility by paying the total outstanding principal of $27.2 million. The facility cannot be redrawn, however the covenants and security remain in place until the gold hedging contracts, as described in Note 11(a) are fully delivered by the end of 2014 or monetized at an earlier date. With the retirement of the term loan facility, the Company is able to monetize the gold hedge at its discretion.

(d) El Morro project funding loan

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

(e) Interest expense

Interest expense for the three and nine months ended September 30, 2010 and 2009 is composed of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Interest	**5,239**	6,053	**15,887**	15,372
Non-cash interest charges	**1,064**	795	**3,127**	2,622
	6,303	6,848	**19,014**	17,994
Less: Interest capitalized to mining interests	**(6,231)**	(6,372)	**(18,654)**	(17,226)
	72	476	**360**	768

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

11. Derivative instruments

The following tables summarize derivative related liabilities and assets:

	Asset derivatives	
	September 30 2010	December 31 2009
	$	$
Derivatives classified as hedging instruments for accounting purposes		
Fuel contracts	**256**	706
	256	706
Less: Current portion	**(256)**	(706)
	-	-

	Liability derivatives	
	September 30, 2010	December 31 2009
	$	$
Derivatives classified as hedging instruments for accounting purposes		
Gold hedging contracts	**133,313**	95,986
	133,313	95,986
Less: Current portion	**(32,832)**	(19,206)
	100,481	76,780

The following table summarizes realized derivative gains (losses) for the three and nine months ended September 30, 2010 and 2009.

	Three months ended September 30		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Derivatives classified as hedging instruments for accounting purposes				
Gold hedging contracts	**(5,141)**	(598)	**(12,676)**	(598)
Fuel contracts	**(40)**	(71)	**23**	(71)
	(5,181)	(669)	**(12,653)**	(669)

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

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

11. Derivative instruments (continued)

The following table summarizes unrealized derivative gains for the three and nine months ended September 30, 2010 and 2009. Refer to Note 10 (a).

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Derivatives not classified as hedging instruments for accounting purposes				
Prepayment option	**10,916**	-	**11,568**	-
	10,916	-	**11,568**	-

For the three and nine months ended September 30, 2010 and 2009 there were no unrealized derivative gains (losses) recorded in earnings for derivatives classified as hedging instruments for accounting purposes.

The following table summarizes derivative gains (losses) in other comprehensive income for the three and nine months ended September 30, 2010 and 2009.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Effective portion of change in fair value of hedging instruments				
Gold hedging contracts	**(10,490)**	(23,447)	**(43,606)**	(23,447)
Fuel contracts	**228**	(724)	**(110)**	(724)
Future income tax	**3,760**	9,427	**17,826**	9,427
	(6,502)	(14,744)	**(25,890)**	(14,744)

The net amount of existing losses arising from the unrealized fair value of the Company's gold hedging contracts and fuel contracts, which are derivatives that are designated as cash flow hedges and are reported in other comprehensive income, would be reclassified to net earnings as contracts are settled on a monthly basis. The amount of such reclassification would be dependent upon fair values and amounts of the contracts settled. At September 30, 2010, the Company's estimate of the net amount of existing derivative gains (losses) arising from the unrealized fair value of derivatives designated as cash flow hedges, which are reported in other comprehensive income and are expected to be reclassified to net earnings in the next twelve months, excluding tax effects, is $(24.0) million for gold hedging contracts and $0.1 million for fuel contracts.

(a) Gold hedging contracts

Under the terms of the term loan facility (Note 10 (c)), Western Mesquite Mines Inc. was required, as a condition precedent to drawdown the loan, to enter into a gold hedging program acceptable to the banking syndicate. As such, the Company executed gold forward sales contracts for 429,000 ounces of gold at a price of $801 per ounce. The hedging contracts represent a commitment of 5,500 ounces per month for 78 months that commenced July 2008

11. Derivative instruments (continued)

(a) Gold hedging contracts (continued)

with the last commitment deliverable in December 2014. The Company settles these contracts, at the Company's option, by physical delivery of gold or on a net financial settlement basis. At September 30, 2010, the Company had remaining gold forward sales contracts for 280,500 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 51 months.

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

(b) Fuel contracts

The Company assumed fuel hedge contracts that represented a total commitment of 3.0 million gallons of fuel per year at weighted average prices of $1.75 and $1.94 per gallon in 2009 and 2010 upon the completion of the Western Goldfields business combination. The Company is financially settling 252,000 gallons of diesel per month. At September 30, 2010, the Company had a remaining commitment of 0.75 million gallons of diesel over the next 3 months.

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

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

12. Share capital

At September 30, 2010, the Company had unlimited authorized common shares and 391,762,000 common shares outstanding.

(a) Common shares issued

	Number of shares (000's)	$
Balance, December 31, 2008	212,841	1,321,110
Shares issued (i)	30,705	103,122
Shares issued for mineral properties ((ii) and (iii))	25	63
Acquisition of Western Goldfields (iv)	142,796	375,367
Exercise of options (v)	2,448	11,203
Balance, December 31, 2009	388,815	1,810,865
Exercise of options (vi)	**2,947**	**11,920**
Balance, September 30, 2010	**391,762**	**1,822,785**

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

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

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

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

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

(vi) During the nine months ended September 30, 2010, 2,947,000 common shares were issued pursuant to the exercise of stock options. The Company received proceeds of $6.8 million from these exercises and transferred $5.1 million from contributed surplus.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

12. Share capital (continued)

(b) *Stock options*

The following table presents the changes in the stock options.

	Number of options	Weighted average exercise price
	(000's)	Cdn$
Balance, December 31, 2008	8,990	6.94
Options assumed on acquisition of Western Goldfields	5,699	1.58
Granted	5,762	3.02
Exercised	(2,448)	2.29
Cancelled	(2,679)	6.27
Balance, December 31, 2009	15,324	4.34
Granted	**2,554**	**4.56**
Exercised	**(2,947)**	**2.42**
Cancelled	**(1,511)**	**8.08**
Balance, September 30, 2010	**13,420**	**4.38**

The following table summarizes information about the stock options outstanding at September 30, 2010.

	Options outstanding			Options exercisable		
Exercise prices	Weighted average remaining contractual life (years)	Number of stock options outstanding	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
Cdn$		(000's)	Cdn$	(000's)	Cdn$
0.34 - 0.99	3.39	1,061	0.73	1,061	0.73
1.00 - 1.99	2.94	594	1.70	594	1.70
2.00 - 2.99	4.70	1,923	2.59	771	2.42
3.00 - 3.99	5.20	3,529	3.27	1,261	3.34
4.00 - 4.99	6.10	2,200	4.39	92	4.44
5.00 - 5.99	3.39	815	5.65	519	5.53
6.00 - 6.99	2.04	701	6.36	701	6.36
7.00 - 7.99	2.57	1,692	7.69	1,478	7.66
8.00 - 8.99	-	-	-	-	-
9.00 - 9.99	1.47	707	9.30	707	9.30
10.00 - 11.00	0.66	198	11.00	198	11.00
0.34 - 11.00	4.16	13,420	4.38	7,382	4.84

The Company granted 2,258,000 stock options on January 27, 2010, 196,000 on May 11, 2010 and 100,000 on August 10, 2010 to employees, officers and directors. These options have an exercise price of Cdn$4.39, Cdn$5.93 and Cdn$5.70 respectively. These options vest over a three year period and have a contractual life of five to seven years from date of grant. The value was determined using the Black-Scholes pricing model. A weighted average

12. Share capital (continued)

(b) Stock options (continued)

grant-date fair value of Cdn$3.05 was calculated using the following weighted average assumptions: no dividends are to be paid; volatility of 70%, risk free interest rate of 2.80%, and expected life of 6.9 years

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

5,699,000 stock options were assumed on June 2, 2009 upon the acquisition of Western Goldfields as described in Note 4. These stock options were valued at $9.7 million as part of the business combination valuation.

At September 30, 2010, the intrinsic value of the stock options outstanding was $37.6 million (December 31, 2009 - $13.4 million) and the intrinsic value of the stock options that were exercisable was $18.9 million (December 31, 2009 - $9.4 million). For the nine months ended September 30, 2010, the intrinsic value of the stock options exercised during the year was $10.8 million (2009 - $2.6 million).

For the three and nine months ended September 30, 2010, the Company recorded $1.8 million and $6.4 million (2009 - $1.9 million and $4.8 million) as stock-based compensation expense and recorded this amount in contributed surplus. At September 30, 2010, the total value of the non-vested stock options that remain to be expensed is $7.1 million (December 31, 2009 - $6.3 million). It is expected that this amount shall be included in the determination of net income over the next 1.6 years.

(c) Share award units

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

In January 2010, the Company issued 699,000 share award units. In November 2009, the Company issued 560,000 share award units. Including the mark-to-market adjustment for the share award units previously issued, the Company recorded $1.0 million and $3.5 million as compensation expense for the three and nine months ended September 30, 2010 (2009 - $nil). A portion of this expense has been capitalized for recipients working at the Company's development projects. The total value of the non-vested share award units that remains to be expensed is $3.5 million (December 31, 2009 - $1.9 million). It is expected that this amount will be included in the determination of net income over the next 2.3 years.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

12. Share capital (continued)

(d) *Share purchase warrants*

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

	Number of warrants	Common Shares Issuable	Weighted average exercise price
	(000's)	(000's)	Cdn$
Balance, December 31, 2008 (i)	322,337	60,111	13.80
Issued (i)	25	25	15.00
WGI share purchase warrants exercisable into New Gold shares* (ii)	6,056	6,056	0.78
Expired (iii)	(3,150)	(3,150)	6.11
Balance, September 30, 2010 and December 31, 2009	**325,268**	**63,042**	**12.93**

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

(i) On June 30, 2008, the Company completed a 10 for 1 common share consolidation as part of the Transaction described in the 2009 annual report. The number of common shares outstanding has been adjusted to reflect this common share consolidation. While the number of share purchase warrants outstanding was not affected by this consolidation, the number of common shares to be issued upon exercise and the price to be paid upon exercise has been adjusted to reflect this common share consolidation.

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

On February 28, 2008, the Company issued 73,862,000 common share purchase warrants (Series C) upon the conversion of the Special Warrants previously issued.

The warrants were valued at $23.7 million using the Black-Scholes pricing model and that amount is included in share purchase warrants. A fair value of approximately $0.32 for each warrant was calculated using the following assumptions: no dividends are paid, volatility of 60%, risk free interest rate of 3.4%, and expected life of five years. The holders of these warrants are entitled to purchase one common share for Cdn$9.00 per share for every 10 share purchase warrants held. These share purchase warrants expire November 28, 2012.

On June 30, 2008, the Company issued 17,758,000 shares purchase warrants to effect the acquisition of Metallica, as described in Note 1. These share purchase warrants were valued at $46.7 million as part of the business combination valuation. At December 31, 2009, these share purchase warrants have expired.

On June 30, 2008, the Company issued 27,850,000 share purchase warrants (Series A) to effect the acquisition of NGI, as described in Note1. These share purchase warrants were valued at $57.4 million as part of the business combination valuation. The holders of these warrants are entitled to purchase one common share for Cdn$15.00 per share for every share purchase warrant held. These share purchase warrants expire on June 28, 2017.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

12. Share capital (continued)

(d) Share purchase warrants (continued)

(ii) On May 27, 2009, the Company issued 6,056,000 share purchase warrants to effect the acquisition of Western Goldfields, as described in Note 4. The warrants were valued at $11.9 million as part of the business combination valuation. The holders of these warrants are entitled to purchase one common share for US$0.76 per share for every share purchase warrant held. These share purchase warrants expire between September 9, 2011 and September 9, 2012.

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

The following table summarizes information about outstanding share purchase warrants at September 30, 2010.

Series	Number of warrants	Common Shares Issuable	Exercise prices		Expiry date
	(000's)	(000's)	Cdn$		
Private	460	460	0.78	*	July 12, 2011
Private	2,300	2,300	0.78	*	June 9, 2011
Series B	217,500	21,750	15.00		April 3, 2012
Private	3,296	3,296	0.78	*	June 9, 2012
Series C	73,862	7,386	9.00		November 28, 2012
Series A	27,850	27,850	15.00		June 28, 2017
	325,268	63,042			

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

12. Share capital (continued)

(e) Net earnings per share

The following table sets forth the computation of diluted earnings (loss) per share for the three and nine months ended September 30, 2010 and 2009.

	Three months ended September 30		Nine months ended September 30,	
	2010	2009	**2010**	2009
Earnings (loss) from continuing operations	**$27,446**	$6,096	**$62,052**	($181,139)
Earnings (loss) from discontinued operations, net of tax	**-**	(1,995)	**42,023**	(5,527)
Net earnings (loss)	**$27,446**	$4,101	**$104,075**	($186,666)
(in thousands)				
Basic weighted average number of shares outstanding	**391,686**	362,791	**390,186**	278,551
Effective of diluted securities				
Stock options	**4,620**	3,311	**4,242**	-
Warrants	**5,258**	4,625	**5,200**	-
Diluted weighted average number of shares outstanding	**401,564**	370,727	**399,628**	278,551
Earnings (loss) per share from continuing operations				
Basic	**$0.07**	$0.02	**$0.16**	($0.65)
Diluted	**$0.07**	$0.02	**$0.16**	($0.65)
Earnings (loss) per share from discontinued operations				
Basic	**$0.00**	($0.01)	**$0.11**	($0.02)
Diluted	**$0.00**	($0.01)	**$0.10**	($0.02)
Earnings (loss) per share				
Basic	**$0.07**	$0.01	**$0.27**	($0.67)
Diluted	**$0.07**	$0.01	**$0.26**	($0.67)

The following lists the equity securities excluded from the computation of diluted earnings per share. For the nine months ended September 30, 2010 and 2009, the equity securities were excluded as the exercise prices related to the particular security exceed the average market price of the common shares of the Company of Cdn$5.52 (2009 – Cdn$2.82) for the period.

	2010	2009
	(000's)	(000's)
Stock options	**3,919**	10,429
Share purchase warrants	**56,986**	60,136
Convertible debentures	**55,000**	55,000

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

13. Income and mining taxes

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Current income and mining tax expense	**14,365**	991	**34,352**	11,406
Future income and mining tax recovery	**(5,736)**	2,492	**(4,484)**	(995)
	8,629	3,483	**29,868**	10,411

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before taxes. These differences result from the following items:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Earnings (loss) before taxes	**36,075**	9,579	**91,920**	(170,728)
Canadian federal and provincial income tax rates	**28.50%**	30.00%	**28.50%**	30.00%
Income tax expense based on above rates	**10,281**	2,874	**26,197**	(51,218)
Increase (decrease) due to				
Non-taxable income	**3,566**	(14,856)	**(6,798)**	(3,989)
Non-deductible expenditures	**1,867**	13,632	**3,013**	3,950
Different statutory tax rates on earnings of foreign subsidiaries	**2,672**	(691)	**5,524**	(1,252)
Adjustment of prior year provision to statutory tax returns	**929**	(1,507)	**9,379**	(2,544)
Non-taxable gain	**(3,965)**	-	**(4,341)**	-
Benefit of losses not recognized in period	**349**	117	**806**	255
Change in valuation allowance and other	**(7,070)**	3,914	**(3,912)**	65,209
	8,629	3,483	**29,868**	10,411

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

14. Reclamation and closure cost obligations

Changes to the reclamation and closure cost balance are as follows:

	Mesquite Mine	Cerro San Pedro Mine	Peak Mine	New Afton Project	Total
	$	$	$	$	$
Balance, December 31, 2008	-	3,258	5,509	182	8,949
Acquisition (Note 4)	5,221	-	-	-	5,221
Reclamation expenditures	-	-	(32)	-	(32)
Accretion	203	316	521	75	1,115
Revisions to expected cash flows	163	843	880	1,556	3,442
Foreign exchange	-	201	1,574	33	1,808
Balance, December 31, 2009	5,587	4,618	8,452	1,846	20,503
Reclamation expenditures	**(23)**	**-**	**(21)**	**-**	**(44)**
Accretion	**291**	**298**	**502**	**106**	**1,197**
Revisions to expected cash flows	**-**	**772**	**-**	**-**	**772**
Foreign exchange	**-**	**204**	**619**	**31**	**854**
Balance, September 30, 2010	**5,855**	**5,892**	**9,552**	**1,983**	**23,282**
Less: current portion	**(191)**	**(324)**	**(128)**	**-**	**(643)**
	5,664	**5,568**	**9,424**	**1,983**	**22,639**

The current portion of the reclamation and closure cost obligations have been included in accounts payable and accrued liabilities.

15. Supplemental cash flow information

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
Change in non-cash working capital				
Accounts receivable	**(2,936)**	124	**2,103**	(1,483)
Inventories and stockpiled ore	**(8,880)**	(14,765)	**(19,421)**	(25,771)
Accounts payable and accrued liabilities	**7,961**	2,916	**8,466**	3,798
Prepaids and other	**(2,928)**	(894)	**(1,875)**	595
	(6,783)	(12,619)	**(10,727)**	(22,861)
Operating activities included the following payments:				
Interest paid	**20**	406	**10,523**	11,305
Income taxes paid	**6,836**	913	**20,110**	3,050

Non-cash investing activities includes $0.3 million for the three and nine months ended September 30, 2010 (2009 - $1.3 million and $3.6 million), and represents the Company's share of contributions to the El Morro project funded by the joint venture partner (Note 10 (d)). The completion of the Agreement with Goldcorp after the Company had exercised its right of first refusal to acquire a 70% interest in the El Morro Project resulted in non-cash retirement of debt to Goldcorp of $463.0 million and the non-cash disposal of the 70% interest in the El Morro project of $463.0 million.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

16. Segmented information

The Company manages its operations by geographical location. The results from operations for these reportable operating segments are summarized in the table below:

	Three months ended September 2010				
	USA	Mexico	Australia	Other [1]	Total
	$	$	$	$	$
Revenues	33,318	61,433	32,365	-	127,116
Operating expenses	(21,523)	(20,092)	(17,822)	-	(59,437)
Depreciation and depletion	(5,469)	(11,374)	(4,141)	-	(20,984)
Earnings from mine operations	6,326	29,967	10,402	-	46,695
Corporate administration	-	-	-	(7,009)	(7,009)
Exploration	(1,494)	(63)	(1,220)	(1,987)	(4,764)
Earnings (loss) from operations	4,832	29,904	9,182	(8,996)	34,922
Other income (expense)					
Realized and unrealized gain on investments	-	-	-	2,126	2,126
Unrealized gain on prepayment option	-	-	-	10,916	10,916
Interest and other income	13	12	136	917	1,078
Interest and finance fees	(20)	-	(13)	(39)	(72)
Other expense	76	-	(74)	-	2
Gain (loss) on foreign exchange	30	(9,573)	(2,327)	(1,027)	(12,897)
Earnings before taxes	4,931	20,343	6,904	3,897	36,075
Income and mining taxes	(881)	(11,553)	(2,128)	5,933	(8,629)
Net earnings from continuing operations	4,050	8,790	4,776	9,830	27,446

[1] Other includes corporate balances and exploration properties. Results of operations for the Canadian and Chilean development properties have been included in Other as these properties are still in the development phase with no revenues or operating costs.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

16. Segmented information (continued)

	Nine months ended September 30, 2010				
	USA	Mexico	Australia	Other [1]	Total
	$	$	$	$	$
Revenues	127,153	118,628	95,314	-	341,095
Operating expenses	(73,467)	(47,991)	(48,090)	-	(169,548)
Depreciation and depletion	(18,722)	(22,952)	(10,667)	-	(52,341)
Earnings from mine operations	34,964	47,685	36,557	-	119,206
Corporate administration	-	-	-	(23,689)	(23,689)
Exploration	(1,494)	(1,144)	(4,355)	(2,407)	(9,400)
Earnings (loss) from operations	33,470	46,541	32,202	(26,096)	86,117
Other income (expense)					
Realized and unrealized gain on investments	-	-	-	7,018	7,018
Unrealized gain on prepayment option	-	-	-	11,568	11,568
Interest and other income	44	150	208	1,438	1,840
Interest and finance fees	(227)	-	(15)	(118)	(360)
Other expense	76	(1,473)	(666)	-	(2,063)
Gain (loss) on foreign exchange	35	(8,850)	(1,697)	(1,688)	(12,200)
Earnings before taxes	33,398	36,368	30,032	(7,878)	91,920
Income and mining taxes	(13,984)	(15,441)	(7,550)	7,107	(29,868)
Net earnings (loss) from continuing operations	19,414	20,927	22,482	(771)	62,052

[1] Other includes corporate balances and exploration properties. Results of operations for the Canadian and Chilean development properties have been included in Other as these properties are still in the development phase with no revenues or operating costs.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

16. Segmented information (continued)

	Three months ended September 30, 2009				
	USA [1]	Mexico	Australia	Other [2]	Total
	$	$	$	$	$
Revenues	26,137	31,894	30,460	-	88,491
Operating expenses	(19,117)	(17,042)	(14,916)	-	(51,075)
Depreciation and depletion	(5,572)	(6,342)	(2,906)	-	(14,820)
Earnings from mine operations	1,448	8,510	12,638	-	22,596
Corporate administration	-	-	-	(5,527)	(5,527)
Business combination transaction costs	-	-	-		-
Exploration	-	(974)	(383)	(1,059)	(2,416)
Goodwill impairment charge	-	-	-		-
Loss from operations	1,448	7,536	12,255	(6,586)	14,653
Other income (expense)					
Realized and unrealized loss on gold contracts	(905)	-	-	-	(905)
Realized and unrealized gain on investments	-	-	-	5,288	5,288
Interest and other income	37	28	29	535	629
Gain on redemption of long-term debt	-	-	-	-	-
Interest and finance fees	(442)	-	(26)	(8)	(476)
Other expense	(715)	-	-	-	(715)
Gain (loss) on foreign exchange	39	4,130	(2,014)	(11,050)	(8,895)
Earnings (loss) before taxes	(538)	11,694	10,244	(11,821)	9,579
Income and mining taxes	1,976	(3,828)	(2,712)	1,081	(3,483)
Net earnings (loss) from continuing operations	1,438	7,866	7,532	(10,740)	6,096

(1) Segment acquired on May 27, 2009 (Note 4) - results from operations for period of ownership.

(2) Other includes corporate balances and exploration properties. Results of operations for the Canadian and Chilean development properties have been included in Other as these properties are still in the development phase with no revenues or operating costs.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

16. Segmented information (continued)

	Nine months ended September 30, 2009				
	USA [1]	Mexico	Australia	Other [2]	Total
	$	$	$	$	$
Revenues	36,348	81,079	74,588	-	192,015
Operating expenses	(28,580)	(44,240)	(36,302)	-	(109,122)
Depreciation and depletion	(7,352)	(19,248)	(7,292)	(62)	(33,954)
Earnings (loss) from mine operations	416	17,591	30,994	(62)	48,939
Corporate administration	-	-	-	(15,299)	(15,299)
Business combination transaction costs	-	-	-	(6,583)	(6,583)
Exploration	-	(2,620)	(687)	(1,788)	(5,095)
Goodwill impairment charge	(189,634)	-	-	-	(189,634)
Income (loss) from operations	(189,218)	14,971	30,307	(23,732)	(167,672)
Other income (expense)					
Realized and unrealized gain on gold contracts	7,256	-	-	-	7,256
Realized and unrealized gain on fuel contracts	797	-	-	-	797
Realized and unrealized gain on investments	-	-	-	14,987	14,987
Interest and other income (loss)	50	102	(240)	2,725	2,637
Gain on redemption of long-term debt	-	-	-	14,236	14,236
Interest and finance fees	(598)	-	(157)	(13)	(768)
Other expense	(715)	-	-	-	(715)
Gain (loss) on foreign exchange	78	(12,269)	(7,176)	(22,119)	(41,486)
Earnings (loss) before taxes	(182,350)	2,804	22,734	(13,916)	(170,728)
Income and mining taxes	738	(5,448)	(5,037)	(664)	(10,411)
Net earnings (loss) from continuing operations	(181,612)	(2,644)	17,697	(14,580)	(181,139)

(1) Segment acquired on May 27, 2009 (Note 4) - results from operations for period of ownership.
(2) Other includes corporate balances and exploration properties. Results of operations for the Canadian and Chilean development properties have been included in Other as these properties are still in the development phase with no revenues or operating costs.

Expenditures for mining interests

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
USA [1]	**(1,537)**	(844)	**(2,789)**	(1,011)
Mexico	**(2,286)**	(727)	**(7,798)**	(1,711)
Australia	**(7,792)**	(5,570)	**(18,026)**	(19,178)
Canada	**(22,548)**	(8,691)	**(59,138)**	(52,624)
Chile	**-**	(540)	**-**	(1,530)
Other [2]	**(81)**	(98)	**(229)**	(299)
	(34,244)	(16,470)	**(87,980)**	(76,353)

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

16. Segmented information (continued)

Total Assets

	September 30, 2010	December 31, 2009 [3]
	$	$
USA [1]	**402,288**	414,893
Mexico	**462,874**	442,300
Australia	**243,603**	228,420
Canada	**805,025**	739,251
Chile	**393,262**	392,976
Other [2]	**349,743**	233,041
	2,656,795	2,450,881

(1) Segment acquired on May 27, 2009 (Note 4).
(2) Other includes corporate balances and exploration properties.
(3) Includes assets from continuing operations only.

17. Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

In the management of capital, the Company includes the components of shareholders' equity, short-term borrowings and long-term debt, as well as the cash and cash equivalents, and investments.

Capital, as defined above, at September 30, 2010 and December 31, 2009 is summarized in the following table.

	September 30, 2010	December 31 2009
	$	$
Shareholders' equity	**1,842,495**	1,731,045
Long-term debt	**217,088**	237,544
	2,059,583	1,968,589
Cash and cash equivalents	**(391,004)**	(262,325)
Investments	**(46,851)**	(45,890)
	1,621,728	1,660,374

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or sell its investments.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital

17. Capital risk management (continued)

deployment and general industry conditions. The annual budget and quarterly updated forecasts are approved by the Board of Directors. The Company's investment policy is to invest its surplus funds in permitted investments consisting of treasury bills, bonds, notes and other evidences of indebtedness of Canada, the U.S. or any of the Canadian Provinces with a minimum credit rating of R-1 mid from the Dominion Bond Rating Service ("DBRS") or an equivalent rating from Standard & Poors and Moody's and with maturities of 90 days or less at the original date of acquisition. At all times, more than 25% of the aggregate amount of permitted investments must be invested in treasury bills, bonds, notes and other indebtedness of Canada or Provinces with a minimum credit rating of R-1 mid from DBRS. All investments must have a maximum term to maturity of six months (however any investments with a maturity of more than 90 days from the original date of acquisition will be classified as Investments, not cash) and the average term will generally range from seven days to 90 days. Under the policy, the Company is not permitted to make new investments in ABCP or auction rate securities.

The Company has a long-term note indenture (Note 10) that contains a general covenant that the Company shall work diligently toward obtaining and, once obtained, maintaining in good standing, all permits required for the operation of the New Afton project.

18. Financial risk management

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations.

The Company's financial assets are primarily composed of cash and cash equivalents, investments and accounts receivable. Credit risk is primarily associated with trade receivables and investments; however it also arises on cash and cash equivalents.

To mitigate exposure to credit risk, the Company has established policies to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable credit worthiness, and to ensure liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk. The Company sells its gold exclusively to large international organizations with strong credit ratings. The Company's revenue is comprised of gold sales to primarily five customers.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold and copper concentrate trade receivables at September 30, 2010 is not considered to be high.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

18. Financial risk management (continued)

(a) *Credit risk (continued)*

The Company's maximum exposure to credit risk at September 30, 2010, is as follows:

	September 30 2010	December 31 2009
	$	$
Cash and cash equivalents	**391,004**	262,325
Restricted cash	**-**	9,201
Accounts receivable	**8,528**	10,345
Mark-to-market gain on fuel contracts	**256**	706
Investments	**46,851**	45,890
Reclamation deposits and other assets	**29,227**	17,646
	475,866	346,113

The aging of accounts receivable at September 30, 2010 was as follows:

	0-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	**September 30, 2010 Total**	December 31 2009 Total
	$	$	$	$	$	**$**	$
Mesquite Mine	336	11	246	2	-	**595**	273
Cerro San Pedro Mine	2,162	157	-	-	82	**2,401**	5,348
Peak Mine	3,248	-	-	-	10	**3,258**	3,922
New Afton	1,928	-	-	6	-	**1,934**	632
Corporate	340	-	-	-	-	**340**	170
	8,014	168	246	8	92	**8,528**	10,345

A significant portion of the Company's cash and cash equivalents are held in large Canadian financial institutions. Short-term investments (including those presented as part of cash and cash equivalents) are composed of financial instruments issued by Canadian banks with high investment-grade ratings and the governments of Canada and the U.S.

The Company employs a restrictive investment policy as detailed in the capital risk management section (Note 17).

The Company has a bonding and insurance program, primarily with Chartis, formerly American International Specialty Lines Insurance Company ("AIG Insurance"), in respect of the operations and closure liabilities of the Mesquite Mine. At September 30, 2010, the Company had $9.0 million in the account. In September 2008, AIG Insurance's parent company, American International Group, Inc. ("AIG"), suffered a liquidity crisis following the downgrade of its credit rating. The United States Federal Reserve loaned money to AIG in order for the company to meet its obligations to post additional collateral to trading partners. As a result of Federal and State laws governing the operation of AIG Insurance and segregation of funds, it is not believed that the Company's funds are at risk. During 2009, AIG worked through its restructuring under the supervision of the Federal Reserve Bank of New York and the U.S. Department of the Treasury. The U.S. Department of the Treasury has a 78% stake in the equity of AIG, which owns Chartis. Chartis may become a listed property-casualty and general insurance company in 2010 or 2011.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

18. Financial risk management (continued)

(a) Credit risk (continued)

The Company sells all of its copper concentrate production to a customer under an off-take contract. The loss of this customer or unexpected termination of the off-take contract could have a material adverse effect on the Company's results of operations, financial condition and cash flows, however there are alternative customers in the market.

The Company is not economically dependent on a limited number of customers for the sale of its gold because gold can be sold through numerous commodity market traders worldwide.

The Company has five customers (2009, four customers) that account for over 95% (2009, 76%) of the concentrate and doré sales revenue.

Metal sales	**Three months ended September 30,**	**Nine months ended September 30,**
Customer	**2010**	**2010**
	$	**$**
1	**61,433**	**118,628**
2	**21,204**	**91,343**
3	**13,355**	**50,951**
4	**19,009**	**44,225**
5	**5,847**	**17,314**
Total	**120,848**	**322,461**
% of total metal sales	**95%**	**95%**

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 17.

The following are the contractual maturities of debt commitments. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying amounts on the consolidated balance sheet.

	Less than 1 year	1-3 years	4-5 years	After 5 years	**September 30, 2010 Total**	December 31 2009 Total
	$	$	$	$	**$**	$
Accounts payable and accrued liabilities	56,001	-	-	-	**56,001**	36,033
Long-term debt	-	-	53,410	181,596	**235,006**	258,467
Interest payable on long-term debt	20,830	41,660	38,964	36,319	**137,773**	147,352
Gold contracts	32,833	62,598	37,882	-	**133,313**	95,986
	109,664	104,258	130,256	217,915	**562,093**	537,838

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

18. Financial risk management (continued)

(b) Liquidity risk (continued)

In the opinion of management, the working capital of $415.2 million at September 30, 2010, together with cash flows from operations, are sufficient to support the Company's normal operating requirements through its current reporting period. However, taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations. The Company believes that external financing (which may include bank borrowings and future debt and equity offerings) will not be required to complete its major development projects. A period of continuous low gold and copper prices may necessitate the deferral of capital expenditures which may impact production from mining operations.

(c) Currency risk

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

(i) Transaction exposure

The Company's operations sell commodities and incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

(ii) Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, investments, accounts receivable, reclamation deposits, accounts payable and accruals, reclamation and closure cost obligations and long-term debt. The currencies of the Company's financial instruments and other foreign currency denominated liabilities, based on notional amounts, were as follows:

				September 30,2010
	Canadian dollar	Australian dollar	Mexican peso	Chilean peso
Cash and cash equivalents	292,631	28,072	878	38
Investments	5,221	41,630	-	-
Accounts receivable	1,970	3,258	2,679	39
Reclamation deposit	6,312	-	-	-
Prepayment option	11,568	-	-	-
Accounts payable and accruals	(16,705)	(15,851)	(29,265)	-
Reclamation and closure cost obligations	(1,983)	(9,424)	(5,568)	-
Share award units	(3,742)	-	-	-
Long-term debt	(213,176)	-	-	-
Gross balance sheet exposure	82,096	47,685	(31,276)	77

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

18. Financial risk management (continued)

(c) Currency risk (continued)

				December 31, 2009
	Canadian dollar	Australian dollar	Mexican peso	Chilean peso
Cash and cash equivalents	165,147	32,008	2,670	18
Investments	45,890	-	-	-
Accounts receivable	549	3,922	5,674	-
Reclamation deposit	6,211	-	-	-
Accounts payable and accruals	(6,529)	(11,566)	(8,806)	(94)
Reclamation and closure cost obligations	(1,846)	(8,330)	(4,314)	-
Long-term debt	(206,653)	-	-	-
Gross balance sheet exposure	2,769	16,034	(4,776)	(76)

(iii) Translation exposure

The Company's functional and reporting currency is U.S. dollars. The Company's operations translate their operating results from the host currency to U.S. dollars. Therefore, exchange rate movements in the Canadian dollar, Australian dollar, Mexican peso and Chilean peso can have a significant impact on the Company's consolidated operating results. As described in Note 18 (c) (ii), some of the Company's earnings translation exposure to financial instruments is offset by interest on foreign currency denominated loans and debt.

A 10% strengthening (weakening) of the U.S. dollar against the following currencies would have decreased (increased) the Company's net earnings (loss) before taxes from continuing operations from the financial instruments presented in Note 18 (c) (ii) by the amounts shown below.

	2010	2009
	$	$
Canadian dollar	**8,210**	277
Australian dollar	**4,769**	1,603
Mexican peso	**(3,128)**	(478)
Chilean peso	**8**	-
	9,859	1,402

(d) Interest rate risk

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

The Company is exposed to interest rate risk on its short-term investments. All of the Company's debt obligations are fixed therefore there is no exposure to changes in market interest rates. In particular, the Company is exposed to interest rate changes on short term investments which are included in cash and cash equivalents. The short term investment interest earned is based on prevailing one to 90 days money market interest rates which may fluctuate. A 1.0% change in the interest rate would result in an annual difference of approximately $3.9 million in interest earned by the Company. The Company has not entered into any derivative contracts to manage this risk. Where possible and depending on market

18. Financial risk management (continued)

(d) Interest rate risk (continued)

conditions, the Company follows the policy of issuing fixed interest rate debt to avoid future fluctuations in its debt service costs.

(e) Price risk

The Company's earnings and cash flows are subject to price risk due to fluctuations in the market price of gold, silver and copper. World gold prices have historically fluctuated widely and are affected by numerous factors beyond our control, including:

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

As part of the Western Goldfields acquisition described in Note 4, the Company acquired gold contracts which mitigate the effects of price changes. The Company designated these contracts as an accounting cash flow hedge effective July 1, 2009 as described in Note 11 (a). At September 30, the Company had remaining gold forward sales contracts for 280,500 ounces of gold at a price of $801 per ounce at a remaining commitment of 5,500 ounces per month for 51 months.

In the third quarter of 2010, the Company's revenues and cash flows were somewhat impacted by the variation in copper prices in the range of $2.76 and $3.61 per pound. There is a time lag between the time of shipment for copper and final pricing and changes in copper pricing can significantly impact the Company's revenue and working capital position. As of September 30, 2010, working capital includes copper concentrate receivables totalling 0.4 million pounds. A $0.10 change in copper price would have an impact of $0.1 million on the Company's working capital position.

The Company is also subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by the prices of commodities it consumes or uses in its operations, such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control. As described in Note 11 (b), the Company has entered into fuel contracts to mitigate these price risks. At September 30, 2010, the Company had a remaining commitment to purchase 0.75 million gallons of diesel over the next 3 months.

The Company is also subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, a share award unit plan that the Company is required to satisfy in cash upon vesting. The amount of cash the Company will be required to expend is dependent upon the price per common share at the time of vesting. The Company considers this plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in compensation expense each period.

A 10% change in prices would impact the Company's net earnings (loss) before taxes from continuing operations and other comprehensive income before taxes as follows:

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

18. Financial risk management (continued)

(e) Price risk (continued)

			Three months ended September 30,	
	2010	**2010**	2009	2009
	Net Earnings	**Other Comprehensive Income**	Net Earnings	Other Comprehensive Income
	$	**$**	$	$
Gold price	**10,589**	**32,843**	7,447	-
Copper price	**752**	**-**	964	-
Silver price	**1,442**	**-**	567	-
Fuel price	**963**	**225**	1,252	-
Share award unit	**374**	**-**	-	-

			Nine months ended September 30,	
	2010	**2010**	2009	2009
	Net Earnings	**Other Comprehensive Income**	Net Earnings	Other Comprehensive Income
	$	**$**	$	$
Gold price	**28,672**	**32,843**	15,872	-
Copper price	**3,055**	**-**	2,104	-
Silver price	**2,775**	**-**	1,619	-
Fuel price	**2,603**	**225**	2,024	-
Share award unit	**374**	**-**	-	-

19. Fair value measurement

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

At September 30, 2010 and December 31, 2009, the Company's financial assets and liabilities are categorized as follows:

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

19. Fair value measurement (continued)

				September 30, 2010
	Loans and Receivables	**Held at Fair value**	**Financial Assets Liabilities at Amortized Cost**	**Total**
	$	**$**	**$**	**$**
Financial Assets				
Cash and cash equivalents	**-**	**391,004**	**-**	**391,004**
Accounts receivable	**8,528**	**-**	**-**	**8,528**
Fuel contract	**-**	**256**	**-**	**256**
Prepayment option	**-**	**11,568**	**-**	**11,568**
Investments	**-**	**46,851**	**-**	**46,851**
Reclamation deposits	**-**	**17,659**	**-**	**17,659**
Financial Liabilities				
Accounts payable and accrued liabilities	**-**	**-**	**56,001**	**56,001**
Long-term debt	**-**	**-**	**217,088**	**217,088**
Gold contracts	**-**	**133,313**	**-**	**133,313**
Share award units	**-**	**3,742**	-	**3,742**

				December 31, 2009
	Loans and Receivables	Held at Fair value	Financial Assets Liabilities at Amortized Cost	Total
	$	$	$	$
Financial Assets				
Cash and cash equivalents	-	262,325	-	262,325
Restricted cash	-	9,201	-	9,201
Accounts receivable	10,345	-	-	10,345
Fuel contract	-	706	-	706
Prepayment option	-	-	-	-
Investments	-	45,890	-	45,890
Reclamation deposits	-	17,646	-	17,646
Financial Liabilities				
Accounts payable and accrued liabilities	-	-	35,816	35,816
Long-term debt	-	-	237,544	237,544
Gold contracts	-	95,986	-	95,986
Share award units	**-**	217	-	217

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(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

19. Fair value measurement (continued)

At September 30, 2010 and December 31, 2009, the carrying values and the fair values of the Company's financial instruments are shown in the following table.

	September 30, 2010		December 31, 2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	$	**$**	$	$
Financial Assets				
Cash and cash equivalents	**391,004**	**391,004**	262,325	262,325
Restricted cash	**-**	**-**	9,201	9,201
Accounts receivable	**8,528**	**8,528**	10,345	10,345
Fuel contract	**256**	**256**	706	706
Prepayment option	**11,568**	**11,568**	-	-
Investments	**46,851**	**46,851**	45,890	45,890
Reclamation deposits	**17,659**	**17,659**	17,646	17,646
Financial Liabilities				
Accounts payable and accrued liabilities	**56,001**	**56,001**	35,816	35,816
Long-term debt	**217,088**	**256,560**	237,544	265,696
Gold contracts	**133,313**	**133,313**	95,986	95,986
Share award units	**3,742**	**3,742**	217	217

The senior secured notes and the subordinated convertible debentures are traded on a public exchange. The fair value estimates for these notes have been estimated using the September 30, 2010 and December 31, 2009 closing prices. The El Morro project funding is a floating rate facility whose carrying value approximates fair value.

The Company has certain financial assets and liabilities that are held at fair value. Cash and cash equivalents, restricted cash and reclamation deposits fair values approximate their historic value due to the short term nature of these items. The fuel contract, investments and the gold contracts are presented at fair value at each reporting date using appropriate valuation methodology. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The following table summarizes information relating to the fair value determination of the Company's financial instruments which are fair valued on a recurring basis.

(Tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

19. Fair value measurement (continued)

			2010
	Level 1	Level 2	Level 3
	$	$	$
Cash and cash equivalents	391,004	-	-
Reclamation deposits	17,659	-	-
Fuel contracts	-	256	-
Prepayment option	-	11,568	-
Gold contracts	-	(133,313)	-
Investments	41,630	5,221	-
Share award units	-	3,742	-

20. Related parties

Certain directors and officers of the Company are also directors of a company to which the Company pays royalties in the normal course of business. Royalty payments were $1.8 million and $3.9 million for the three and nine months ended September 30, 2010 (2009 - $0.5 million and $1.7 million). At September 30, 2010, the Company had $1.5 million included as accrued liabilities related to this company (December 31, 2009 - $1.3 million). These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.

A director of New Gold is also a director of the company that purchased from New Gold an interest in the El Morro Project as described in Note 9. That company is now the 70% owner manager of the El Morro Project.

21. Commitments and contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. If the assessment of a contingency suggests that a loss is probable, and the amount can be reliably estimated, then a loss is recorded. When a contingent loss is not probable but is reasonably possible, or is probable but the amount of loss cannot be reliably estimated then details of the contingent loss are disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. Legal fees incurred in connection with pending legal proceedings are expensed as incurred.

(a) The Company has entered into a number of contractual commitments related to equipment orders to purchase long lead items or critical pieces of mining equipment and operating leases for its operations. At September 30, 2010, these commitments totaled $164.3 million, of which $102.1 million are expected to fall due over the next 12 months.

(b) The Company terminated various employment, consulting and service agreements as a result of slowing development activities at the New Afton project in 2008. Certain of the affected parties have or may in the future make legal claims in response to such terminations. The Company cannot reasonably predict the likelihood or outcome of any such actions, but would vigorously defend against them.

21. Commitments and contingencies (continued)

(c) The Company had previously recognized a contingent liability for certain claims against the Amapari Mine, of which claims were assumed by Beadell upon closing of the Amapari Mine sale on April 13, 2010. As part of the agreement selling the Amapari Mine, the Company provided general indemnity for one year in connection with the representations and obligations of the Company under the sale agreement. The indemnity is limited to claims in excess of an amount equal to $5.0 million and in no event shall the aggregate amount of all claims exceed $10 million.

(d) El Morro Transaction

On January 13, 2010, the Company received a Statement of Claim filed by Barrick in the Ontario Superior Court of Justice, against New Gold, Goldcorp and affiliated subsidiaries. A Fresh Amended Statement of Claim was received August 2010 which included Xstrata and affiliated subsidiaries as defendants. The claim relates to New Gold's exercise of its right of first refusal on the El Morro copper-gold project. New Gold intends to defend the action vigorously. No amounts have been accrued for any potential loss under this claim.

(e) Cerro San Pedro Mine

The Company has a history of legal challenges to its Cerro San Pedro Mine. In September 2009, a Federal Court of Fiscal and Administrative Justice (FCFAJ) ordered SEMARNAT, the Mexican environmental regulatory agency, to nullify the authorization of its 2006 Environmental Impact Statement (EIS) for the Cerro San Pedro mine. MSX appealed the ruling. A hearing was held in the Third Federal District Court in Mexico City in April 2010, and a negative decision was issued by the court in July 2010. The Company has filed a further appeal to the Collegiate Appeals Court in Mexico City. The First Federal District Court in San Luis Potosi has issued injunctions to ensure that operations at the Cerro San Pedro Mine continue while appeals are heard related to the September 2009 order to nullify the authorization of the Company's EIS. The latest injunction was received on October 4, 2010. In August 2010, the Company filed an expanded application for approval of an EIS with SEMARNAT, which application is currently under review. In addition, MSX continues to work with all levels of government and other external stakeholders to ensure ongoing operations at the Cerro San Pedro Mine.

22. Comparative presentation

Certain prior year information has been reclassified to conform to current year presentation.

Designed and Produced by SUTTON INTEGRATED SOLUTIONS Printed in Canada

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