In 2010, New Gold successfully pursued its strategy of delivering growth, executing operationally, maintaining a solid financial position, and enhancing shareholder value.

There’s more – with this solid platform we are focused on the future and the pursuit of continued value growth for New Gold shareholders.

2010 Highlights

| Gold production in 2010 increased 27% to 382,911 ounces |
| Total cash cost\(^1\) in 2010 decreased by $37 to $428 per ounce sold, net of by-product sales |
| Earnings from mine operations of $203 million |
| Cash flow from operations increased by 131% to $182 million |
| $491 million of cash at 2010 year-end |
| Successfully divested our non-core Amapari asset and the remaining Asset-Backed notes, and continued to enhance the value of our two fully-funded organic growth projects – New Afton and El Morro |
| Share price appreciated 155% during 2010 |

Table of contents

1 Growing New Gold  2 Letter to Shareholders  4 Operational Highlights  14 Sustainability  
16 Reserves and Resources  20 Board of Directors  21 Corporate Information
GROWING NEW GOLD

PROVEN AND PROBABLE GOLD RESERVES

Year ended December 31
(US dollars in thousands except where indicated otherwise)

Operating Information:
- Gold Production (oz): 382,911, 301,773, 233,103
- Gold Sales (oz): 369,077, 292,407, 237,590
- Average Realized Price (US$/oz): $1,194, $987, $863
- Total Cash Cost(1)(US$/oz), net of by-product sales: $428, $465, $566
- Proven and Probable Gold Reserves (million oz): 8.5, 8.2, 4.8

Financial Information:
- Revenues: $530,450, $323,780, $143,083
- Earnings from Mine Operations: $203,096, $88,621, $21,402
- Net Earnings (loss): $176,954, $(194,316), $(102,679)
- Cash Flow from Operations: $182,260, $78,981, $23,073
- Cash and Cash Equivalents: $490,754, $271,526, $182,013

Share Data:
- Earnings (loss) per share – basic: $0.46, $(0.64), $(0.69)
- – diluted: $0.45, $(0.64), $(0.69)
- Share price as at December 31 (TSX – Canadian dollars): $9.68, $3.80, $1.77
- Outstanding Shares (Basic) at December 31 (millions): 399.0, 388.8, 212.8

Looking Forward
As New Gold looks forward to 2011, we expect to realize an increase in gold production primarily resulting from a full year of production from Cerro San Pedro.

<table>
<thead>
<tr>
<th>Gold Production (ounces)</th>
<th>Total Cash Cost(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010A</td>
<td>2010F</td>
</tr>
<tr>
<td>Mesquite</td>
<td>169,023</td>
</tr>
<tr>
<td>Cerro San Pedro</td>
<td>118,708</td>
</tr>
<tr>
<td>Peak Mines</td>
<td>95,180</td>
</tr>
<tr>
<td>Total production</td>
<td>382,911</td>
</tr>
</tbody>
</table>

Assumptions used in the 2011 forecast include silver and copper prices of $23.00 per ounce and $3.75 per pound, respectively, and Canadian dollar, Australian dollar and Mexican peso exchange rates of $1.00, $1.05 and $12.50 to the U.S. dollar, respectively.

(1) TOTAL CASH COST
“Total cash cost” per ounce figures are calculated in accordance with a standard developed by The Gold Institute, which was a worldwide association of suppliers of gold and gold products and included leading North American gold producers. The Gold Institute ceased operations in 2002, but the standard is widely accepted as the standard of reporting cash 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. New Gold 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, but is exclusive of amortization, exploration, capitalized and exploration costs. Total cash cost is reduced by any by-product revenue and is then divided by ounces sold to arrive at the total by-product cash cost of sales. The measure, along with sales, is considered to be a key indicator of a company’s ability to generate operating earnings and cash flow from its mining operations. This measure is furnished to provide additional information and is a non-GAAP measure. Total cash costs presented do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other mining companies. 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. A reconciliation is provided in the MD&A accompanying the year-end financial statements.
LETTER TO SHAREHOLDERS

Fellow Shareholders,

As we review 2010, we are proud to have achieved significant milestones in building value for shareholders. We produced more gold at lower cost than ever before, bolstered our cash balance to a new high, and advanced our exciting development projects. Our stock responded with a 155 percent rise, after a 115 percent increase the year before.

While 2010 was a terrific year, it is the growth potential that lies ahead that has the most relevance now for shareholders. Even after our progress so far, there’s more – much more value to be surfaced as the New Gold story unfolds.

Our efforts to date, we believe, are a prelude to a highly prospective future distinguished by growing margins and cash flows. New Gold is now positioned with three key growth drivers that we expect will lead to significant value creation in the years ahead. First, we have three steady performing operations, each with their own upside, generating strong cash flows to fund our plans for project development and exploration. Second, we have New Afton, our most immediate development project in British Columbia, Canada, due for start-up in mid-2012. This low-cost operation has the potential to double New Gold’s cash flow at current commodity prices. Third, and looking farther out, our joint-venture El Morro project in Chile is expected to have an even bigger impact on our cash flow at current commodity prices. Third, and looking farther out, our joint-venture El Morro project in Chile is expected to have an even bigger impact on our cash flow at current commodity prices.

With a Portfolio of Solid Performers Generating Strong Cash Flows...

Driver One: Our Strong and Steady Performers

The key to our capacity for significant organic growth lies in the strong cash flows from Mesquite, Cerro San Pedro and Peak Mines. These operations beat guidance for both gold production and cash costs in 2010, in the process increasing cash flows by 131 percent and positioning the Company well for its future growth plans. This is a credit to the innovative spirit and hard work of the people at our mines. New Gold can provide the components for success; people make it happen. Our people supply the dedication to safety, efficiency and excellence that makes all the difference.

Across our sites, we are working hard to maximize their value and surface more, through further production growth, cost savings and exploration.

The Mesquite Mine – a gold producer in California – had a strong year in 2010, with a 13 percent increase in gold production to about 170,000 ounces at cash costs of $596 an ounce, the same level as 2009. The mine is a reliable performer with a long, proven operating history. During the year, Mesquite replaced ounces mined and maintained Proven and Probable gold reserves at 3.1 million ounces. Going forward, Mesquite has an additional 13-plus years of mine life. Yet, there is more potential upside at Mesquite. During 2010, Measured and Indicated oxide resources at Mesquite grew significantly, showing positive leverage to increasing gold prices.

Our Mesquite team is relentlessly looking to reduce costs to further enhance the value of this asset. Mesquite personnel have launched Program 500, with a target of reducing cash costs toward $500 an ounce. We expect the mine to continue to be a solid performer in the years ahead.

Cerro San Pedro – a gold/silver producer in Mexico – had its best year ever in 2010. Gold production increased 24 percent to about 119,000 ounces, while cash costs decreased $177 to $230 an ounce. We made tangible progress in resolving legal challenges to CSP from a small group of anti-mining dissidents, most of whom do not reside in the local community, with rulings in New Gold’s favour with regard to the mine’s permits. We are also pleased that local residents have stepped up to express their support for the operation and the benefits it is already bringing the local area, which you can read about in the Sustainability section of this report.

In 2011, we expect CSP to increase production at continued low cash costs, as the mine continues to benefit from strong silver production. There is also exciting upside potential on the exploration front. Exploration spending will nearly double in 2011 to further assess the property’s Manto Zone sulphide resource, after a 36 percent increase in the resource last year. Our near-term goal is to delineate a resource of sufficient size and quality to begin underground exploration.

Peak Mines – a gold/copper producer in Australia – is the third pillar of our operating assets. Peak was a solid performer in 2010, producing about 95,000 ounces of gold at a low cash cost of $361 an ounce. That performance was driven by the hard work of the Peak team and benefited as well from strong copper prices, which provided a natural hedge against the appreciating Australian currency.

In 2011 and beyond, we expect Peak to be a very steady, low-cost producer – and one with terrific upside. After a stellar, 19-year operating history, Peak continues to have exciting exploration potential. Peak’s historically produced ounces have largely come from only nine kilometres of a total 70-kilometre, highly prospective land package. We are undertaking an aggressive drill program to expand resources and convert resources to reserves around known reserves, within the mine corridor, and on the large mineralized trend in the region.

…and “Game-Changing” Low-Cost, Larger-Scale Projects in the Pipeline…

Randall Oliphant
Executive Chairman

Robert Gallagher
President and Chief Executive Officer
Driver Two: New Afton

New Afton, our most immediate development project, is quickly drawing closer to its scheduled start-up in mid-2012 and, once in operation, is expected to provide a significant boost to our cash flow. Located in British Columbia, Canada, New Afton will be a low-cost operation that is expected to produce 65,000 ounces of gold a year. This project is fully funded, with New Gold’s $491 million in cash comfortably exceeding the remaining $365 million in planned expenditures. At current commodity prices, New Afton is expected to generate approximately $280 million a year in cash flow, or more than double New Gold’s current cash flow. There’s more – exploration potential at depth could extend the mine beyond a current 12 years and/or increase the scale of the operation.

Driver Three: El Morro

The El Morro project in Chile is the next stage in our growth pipeline after New Afton. This tremendous project has the potential to have an even greater impact on our cash flow. El Morro is a world-class project with low expected cash costs and great exploration potential in one of the best mining jurisdictions in the world. New Gold is a 30 percent joint-venture partner in the project, with Goldcorp, the project operator, holding 70 percent. The potential exploration upside at El Morro remains especially exciting. In February 2011, Goldcorp increased Proven and Probable Reserves, with New Gold’s 30 percent share rising 29 percent to 2.6 million ounces of gold, while New Gold’s share of Proven and Probable copper reserves rose eight percent to 1.8 billion pounds.

And there’s more – El Morro is underexplored, both at depth in the La Fortuna deposit, the site of currently known reserves and resources, and in the neighbouring El Morro deposit, which has had only very limited exploration.

El Morro is expected to expand New Gold’s production by 95,000 ounces of gold and 105 million pounds of copper per year at low cash costs. New Gold’s share of development capital is fully funded by Goldcorp – and importantly, New Gold shareholders will see cash flow from the day production starts.

At present, analyst consensus places a combined value of approximately $1.4 billion on the New Afton and El Morro projects. Our goal is to reach a multiple of that. Based on current commodity prices and known reserves we believe there will be plenty of opportunity to do so.

...New Gold has never been better positioned with a portfolio of assets and the financial strength to surface more value for shareholders.

Significantly Enhanced Financial Flexibility

With these three components driving our growth, New Gold is already reaping the benefits. Strong and growing cash flows from our operations have positioned New Gold with significantly enhanced financial flexibility to fully fund its capital expenditures in 2011 and grow in the future.

The Company’s cash balance increased by $219 million to $491 million during 2010, net of expenditures of approximately $150 million of capital to further grow the underlying business.

The key to this cash balance increase is our strong operating margin, which was $786 per ounce in 2010, and is expected to rise again in 2011. As New Afton comes on stream in 2012, our margins should increase further. This operating margin underpins New Gold’s ability to internally fund sustaining and development capital, grow our cash balances, and evaluate other value-enhancing projects, both internally and externally.

We also moved on other fronts to enhance our financial flexibility and simplify our capitalization structure:

- We monetized more Asset-Backed notes in the first quarter, and our equity position in Beadell Resources Limited in the fourth quarter. Our shareholding in Beadell was a result of the April 2010 sale of New Gold’s Brazilian subsidiary, which held the Amapari property, in exchange for $37 million in cash and 115 million Beadell shares. Combining the original cash payment and the share sale, New Gold’s total cash proceeds from the sale of its non-core Amapari property were $95 million.
- We also put in place a $150 million undrawn credit facility in the fourth quarter.

Our robust operating margins and undrawn credit facility provide additional financial flexibility going forward, even while our currently planned capital commitments decline significantly in 2013 and beyond.

A Strong Gold Market

New Gold has been fortunate to benefit from strength in the gold price. As investors in New Gold, faced with many choices as to where you place your hard-earned money, you can take satisfaction from having put it in the right commodity, in the right company, at the right time.

An Exciting Future

Higher production at substantially lower costs – this is a trend that we expect to see continue in coming years.

We are especially excited about New Afton’s economic impact beginning in 2012. We anticipate it will help us to achieve peer-leading cash flow growth and value, even before El Morro comes on stream. We forecast cash flow from operations to grow from $182 million in 2010 to approximately $500 million in 2013, at current spot prices.

As we move ahead, we will continue to benefit from the guidance of an exceptional Board of Directors. During 2010, we drew on the wise counsel of fellow directors James Estey, Vahan Kololian, Maryn Konig, Pierre Lassonde, Craig Nelsen, Ian Telfer and Raymond Theilke. We thank them for their support and advice.

Ian Telfer, who was a founder of New Gold and a highly valued advisor and friend, will not be standing for re-election to our Board this year. Ian has provided a significant contribution to the development and success of New Gold through his dedication and business acumen. We will miss him and greatly appreciate his contribution to our Company.

During 2011 and beyond, we are positioned to significantly build the value of this Company. With our strong operating margins and cash resources, we have the capacity to achieve very significant organic growth, while also evaluating other opportunities that might arise. In short, we have the right platform in place to realize our objectives for value creation:

- A diversified asset base in excellent jurisdictions;
- Exciting organic growth projects, with New Afton’s start-up approaching fast;
- The financial flexibility of a fully funded company with a strong balance sheet;
- An outlook for rising production, falling costs, and expanding margins;
- An increasing underlying asset value; and
- The right group to carry us forward – an experienced Board and management.

This all adds up, we think, to a compelling investment proposition. The outlook for New Gold has never been brighter. With continued hard work, and a proven ability to handle challenges if and when they arise, we intend to make it a reality. We thank you for your support.

...
Overview: In 2010, Mesquite achieved the highest annual gold production since the mine restarted in early 2008. The mine increased gold production by 13 percent over 2009 to 169,023 ounces, while holding cash costs steady at $596 per ounce. Gold sales increased to 169,571 ounces from 143,509 ounces in 2009. Mesquite finished 2010 on a high note, attaining the highest quarterly production of the year, driven by open working areas and higher grade. The mine focused on the high-grade lower benches of the Rainbow Pit, before moving to the Big Chief pits in 2011. Leach pad recoveries hit steady state at 75 percent.

In 2011, capital expenditures at Mesquite are forecast to be $9 million, including $6 million for maintenance and components.

BACKGROUND
The Mesquite Mine is an open-pit, heap-leach operation located in Imperial County, California, an area with a strong mining history. New Gold acquired the mine in June 2009 as a result of a successful business combination with Western Goldfields Inc. (WGI). Prior to the business combination, WGI acquired the Mesquite Mine from Newmont Mining Corporation in 2003 and subsequently completed a positive feasibility study in 2006. The study confirmed the excellent potential to increase reserves at Mesquite and return the mine to full production. WGI commenced commercial production at Mesquite in January 2008.

UPSIDE
Exploration replaced 2010 ounces mined and maintained Proven and Probable gold reserves of 3.1 million ounces. Crews found additional oxide resources around the perimeters of the main pits, which will allow optimization of the mine plan. A significant increase in Measured and Indicated Resources demonstrated Mesquite’s positive leverage to a rising gold price.

With the mine replacing reserves in each of the last two years and current reserves of over three million ounces, Mesquite is expected to have many great years ahead of it. The mine has shown excellent leverage to higher gold prices through its reserve replacement and in 2010 also added 0.8 million ounces to its oxide resource base.
Mesquite is a key contributor to the operating cash flow that underpins New Gold’s financial flexibility and ability to internally fund the development projects in our pipeline.

In 2011, ore tonnes processed and gold recoveries are expected to remain consistent with 2010 levels; however, the gold grade is expected to move back toward reserve grade, resulting in gold production reverting to an average life-of-mine level. The increase in forecast total cash cost\(^\text{1}\) in 2011 compared to 2010 is driven by higher total tonnes mined as well as the assumption of a higher average diesel price than that realized in 2010. Cost savings will continue to be a focus at Mesquite. Our team at the mine has launched Program 500, with a target of reducing cash costs toward $500 an ounce.
Cerro San Pedro Mine

The Cerro San Pedro Mine in Mexico hit its stride in its third full year of operation, achieving record production at very low cash cost—a trend that is expected to continue in 2011.

There’s more—an expanded exploration effort is focused on defining the potential of the site’s manto sulphide resource, with a target of doubling or tripling its size and assessing the potential of future underground operations.

Overview: The mine came back from a slow start in 2010 to achieve record results. The increase in 2010 gold production and sales was driven by an increase in gold grade and higher mining rate compared to 2009, as gold grades moved in line with reserve grade. This benefit was partially offset by the mining of lower ore tonnes, as a result of the delayed receipt of the explosives permit in early 2010.

In 2010, CSP increased gold production by 24 percent over 2009 to 118,708 ounces, while total cash costs decreased by $117 an ounce to $230 per ounce and are projected to remain low in 2011. Gold sales increased to 114,713 ounces from 93,312 ounces in 2009; silver sales were 2.1 million ounces compared to 1.5 million ounces in 2009.

The decrease in total cash costs was a result of higher by-product revenues driven by both higher silver production and metal prices. This benefit was partially offset by higher diesel costs and the appreciation of the Mexican peso over 2009. The increase in silver sales was attributable to continued improvement in silver recoveries from leaching and higher silver grades.

Capital expenditures in 2011 are forecast to be approximately $12 million and will be largely related to leach pad expansions.

BACKGROUND

Cerro San Pedro is a gold-silver, heap-leach project located in central Mexico. It is situated 20 kilometres northeast of the state capital city of San Luis Potosi, a metropolitan area of approximately one million inhabitants with a strong industrial base. Cerro San Pedro has a rich history of mining activity dating back to the mid-1600s. In the 1970s, interest shifted toward evaluating the district’s potential for a bulk mineable gold-silver resource amenable to modern open-pit mining and heap-leach processing methods. These efforts culminated in the successful development of New Gold’s Cerro San Pedro mine.

UPSIDE

Exploration is focused on defining the potential of the site’s sulphide resource, with a target of doubling or tripling the size of the Manto Zone resource. Those efforts increased Cerro San Pedro’s Manto Zone inferred sulphide resource by 36 percent during 2010. The goal is to delineate a resource of sufficient size and quality to go underground to explore, with a decision expected in early 2012.
Cerro San Pedro, a low-cost operation, is another key contributor to New Gold’s strong and growing cash flows. As a gold/silver producer, CSP benefited from the strength in prices for both metals and achieved excellent cash margins. An efficient mine design allows for an increased mining rate going forward. In 2011, we expect to ramp up gold production significantly, with an expected increase in ore tonnes placed on the leach pad. Cash costs are projected to remain low, based on a conservative silver-price assumption of $23 an ounce, well below the prevailing spot price, which gives CSP excellent sensitivity to continued strength in the silver price.

New Gold is committed to operating in a socially responsible and sustainable manner at CSP, as it is at all our operations. Despite our strong track record at CSP, a small group of dissidents, most of whom reside outside the area, have been challenging the operation for the past 10 years. In 2010, we made significant progress regarding challenges at CSP and further validated the basis for the mine’s ongoing operation. As we reported in November 2010, a Collegiate Appeals Court in Mexico City ruled in favour of New Gold’s position in relation to the validity of the Company’s Environmental Impact Statement (EIS). As well, the Company has been successful in continuing to work with members of the surrounding communities as well as municipal, state and federal governments and agencies to ensure the interests of all stakeholders are met. In late 2010 the municipality approved the urban development plan, further establishing the area, including and around the Cerro San Pedro mine, for mining. Recently, this plan was formally authorized by the State of San Luis Potosi. The Company continues to work cooperatively with all levels of the government to ensure the continued operation of Cerro San Pedro for the benefit of all stakeholders.

**At a Glance**

<table>
<thead>
<tr>
<th>2010 PRODUCTION</th>
<th>2011 TARGETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold: 118,708 ounces</td>
<td>Gold: 135,000 to 145,000 ounces</td>
</tr>
<tr>
<td>Silver: 2.2 million ounces</td>
<td>Silver: 1.9 million to 2.1 million ounces</td>
</tr>
<tr>
<td>Total Cash Cost&lt;sup&gt;1&lt;/sup&gt;/oz (net of by-product sales): $230</td>
<td>Total Cash Cost&lt;sup&gt;1&lt;/sup&gt;/oz (net of by-product sales): $240 to $260</td>
</tr>
</tbody>
</table>
Peak Gold Mines

Peak Gold Mines in Australia has been successfully surfacing value – and extending its mine life – for the past 19 years. In 2010, Peak once again delivered on guidance for gold production and cash costs while also increasing resources. There’s more – Peak continues to have exciting exploration potential. Peak’s historically mined ounces have come from a nine-kilometre portion of a 70-kilometre highly prospective land package, which is set to be explored further.

Overview: In 2010, Peak produced 95,180 ounces of gold at a total cash cost(1) of $361 per ounce, compared to 93,247 ounces at $334 per ounce in 2009. The increase in 2010 gold production was attributable to an increase in gold grade and was partially offset by lower tonnes processed.

The increase in total cash cost(1) in 2010 was primarily due to the appreciation of the Australian dollar. These cost increases were partially offset by higher by-product revenues from both higher copper sales volumes and prices. Copper sales during 2010 were 14.1 million pounds at an average realized copper price of $3.48 per pound, compared to 13.9 million pounds at $2.54 per pound in 2009.

Capital expenditures in 2011 are forecast to be approximately $45 million, with about 50 percent of this total to be spent on underground development and capitalized exploration, and the remainder on mill and equipment upgrades. The 2011 capital outlays should help position Peak for continued extensions of its mine life going forward.

BACKGROUND

Peak Gold Mines is an underground gold and copper mining operation located in the Cobar Gold Field of Central West New South Wales, Australia that commenced production in 1992. Peak produces gold doré for sale at the Perth mint and copper concentrate, which is sold to markets in Asia. Peak Mines has been a consistent performer over the last 19 years.

UPSIDE

Peak continues to have highly prospective exploration potential, particularly on the surrounding 70-kilometre land package where it has exploration rights. Strong cash flow has allowed Peak to broaden the scope of exploration for new opportunities. Peak’s Measured and Indicated Resources increased by 15 percent to 1.0 million ounces in 2010 as a result of our exploration efforts and higher gold prices. We are undertaking an aggressive drill program to expand resources and convert resources to reserves around known reserves.

We will explore for extensions to Perseverance, New Occidental Deeps, Chesney, New Cobar and Jubilee deposits. As well, we will double regional exploration efforts along New Gold’s mineral tenements covering the 70-kilometre Peak-Cobar trend, evaluating nine previously identified targets along the trend. The goal is to reposition Peak with a “game-changing” discovery within the next few years.
After a successful 19-year history, Peak continues to be a strong, low-cost performer with terrific upside potential. As a gold and copper producer, Peak has benefited from price appreciation for both metals, with the strength in copper prices serving as a natural hedge against an appreciating Australian dollar.

**For 2011, Peak Mines is forecast to produce 90,000 to 100,000 ounces of gold and 12 to 14 million pounds of copper.** Even with a conservative assumption for the copper price in 2011, Peak's low cash cost is projected to continue in 2011. Total cash costs per ounce sold, net of by-product sales, are forecast to be $410 to $430 an ounce. This projection for continued low cash costs is based on a conservative estimate for the copper price of $3.75 per pound, which is well below the current spot price, and gives Peak excellent leverage to continued strength in the copper price.
New Gold Annual Review 2010

There’s More – New Afton

The New Afton development project, which is fast approaching start-up in mid-2012, is an exciting example of the organic growth at New Gold. Once in operation, New Afton holds the potential to more than double the Company’s cash flow at today’s metal prices. There is also good exploration potential at depth that has yet to be fully delineated.

At a Glance

<table>
<thead>
<tr>
<th>ESTIMATED AVERAGE ANNUAL PRODUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold: 85,000 ounces</td>
</tr>
<tr>
<td>Copper: 75 million pounds</td>
</tr>
<tr>
<td>Co-product Total Cash Cost(1)/oz: $385 per ounce gold, $0.90 per pound copper</td>
</tr>
</tbody>
</table>

In 2011, project spending at New Afton is forecast to be approximately $270 million, with an additional $95 million of spending in 2012 to complete construction. Thereafter, New Afton is forecast to require low sustaining capital of approximately $20 million per year. With strong cash flows and declining capital requirements, New Afton is expected to achieve a rapid payback of development capital.

While underground development of the ore body undercut will continue, the focus in 2011 will move to surface construction, with over 50 percent of the total spending allocated for this area.

Work continues apace toward startup. Major underground milestones for 2011 include installation of a conveyer transport for ore and waste rock, completion of a production ventilation loop as well as the first undercut and installation of cave monitoring systems. Surface milestones include completion of the conveyer system surface discharge, commissioning of the electrical distribution system, completion of the mill’s concrete infrastructure and the installation of mill equipment, and completion of the tailings pipeline.

New Afton has forged strong partnerships with our neighbours. New Afton continues to work closely with First Nations to build upon the landmark Participation Agreement signed in 2008, with commitments to provide education, employment, contracting opportunities and financial benefits.

Overview: A low-cost operation, New Afton is expected to produce an annual average of 85,000 ounces of gold and 75 million pounds of copper. New Afton will be a block cave mining operation, in which large blocks of ore are undercut and allowed to cave under their own weight. Block caving is a highly efficient method in use around the world and New Afton has assembled an excellent team with strong experience in this mining method.

During 2010, New Afton met all major milestones for the year. Notably, underground crews completed 3,873 metres of development, beating the 2010 target by 11 percent. In the fourth quarter, the first development ore was transported to the surface stockpile. Our goal is to have about 800,000 tonnes of ore above ground when the mine is commissioned, allowing the mill to reach full capacity quickly.
New Gold’s flexibility to deploy strong cash flows from operations to fund organic growth is exemplified by New Afton, the most immediate development project in our growth pipeline. Fully funded and fully permitted, New Afton is on track to begin production in mid-2012. When it starts, the impact on New Gold is expected to be dramatic – the mine is forecast to generate approximately $280 million per year in cash flow at current spot prices, more than doubling the Company’s cash flow.

**BACKGROUND**

The New Afton Project is located 10 kilometres from Kamloops in south-central British Columbia, Canada and is directly accessible from the Trans-Canada Highway. There is a successful history of mining in the area and Kamloops acts as a hub for mine sites in the region. New Afton is New Gold’s most immediate development project and will be an underground block cave mine and use a flotation concentrator.

**UPSIDE**

Currently, New Afton has a mine life of 12 years. However, that could be just the first chapter. There is good exploration upside at depth in New Afton’s C-Zone, which represents a potential extension to the Main Zone mineral resource and is located below and slightly east of the area currently being developed. Once underground development work is complete, the plan is to set up underground drilling stations to further delineate the potential of this exciting target.
There’s More – El Morro

The next and even larger project in New Gold’s pipeline is El Morro, a world-class, copper/gold development project in Chile. New Gold is a 30 percent joint-venture partner with Goldcorp in this exciting project. El Morro remains largely underexplored, with promising potential for further resource expansion.

Based on New Gold’s 30 percent share, El Morro is expected to contribute significant annual gold and copper production at low cash cost over a 15-year mine life based on current resources.

Meanwhile, the value of El Morro has steadily risen. El Morro’s net asset value attributable to New Gold has increased from $40 million in June 2009 to approximately $650 million based on analyst consensus values.

Yet, El Morro’s ultimate potential has yet to be delineated. A February 2011 update by Goldcorp increased Proven and Probable gold reserves by 29 percent to 2.6 million ounces, and Proven and Probable copper reserves increased 8 percent to 1.8 billion pounds. Even so, exploration so far has been largely confined to one of two known deposits on the property, suggesting excellent potential for the discovery of new deposits in the future.

Work continues rapidly to bring the project on-stream in approximately five years’ time. Recently, the El Morro project received approval of its Environmental Impact Assessment (EIA), facilitating commencement of construction activities by Goldcorp; specific permits will be obtained during the course of project implementation. Goldcorp will now conduct condemnation drilling, and a further update to the feasibility study is expected in the third quarter of 2011. Approval of the EIA is a critical milestone in the advancement of the project, and we are very excited about El Morro’s potential.

Overview:

New Gold’s 30 percent share of development capital is fully carried by Goldcorp, our 70 percent joint-venture partner, through a loan with interest fixed at 4.58 percent. As a result of El Morro’s significant cash flow potential, the funding loan should be paid back rapidly over the first few years of El Morro’s production. New Gold will repay this loan out of a portion of its share of cash flow. Importantly, New Gold shareholders can expect to see cash flow from the day production starts. Once the loan is paid off, El Morro is expected to become New Gold’s largest cash flow generator.

At a Glance

ESTIMATED AVERAGE ANNUAL PRODUCTION (NEW GOLD’S 30 PERCENT SHARE)

Gold: 95,000 ounces
Copper: 105 million pounds

New Gold Annual Review 2010
The El Morro project centers on a world-class copper-gold system. The mineral reserve currently under development has low expected cash costs and great organic growth potential in one of the best mining jurisdictions in the world. El Morro has the potential to be by far the biggest cash flow generator and most valuable asset in New Gold’s portfolio.
At the corporate level, we reaffirmed our commitment to corporate responsibility in 2010 as a business partner of the United Nations Global Compact, aligning our operations and strategies to its 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. We are also a member, along with a group of like-minded companies, in Canadian Business for Social Responsibility, a non-profit, member-led and globally recognized organization for corporate responsibility. We believe in documenting our sustainability performance in a transparent, easily measurable fashion. Accordingly, we publish an annual Sustainability Report, which provides metrics to document our progress.

**Health and Safety**

At New Gold, we believe the common denominator of excellent, highly productive mining operations is a “safety-committed” work culture. While our lost-time injury frequency rate declined from 2009, we nevertheless experienced an increase in overall injuries in 2010. Tragically, a fatality occurred at our Cerro San Pedro operation in 2010. We extend our deepest sympathies to the family and friends of our employee. At the same time, our approach is to thoroughly assess the causal factors in order to prevent a recurrence. Together, we will work to achieve our target of zero harm with a safety-committed culture that includes everyone, from head office to site employees, suppliers and contractors.

**Highlights for the year at our operations included:**

- New Afton received a *Notable Achievement in Safety* award for mining in British Columbia from the John T. Ryan Committee, as a result of its good safety performance in 2009. New Afton had no lost-time injuries in 2010.
- Cerro San Pedro successfully hosted the National Mine Rescue Competition of the Mexican Chamber of Mines.
- Mesquite instituted an Employee Awards Program to recognize excellence in regulatory compliance, health and wellness, injury prevention and attendance.
Environment

This Company applies sound environmental policies throughout the mining life cycle. We conduct our activities, from exploration and development, to operation, and finally to mine closure and rehabilitation, with an understanding of our impact on the environment and a commitment to minimizing it.

- In 2010, New Gold became a signatory to the International Cyanide Management Code for the Manufacture, Transport and Use of Cyanide in the Production of Gold and committed to follow the code’s Principles and to implement its Standards of Practice at our operations.
- In 2010, Cerro San Pedro’s environmental management system was recertified by the International Organization for Standardization (ISO) as being ISO 14001:2004 compliant.
- Mesquite conducted pre-feasibility evaluations of potential energy savings projects as a result of a property-wide energy audit conducted in 2009. Carbon footprint models were also evaluated to ensure their technical credibility as project investigations continue in 2011.
- Peak Mines is committed to energy efficiency and reducing its greenhouse gas emissions. To this end, an energy use audit was conducted in 2010, with several recommendations to be assessed during 2011.

Community Development

New Gold believes a key measure of successful mining operations is the degree to which they create sustainable development in surrounding communities.

We demonstrate this commitment in several ways: meaningful two-way communication and engagement with local residents and organizations; forming partnerships with indigenous peoples; and through numerous community development initiatives.

- Early in the development of New Afton, we began forging a strong relationship with the local First Nations bands, recognizing this as key to a successful business. Working together, we completed a ground-breaking Participation Agreement between New Gold and the two participating bands, the Skeetchestn and the Tk’emlúps. It is a legally binding document forged in mutual respect. New Gold considers the Agreement to be a guiding influence on the way we do business at New Afton.
- We have a constructive relationship with local communities around our jointly owned El Morro project in Chile. In response to the priority local residents place on water, we incorporated into the mine design the installation of a desalination plant to meet the requirements for potable and industrial water during the construction and operation of the project. The project design also incorporates thickened tailings technology, which would allow the project to maximize water recovery from the tailings for recycling in the process plant and reduce the final volume of the tailings deposit while contributing to its stability.
- In 2010, Cerro San Pedro was recognized as a socially responsible company by the prestigious Mexican Center for Philanthropy. The mine is playing a major role in community building through the Foundation for Preservation of the Village of Cerro de San Pedro AC, which responds to the most pressing needs of communities. Initiatives are focused on creating a sustainable future for the community, built upon the elements of education, health, infrastructure improvement and promoting local culture and traditions.
- Peak Mines believes in actively and continually engaging the community as a business, and encouraging employees to do the same. Peak employees and representatives served in various positions in Cobar in 2010, including the boards of Cobar Enterprise Facilitation, Cobar Business Association, Cobar Water Board, and the local Emergency Management Committee.

As these 2010 highlights demonstrate, New Gold puts its safety and sustainability principles into practice at its operations. For more information, please view our 2010 corporate Sustainability Report.
RESERVES AND RESOURCES  At December 31, 2010, New Gold’s attributable Proven and Probable gold reserves increased to 8.5 million ounces from 8.2 million ounces. The 8.5 million ounces of Proven and Probable gold reserves represents a 0.9 million ounce increase over the year-end 2009 balance of 8.2 million ounces when taking into account the approximately 0.6 million ounces that were mined during 2010.

HIGHLIGHTS OF THE RESERVES AND RESOURCES UPDATE INCLUDE:

- **Mesquite** – exploration replaced 2010 ounces mined and Proven and Probable gold reserves of 3.1 million ounces was maintained. Measured and Indicated oxide resources grew by 17 percent, to 5.7 million ounces.

- **Cerro San Pedro** – Manto Zone inferred sulphide resource increased by 36 percent during 2010.

- **Peak Mines** – Measured and Indicated Resources increased by 15 percent to 1.0 million ounces of gold, the highest level since 2003.

- **El Morro** – Proven and Probable gold reserves increased 29 percent to 2.6 million ounces; a 1.2 million ounce increase in Inferred gold resources reflected higher grades in deeper portions of the La Fortuna deposit.
# DETAILED RESERVE AND RESOURCE SUMMARY

## Mineral Reserves and Resources Summary as of December 31, 2010

<table>
<thead>
<tr>
<th>Contained Metal</th>
<th>Gold Koz</th>
<th>Silver Koz</th>
<th>Copper Mlbs</th>
<th>Zinc Mlbs</th>
<th>Lead Mlbs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reserves</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proven</td>
<td>2,662</td>
<td>24,074</td>
<td>930</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probable</td>
<td>5,852</td>
<td>22,334</td>
<td>1,956</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total P&amp;P</td>
<td>8,514</td>
<td>46,408</td>
<td>2,886</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measured</td>
<td>4,243</td>
<td>35,388</td>
<td>1,939</td>
<td>355</td>
<td>73</td>
</tr>
<tr>
<td>Indicated</td>
<td>8,817</td>
<td>48,126</td>
<td>1,599</td>
<td>765</td>
<td>133</td>
</tr>
<tr>
<td>Total M&amp;I</td>
<td>13,060</td>
<td>83,514</td>
<td>3,538</td>
<td>1,120</td>
<td>206</td>
</tr>
<tr>
<td>Inferred</td>
<td>4,097</td>
<td>48,531</td>
<td>1,128</td>
<td>1,436</td>
<td>254</td>
</tr>
</tbody>
</table>

See Notes to Mineral Reserve & Resource Statements below for further detail on Reserve and Resource calculations.

## Mineral Reserve Statement as of December 31, 2010

<table>
<thead>
<tr>
<th>Metal Grade</th>
<th>Contained Metal</th>
<th>[\text{Tonnes 000's} \times \text{Gold g/t} \times \text{Silver g/t} \times \text{Copper %} = \text{Gold Koz} \times \text{Silver Koz} \times \text{Copper Mlbs}]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mesquite</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proven</td>
<td>13,915</td>
<td>0.74</td>
</tr>
<tr>
<td>Probable</td>
<td>155,198</td>
<td>0.56</td>
</tr>
<tr>
<td>Mesquite P&amp;P</td>
<td>169,113</td>
<td>0.57</td>
</tr>
<tr>
<td>Cerro San Pedro</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proven</td>
<td>36,294</td>
<td>0.61</td>
</tr>
<tr>
<td>Probable</td>
<td>33,473</td>
<td>0.51</td>
</tr>
<tr>
<td>CSP P&amp;P</td>
<td>69,767</td>
<td>0.56</td>
</tr>
<tr>
<td>Peak Mines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proven</td>
<td>1,689</td>
<td>4.75</td>
</tr>
<tr>
<td>Probable</td>
<td>1,724</td>
<td>4.0</td>
</tr>
<tr>
<td>Peak P&amp;P</td>
<td>3,413</td>
<td>4.4</td>
</tr>
<tr>
<td>New Afton</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proven</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Probable</td>
<td>47,400</td>
<td>0.69</td>
</tr>
<tr>
<td>New Afton P&amp;P</td>
<td>47,400</td>
<td>0.69</td>
</tr>
<tr>
<td>El Morro</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proven</td>
<td>240,020</td>
<td>0.59</td>
</tr>
<tr>
<td>Probable</td>
<td>291,103</td>
<td>0.44</td>
</tr>
<tr>
<td>El Morro P&amp;P</td>
<td>531,123</td>
<td>0.51</td>
</tr>
</tbody>
</table>
Mineral Resource Statement (Inclusive of Reserves) as of December 31, 2010

<table>
<thead>
<tr>
<th>Metal Grade</th>
<th>Tonnage</th>
<th>Gold</th>
<th>Silver</th>
<th>Copper</th>
<th>Zinc</th>
<th>Lead</th>
<th>Gold</th>
<th>Silver</th>
<th>Copper</th>
<th>Zinc</th>
<th>Lead</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>000's</td>
<td>g/t</td>
<td>g/t</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>koz</td>
<td>koz</td>
<td>lbs</td>
<td>lbs</td>
<td>lbs</td>
</tr>
<tr>
<td>Mesquite</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measured</td>
<td>24,992</td>
<td>0.61</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>490</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indicated</td>
<td>330,006</td>
<td>0.48</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,185</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mesquite M&amp;I</td>
<td>360,998</td>
<td>0.49</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,675</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cerro San Pedro</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measured (oxide)</td>
<td>39,566</td>
<td>0.43</td>
<td>16.48</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>547</td>
<td>20,964</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indicated (oxide)</td>
<td>105,044</td>
<td>0.34</td>
<td>14.54</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>610</td>
<td>27,451</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Measured (sulphide)</td>
<td>19,459</td>
<td>0.53</td>
<td>16.79</td>
<td>0.83</td>
<td>0.17</td>
<td>-</td>
<td>331</td>
<td>10,465</td>
<td>-</td>
<td>-</td>
<td>73</td>
</tr>
<tr>
<td>Indicated (sulphide)</td>
<td>51,008</td>
<td>0.49</td>
<td>10.84</td>
<td>0.68</td>
<td>0.12</td>
<td>-</td>
<td>956</td>
<td>17,770</td>
<td>-</td>
<td>706</td>
<td>133</td>
</tr>
<tr>
<td>Cerro San Pedro M&amp;I (oxide)</td>
<td>70,506</td>
<td>0.48</td>
<td>12.68</td>
<td>0.72</td>
<td>0.13</td>
<td>-</td>
<td>987</td>
<td>28,245</td>
<td>-</td>
<td>1,120</td>
<td>206</td>
</tr>
<tr>
<td>Cerro San Pedro M&amp;I (sulphide)</td>
<td>70,506</td>
<td>0.48</td>
<td>12.68</td>
<td>0.72</td>
<td>0.13</td>
<td>-</td>
<td>987</td>
<td>28,245</td>
<td>-</td>
<td>1,120</td>
<td>206</td>
</tr>
<tr>
<td>Peak Mines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measured</td>
<td>3,591</td>
<td>4.9</td>
<td>8.0</td>
<td>0.90</td>
<td>-</td>
<td>-</td>
<td>487</td>
<td>795</td>
<td>61</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indicated</td>
<td>4,205</td>
<td>3.6</td>
<td>6.8</td>
<td>1.43</td>
<td>-</td>
<td>-</td>
<td>482</td>
<td>784</td>
<td>107</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Peak M&amp;I</td>
<td>7,796</td>
<td>4.2</td>
<td>6.7</td>
<td>1.94</td>
<td>-</td>
<td>-</td>
<td>974</td>
<td>1,579</td>
<td>168</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New Afton</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measured</td>
<td>3,091</td>
<td>4.9</td>
<td>8.0</td>
<td>0.90</td>
<td>-</td>
<td>-</td>
<td>487</td>
<td>795</td>
<td>61</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indicated</td>
<td>4,205</td>
<td>3.6</td>
<td>6.8</td>
<td>1.43</td>
<td>-</td>
<td>-</td>
<td>482</td>
<td>784</td>
<td>107</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New Afton M&amp;I</td>
<td>7,296</td>
<td>4.2</td>
<td>6.7</td>
<td>1.94</td>
<td>-</td>
<td>-</td>
<td>974</td>
<td>1,579</td>
<td>168</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New Afton M&amp;I (oxide)</td>
<td>105,044</td>
<td>0.34</td>
<td>14.54</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>610</td>
<td>27,451</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New Afton M&amp;I (sulphide)</td>
<td>70,506</td>
<td>0.48</td>
<td>12.68</td>
<td>0.72</td>
<td>0.13</td>
<td>-</td>
<td>987</td>
<td>28,245</td>
<td>-</td>
<td>1,120</td>
<td>206</td>
</tr>
<tr>
<td>El Morro</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measured</td>
<td>240,020</td>
<td>0.59</td>
<td>-</td>
<td>0.57</td>
<td>-</td>
<td>-</td>
<td>1,361</td>
<td>-</td>
<td>903</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indicated</td>
<td>291,103</td>
<td>0.44</td>
<td>-</td>
<td>0.44</td>
<td>-</td>
<td>-</td>
<td>1,235</td>
<td>-</td>
<td>936</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>El Morro M&amp;I</td>
<td>531,123</td>
<td>0.51</td>
<td>-</td>
<td>0.52</td>
<td>-</td>
<td>-</td>
<td>2,596</td>
<td>-</td>
<td>1,835</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Inferred Resource Statement as of December 31, 2010

<table>
<thead>
<tr>
<th>Metal Grade</th>
<th>Tonnage</th>
<th>Gold</th>
<th>Silver</th>
<th>Copper</th>
<th>Zinc</th>
<th>Lead</th>
<th>Gold</th>
<th>Silver</th>
<th>Copper</th>
<th>Zinc</th>
<th>Lead</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>000's</td>
<td>g/t</td>
<td>g/t</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>koz</td>
<td>koz</td>
<td>lbs</td>
<td>lbs</td>
<td>lbs</td>
</tr>
<tr>
<td>Mesquite</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measured</td>
<td>240,020</td>
<td>0.59</td>
<td>-</td>
<td>0.57</td>
<td>-</td>
<td>-</td>
<td>1,361</td>
<td>-</td>
<td>903</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indicated</td>
<td>291,103</td>
<td>0.44</td>
<td>-</td>
<td>0.44</td>
<td>-</td>
<td>-</td>
<td>1,235</td>
<td>-</td>
<td>936</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mesquite M&amp;I</td>
<td>531,123</td>
<td>0.51</td>
<td>-</td>
<td>0.52</td>
<td>-</td>
<td>-</td>
<td>2,596</td>
<td>-</td>
<td>1,835</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

NOTES TO MINERAL RESERVE AND RESOURCE STATEMENTS

Mineral reserves are contained within measured and indicated mineral resources. Measured and indicated mineral resources that are not mineral reserves do not have demonstrated economic viability. Inferred mineral resources are not known with the same degree of certainty as measured and indicated resources, do not have demonstrated economic viability, and are exclusive of mineral reserves.

1) Mineral Reserves

Mineral reserves for the Company’s mining operations and development projects have been calculated based on the following metal prices and lower cut-off criteria:

<table>
<thead>
<tr>
<th>Mineral Property</th>
<th>Gold US$/oz</th>
<th>Silver US$/oz</th>
<th>Copper US$/lb</th>
<th>Lower cutoff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mesquite</td>
<td>$ 900</td>
<td>–</td>
<td>–</td>
<td>0.19 g/t Au – Oxide reserves</td>
</tr>
<tr>
<td>Cerro San Pedro</td>
<td>$ 900 $ 15.00</td>
<td>–</td>
<td>–</td>
<td>0.37 g/t Au – Non-oxide reserves</td>
</tr>
<tr>
<td>Peak Mines</td>
<td>$ 900 $ 15.00</td>
<td>–</td>
<td>–</td>
<td>$US2.58/t NSR</td>
</tr>
<tr>
<td>New Afton</td>
<td>$ 800 $ 12.00</td>
<td>$ 2.00</td>
<td>–</td>
<td>$US19/t NSR</td>
</tr>
<tr>
<td>El Morro</td>
<td>$ 950</td>
<td>–</td>
<td>–</td>
<td>0.30% CuEq (*)</td>
</tr>
</tbody>
</table>

(*) El Morro Mineral Reserves have been reported based on a lower grade cut-off of 0.30% copper-equivalent (“CuEq”) where:

CuEq (%) = Cu(%) + 0.621 x Au (g/t) and Cu(%) = percent copper, Au (g/t) = grams per tonne gold, and 0.621 represents a constant based on metal prices of $2.00/lb copper and $950/oz gold and average metal recoveries for the deposit.

Mineral resources have been estimated and reported in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101, or the AusIMM JORC equivalent.
2) Mineral Resources

Mineral resources for the Company’s mining operations and development projects have been calculated based on the following metal prices and lower cut-off criteria:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mesquite</td>
<td>$ 1,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.11 g/t Au – Oxide resources</td>
</tr>
<tr>
<td>Cerro San Pedro</td>
<td>$ 1,000</td>
<td>$ 18.00</td>
<td>–</td>
<td>$ 1.00</td>
<td>$ 0.75</td>
<td>0.1 g/t AuEq – Open pit oxide resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.4 g/t AuEq – Open pit sulphide resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.5 g/t AuEq – Underground manto sulphide resources</td>
</tr>
</tbody>
</table>

Peak Mines

New Afton

El Morro

Meas’d & Ind

Inferred

Mineral resources have been estimated and reported in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101, or the AusIMM JORC equivalent.

(*) El Morro measured and indicated Mineral Reserves have been reported based on a lower grade cut-off of 0.30% copper-equivalent (“CuEq”) where:

CuEq(%) = Cu(%) + 0.5642 x Au (g/t) and Cu(%) = percent copper, Au (g/t) = grams per tonne gold, and 0.5642 represents a constant based on metal prices of $2.50/lb copper and $1,100/oz gold and average metal recoveries for the deposit.

El Morro Inferred Mineral Resources have been reported based on a lower grade cut-off of 0.17% copper-equivalent (“CuEq”) where:

CuEq(%) = Cu(%) + 0.621 x Au (g/t) and Cu(%) = percent copper, Au (g/t) = grams per tonne gold, and 0.621 represents a constant based on metal prices of $2.00/lb copper and $950/oz gold and average metal recoveries for the deposit.

El Morro Inferred Mineral Resources are constrained within an “Underground Mineral Resource” designed to be mined by underground block caving methods with the material extracted from one level. The underground Mineral Resource volume corresponds to higher grade core of the La Fortuna porphyry stock as it extends below the open pit reserve measuring 300 metres high by 370 metres in an east-west direction and 550 metres in a north-south direction.

3) Cerro San Pedro mineral resources include measured, indicated and inferred resources that are contained within a “Mineral Resource Pit” and reported at lower cut-offs of 0.1 g/t AuEq for oxide mineralization and 0.4 g/tAuEq for sulphide mineralization based on the mineral resource metal prices noted above. Inferred manto sulphide mineral resources represent mineralization that is potentially mineable via underground mining methods and delimited by a 2.5 g/t AuEq grade shell based on the mineral resource metal prices noted above.

Qualified Persons

The following table sets out the individuals who are the Qualified Persons as defined by Canadian National Instrument 43-101 in connection with New Gold’s Mineral Reserve and Mineral Resource Statements as of December 31, 2010.

Mark Petersen, Vice President, Exploration, New Gold Inc., who is a “qualified person” as such term is defined under National Instrument 43-101, has reviewed and approved the contents of this Annual Review.

CAUTIONARY NOTE TO U.S. READERS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED MINERAL RESOURCES

Information concerning the properties and operations of New Gold has been prepared in accordance with Canadian standards under applicable Canadian securities laws, and may not be comparable to similar information for United States companies. The terms “Mineral Resource”, “Measured Mineral Resource”, “Indicated Mineral Resource” and “Inferred Mineral Resource” used in this Annual Review are Canadian mining terms as defined in accordance with NI 43-101 under guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (“CIM”) Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms “Mineral Resource”, “Measured Mineral Resource”, “Indicated Mineral Resource” and “Inferred Mineral Resource” are recognized and required by Canadian regulations, they are not defined terms under standards of the United States Securities and Exchange Commission. Under United States standards, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve calculation is made. As such, certain information contained in this Annual Review concerning descriptions of mineralization and resources under Canadian standards is not comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the United States Securities and Exchange Commission. An “Inferred Mineral Resource” has a great amount of uncertainty as to its existence and as to its economic and legal feasibility. It cannot be assumed that all or any part of an “Inferred Mineral Resource” will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. Readers are cautioned not to assume that all or any part of Measured or Indicated Resources will ever be converted into Mineral Reserves. Readers are also cautioned not to assume that all or any part of an “Inferred Mineral Resource” exists, or is economically or legally mineable. In addition, the definitions of “Proven Mineral Reserves” and “Probable Mineral Reserves” under CIM standards differ in certain respects from the standards of the United States Securities and Exchange Commission.
BOARD OF DIRECTORS

Randall Oliphant
Executive Chairman,
New Gold

Robert Gallagher
President and CEO,
New Gold

James Estey
Corporate Director,
New Gold

Vahan Kololian
Managing Partner,
TerraNova Partners LP

Martyn Konig
Executive Chairman and
President, European
Goldfields Limited

Pierre Lassonde
Chairman,
Franco-Nevada Corporation

Craig Nelsen
President and CEO,
Avanti Mining Corporation

Ian Telfer
Chairman, Goldcorp Inc.

Raymond Threlkeld
President and CEO,
Rainy River Resources Ltd.

NEW GOLD ANNUAL REVIEW 2010

20
CORPORATE INFORMATION

DIRECTORS
Randall Oliphant  Executive Chairman
Robert Gallagher  President and CEO
James Estey  1 Corporate Director
Vahan Kololian  2, 4 Managing Partner, TerraNova Partners LP
Martyn Konig  1, 3 Executive Chairman and President, European Goldfields Limited
Pierre Lassonde  1, 3, 4 Chairman, Franco-Nevada Corporation
Craig Neilson  3 President and CEO, Avanti Mining Corporation
Ian Telfer  1, 3 Chairman, Goldcorp Inc.
Raymond Threlkeld  4 President and CEO, Rainy River Resources Ltd.

Board Committees
(1) Corporate Governance and Nominating Committee
(2) Audit Committee
(3) Compensation Committee
(4) Health, Safety, Environment and Sustainability Committee

OFFICERS
Randall Oliphant  Executive Chairman
Robert Gallagher  President and Chief Executive Officer
Brian Penny  Executive Vice President, Chief Financial Officer
James Currie  Executive Vice President, Chief Operating Officer
Ron Allum  Vice President, Operations (Canada)
Brett Gagnon  Vice President, Information Technology
John Marshall  Vice President, Human Resources
Barry O’Shea  Vice President, Corporate Controller
Armando Ortega  Vice President, Latin America
Mark Petersen  Vice President, Exploration
Hannes Portmann  Vice President, Corporate Development
Susan Toews  Vice President, Legal Affairs, Corporate Secretary
Martin Wallace  Treasurer

Annual General and Special Meeting
May 4, 2011 at 4:00 PM
Toronto Board of Trade
First Canadian Place
77 Adelaide Street West Toronto, ON MSX 1C1

Investor Relations
Toll Free: +1-888-315-9715
F: +1-416-324-9494
E: info@newgold.com

Media Inquiries
T: +1-416-324-8015
F: +1-416-324-9494
E: julie.taylor@newgold.com

Transfer Agent
Computershare Investor Services Inc.
Toll Free: +1-800-564-6253 (North America)
T: +1-514-982-7555 (International)
F: +1-604-681-9401

Additional Information
New Gold encourages the electronic delivery of correspondence and supports responsible use of forest resources. For any inquiries, or to request printed or electronic delivery of correspondence, please email us at info@newgold.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document contains statements about expected future events and financial and operating results of New Gold that are forward looking. By their nature, forward-looking statements require New Gold to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. You are cautioned not to place undue reliance on forward-looking statements. A number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is qualified in its entirety by the assumptions, qualification and risk factors referred to in New Gold’s public disclosure documents and filings with securities commissions in Canada (on sedar.com) and in the United States (on EDGAR at sec.gov). New Gold does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

All dollar amounts are noted in US dollars unless otherwise indicated.