



# Management's Discussion and Analysis

For the three months ended March 31, 2017

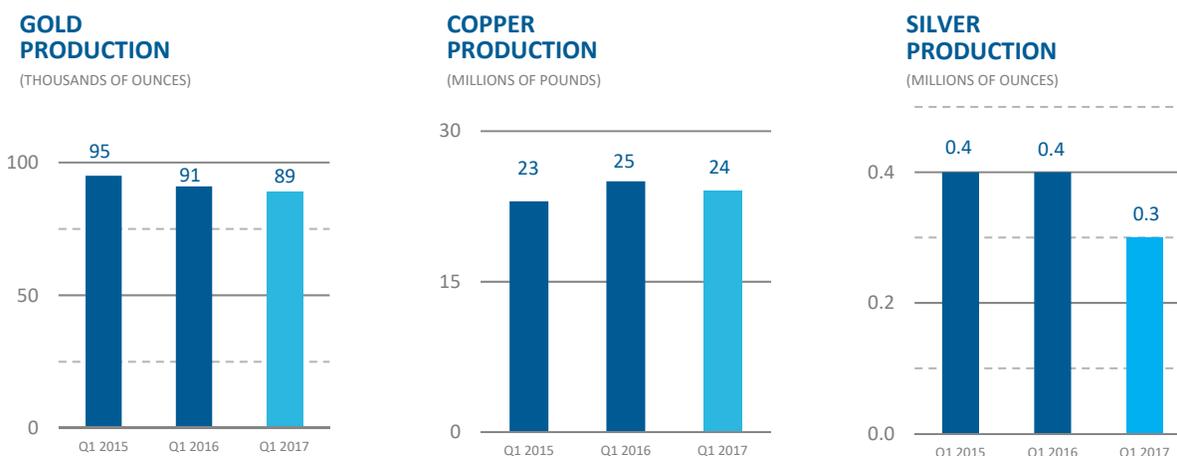


## OPERATING AND FINANCIAL HIGHLIGHTS

### OPERATING HIGHLIGHTS

All dollar figures are in United States dollars and tabular dollar amounts are in millions, unless otherwise noted.

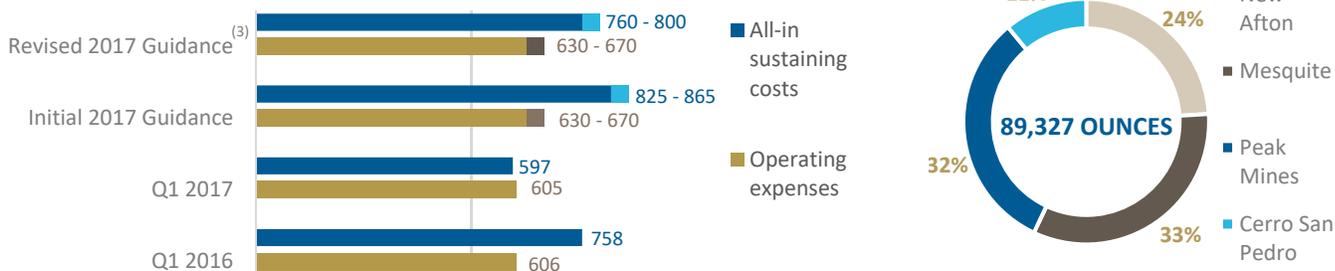
New Gold Inc. (“New Gold” or the “Company”) is an intermediate gold producer with operating mines in Canada, the United States, Australia and Mexico, and development projects in Canada. For the three months ended March 31, 2017, the New Afton Mine in Canada (“New Afton”), the Mesquite Mine in the United States (“Mesquite”), the Peak Mines in Australia (“Peak Mines”) and the Cerro San Pedro Mine in Mexico (“Cerro San Pedro”), which transitioned from active mining to residual leaching in June 2016, combined to produce 89,327 gold ounces, 23.8 million pounds of copper and 0.3 million silver ounces.



New Gold’s production costs remained very competitive compared to the broader gold mining space as New Gold had operating expenses<sup>(1)</sup> of \$605 per gold ounce sold and record low all-in sustaining costs<sup>(1)</sup> of \$597 per gold ounce sold in the first quarter of 2017. We believe New Gold continues to be a low cost producer within the industry.

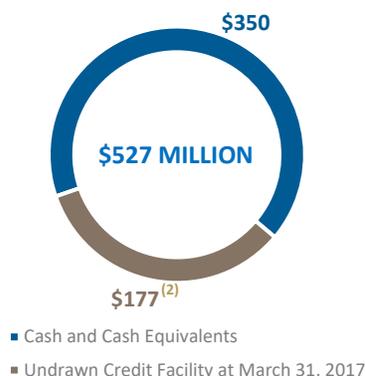
### OPERATING EXPENSES AND ALL-IN SUSTAINING COSTS <sup>(1)</sup>

(\$ PER GOLD OUNCE SOLD)



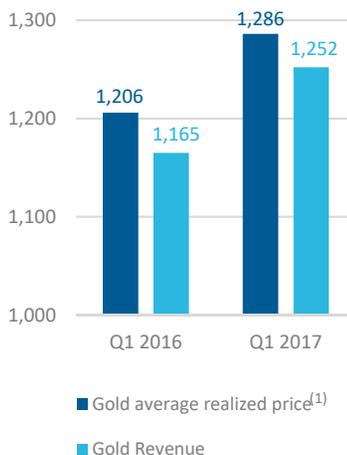
## FINANCIAL HIGHLIGHTS

New Gold has total pro-forma available liquidity of \$527 million, comprised of \$350 million in cash and cash equivalents and \$177 million available for drawdown under the Company's \$400 million revolving credit facility, each as at March 31, 2017.



### REVENUE AND AVERAGE REALIZED PRICE

(\$ PER GOLD OUNCE SOLD)



### OPERATING CASH FLOW

(MILLIONS OF U.S. DOLLARS)



### Three months ended March 31

	2017	2016
<b>OPERATING INFORMATION</b>		
Gold production (ounces)	89,327	90,811
Gold sales (ounces)	87,304	86,031
Gold revenue (\$/ounce) <sup>(1)</sup>	1,252	1,165
Gold average realized price (\$/ounce) <sup>(1)</sup>	1,286	1,206
Operating expenses per gold ounce sold (\$/ounce) <sup>(1)</sup>	605	606
Total cash costs per gold ounce sold (\$/ounce) <sup>(1)</sup>	296	354
All-in sustaining costs per gold ounce sold (\$/ounce) <sup>(1)</sup>	597	758
<b>FINANCIAL INFORMATION</b>		
Revenue	169.5	154.5
Net earnings	37.5	25.6
Adjusted net earnings (loss) <sup>(1)</sup>	9.4	(1.5)
Cash generated from operations	76.8	61.5
Cash generated from operations before changes in non-cash operating working capital <sup>(2)</sup>	69.4	62.1
Cash and cash equivalents	349.5	298.3
Capital expenditures (sustaining capital) <sup>(1)</sup>	14.0	22.4
Capital expenditures (growth capital) <sup>(1)</sup>	129.7	85.0
<b>SHARE DATA</b>		
Earnings per basic share (\$)	0.07	0.05
Adjusted net earnings (loss) per basic share <sup>(1)</sup> (\$)	0.02	\$nil

1. The Company uses certain non-GAAP financial performance measures throughout this Management's Discussion and Analysis ("MD&A"). For a detailed description of each of the non-GAAP measures used in this MD&A and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.
2. Of the \$400 million credit facility, \$100 million has been drawn and \$123 million has been utilized for letters of credit, both as at March 31, 2017.
3. Please refer to the "Outlook for 2017" section of this MD&A for further information on the Company's revised 2017 guidance.

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## MANAGEMENT’S DISCUSSION AND ANALYSIS

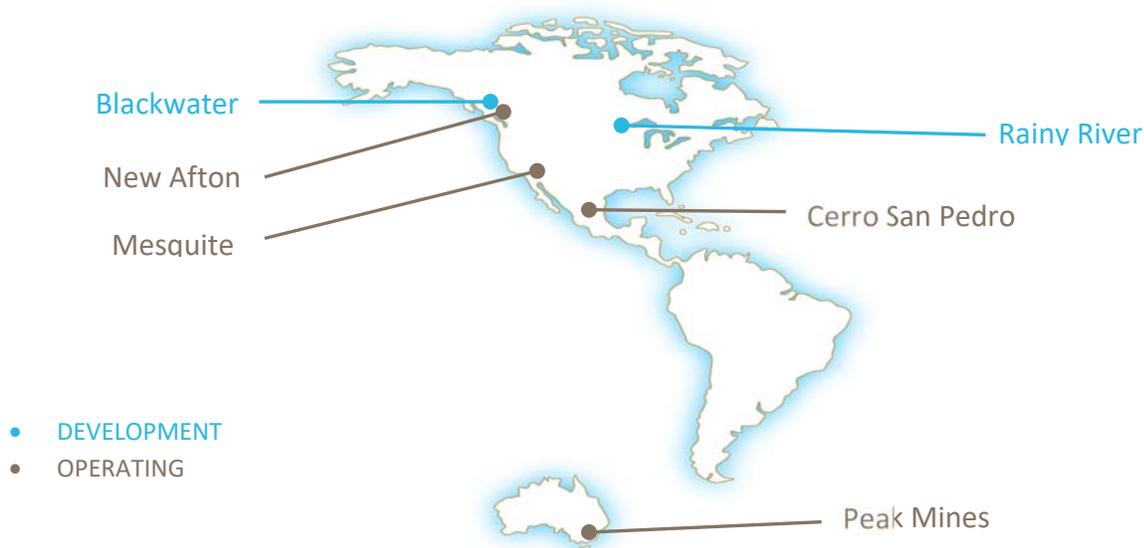
For the three months ended March 31, 2017

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. and its subsidiaries (“New Gold” or the “Company”). This MD&A should be read in conjunction with New Gold’s unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017 and 2016 and New Gold’s audited consolidated financial statements for the years ended December 31, 2016 and 2015 and related notes which are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). This MD&A contains forward-looking statements that are subject to risks and uncertainties, as discussed in the cautionary note contained in this MD&A. The reader is cautioned not to place undue reliance on forward-looking statements. All dollar figures are in **United States dollars** and tabular dollar amounts are in millions, unless otherwise noted. This MD&A has been prepared as at April 26, 2017. Additional information relating to the Company, including the Company’s Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### OUR BUSINESS

New Gold is an intermediate gold producer with operating mines in Canada, the United States and Australia, and development projects in Canada. The Company’s operating properties consist of the New Afton gold-copper mine in Canada (“New Afton”), the Mesquite gold mine in the United States (“Mesquite”) and the Peak Mines gold-copper mine in Australia (“Peak Mines”). The Company’s Cerro San Pedro mine in Mexico (“Cerro San Pedro”) transitioned from active mining to residual leaching in 2016. New Gold’s development projects are its 100%-owned Rainy River (“Rainy River”) and Blackwater (“Blackwater”) projects, both in Canada. On February 17, 2017, the Company sold its 4% stream on future gold production from the El Morro property located in Chile (“El Morro”) to an affiliate of Goldcorp Inc. for \$65 million cash.

New Gold’s operating portfolio is diverse both geographically and in the range of commodities it produces. The assets produce gold with copper and silver by-products at total cash costs and all-in sustaining costs below the industry average. The Company believes it has a solid platform to continue to execute its growth strategy, both organically and through value-enhancing accretive acquisitions, to further establish itself as an industry-leading intermediate gold producer.



## OPERATING, DEVELOPMENT AND FINANCIAL HIGHLIGHTS

### OPERATING AND DEVELOPMENT HIGHLIGHTS

	Three months ended March 31	
	2017	2016
<b>OPERATING INFORMATION</b>		
Gold (ounces):		
Produced <sup>(1)</sup>	<b>89,327</b>	90,811
Sold <sup>(1)</sup>	<b>87,304</b>	86,031
Copper (millions of pounds):		
Produced <sup>(1)</sup>	<b>23.8</b>	25.4
Sold <sup>(1)</sup>	<b>23.0</b>	25.3
Silver (millions of ounces):		
Produced <sup>(1)</sup>	<b>0.3</b>	0.4
Sold <sup>(1)</sup>	<b>0.3</b>	0.4
Revenue <sup>(1)</sup> :		
Gold (\$/ounce)	<b>1,252</b>	1,165
Copper (\$/pound)	<b>2.35</b>	1.94
Silver (\$/ounce)	<b>16.89</b>	14.47
Average realized price <sup>(1)(2)</sup> :		
Gold (\$/ounce)	<b>1,286</b>	1,206
Copper (\$/pound)	<b>2.58</b>	2.14
Silver (\$/ounce)	<b>17.51</b>	14.72
Operating expenses per gold ounce sold (\$/ounce) <sup>(3)</sup>	<b>605</b>	606
Operating expenses per copper pound sold (\$/pound) <sup>(3)</sup>	<b>1.21</b>	1.07
Operating expenses per silver ounce sold (\$/ounce) <sup>(3)</sup>	<b>8.23</b>	7.39
Total cash costs per gold ounce sold (\$/ounce) <sup>(2)(4)</sup>	<b>296</b>	354
All-in sustaining costs per gold ounce sold (\$/ounce) <sup>(2)(4)</sup>	<b>597</b>	758
Total cash costs per gold ounce sold on a co-product basis (\$/ounce) <sup>(2)(4)</sup>	<b>639</b>	641
All-in sustaining costs per gold ounce sold on a co-product basis (\$/ounce) <sup>(2)(4)</sup>	<b>831</b>	898

1. Production is shown on a total contained basis while sales are shown on a net payable basis, including final product inventory and smelter payable adjustments, where applicable.
2. The Company uses certain non-GAAP financial performance measures throughout this MD&A. Average realized price, total cash costs and all-in sustaining costs per gold ounce sold and total cash costs and all-in sustaining costs on a co-product basis are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.
3. Operating expenses are apportioned to each metal produced on a percentage of revenue basis.
4. The calculation of total cash costs and all-in sustaining costs per gold ounce sold is net of by-product silver and copper revenue. Total cash costs and all-in sustaining costs on a co-product basis remove the impact of other metal sales that are produced as a by-product of the Company's gold production and apportions the cash costs to each metal produced on a percentage of revenue basis. If silver and copper revenue were treated as co-products, co-product total cash costs for the three months ended March 31, 2017 would be \$8.87 per silver ounce sold (2016 - \$7.58) and \$1.45 per copper pound sold (2016 - \$1.26) and co-product all-in sustaining costs for the three months ended March 31, 2017 would be \$11.48 per silver ounce sold (2016 - \$10.72) and \$1.83 per copper pound sold (2016 - \$1.72).

Gold production for the three months ended March 31, 2017 was 89,327 ounces, compared to 90,811 ounces in the prior-year period. When compared to the prior-year period, higher gold production from Peak Mines and Mesquite was offset by lower production from New Afton and Cerro San Pedro. Cerro San Pedro completed active mining in late June 2016 and has since transitioned to residual leaching, resulting in a planned decrease in gold ounces produced when compared to the prior-year period.

Gold sales were 87,304 ounces for the three months ended March 31, 2017, compared to 86,031 ounces in the prior-year period. Timing of sales at the end of the period resulted in a difference between ounces sold and ounces produced.

Copper production for the three months ended March 31, 2017 was 23.8 million pounds, compared to 25.4 million pounds in the prior-year period. Lower copper production at New Afton, reflecting lower copper grade and recovery, was only partially offset by higher copper production at Peak Mines resulting from higher copper grade.

Copper sales for the three months ended March 31, 2017 were 23.0 million pounds, compared to 25.3 million pounds in the prior-year period. Copper sales volumes were lower than in the prior-year period as a result of lower production.

Operating expenses per gold ounce sold were \$605 for the three months ended March 31, 2017 consistent with \$606 in the prior-year period. Lower operating expenses per gold ounce sold at Peak Mines were offset by higher operating expenses per gold ounce sold at New Afton, Mesquite and Cerro San Pedro. Operating expenses per gold ounce sold benefited from higher gold grade at Peak Mines, resulting in higher gold production and gold sales.

Total cash costs per gold ounce sold, net of by-product sales, were \$296 per ounce for the three months ended March 31, 2017 compared to \$354 per ounce in the prior-year period. The decrease in cash costs relative to the prior-year period was primarily driven by the impact of higher copper and silver prices on by-product credits, partially offset by the effect lower copper sales volumes.

All-in sustaining costs per gold ounce sold were a record low \$597 for the three months ended March 31, 2017, compared to \$758 in the prior-year period. The decrease in all-in sustaining costs relative to the prior-year period was driven by the decrease in total cash costs noted above and lower sustaining capital expenditures.

For a detailed review of the Company's operating mines, refer to the "Review of Operating Mines" sections of this MD&A.

For the three months ended March 31, 2017, capital expenditures at Rainy River totalled \$126.3 million, compared to \$82.2 million in the prior-year period. The increased activity during the quarter resulted in the project team continuing to achieve many project advancements: notably, achieving a quarterly average mining rate of 110,000 tonnes per day, completion of all key structural components of the process facilities, commissioning of the first crusher and advancement of the setting of mechanical equipment and installation of piping, electrical and instrumentation services.

## FINANCIAL HIGHLIGHTS

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	<b>2017</b>	<b>2016</b>
<b>FINANCIAL INFORMATION</b>		
Revenue	<b>169.5</b>	154.5
Operating margin <sup>(1)</sup>	<b>86.6</b>	72.6
Revenue less cost of goods sold <sup>(2)</sup>	<b>29.1</b>	11.6
Net earnings <sup>(2)</sup>	<b>37.5</b>	25.6
Adjusted net (loss) earnings <sup>(1) (2)</sup>	<b>9.4</b>	(1.5)
Cash generated from operations	<b>76.8</b>	61.5
Cash generated from operations before changes in non-cash operating working capital <sup>(1)</sup>	<b>69.4</b>	62.1
Capital expenditures (sustaining capital) <sup>(1)</sup>	<b>14.0</b>	22.4
Capital expenditures (growth capital) <sup>(1)</sup>	<b>129.7</b>	85.0
Total assets <sup>(2)</sup>	<b>4,138.6</b>	3,732.2
Cash and cash equivalents	<b>349.5</b>	298.3
Long-term debt	<b>890.0</b>	788.0
<b>SHARE DATA</b>		
Earnings per share <sup>(2)</sup> :		
Basic (\$)	<b>0.07</b>	0.05
Diluted (\$)	<b>0.07</b>	0.05
Adjusted net earnings (loss) per basic share (\$) <sup>(1) (2)</sup>	<b>0.02</b>	\$nil
Share price as at March 31 (TSX – Canadian dollars)	<b>3.97</b>	4.85
Weighted average outstanding shares (basic) (millions)	<b>528.1</b>	509.6

1. The Company uses certain non-GAAP financial performance measures throughout this MD&A. Operating margin, adjusted net loss, adjusted net loss per basic share, capital expenditures (sustaining and growth) and cash generated from operations before changes in non-cash operating working capital are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.

2. Prior-year period comparatives have been revised. Please refer to the "Key Quarterly Operating and Financial Information" section of this MD&A for further information.

Revenue was \$169.5 million for the three months ended March 31, 2017, compared to \$154.5 million in the prior-year period. The benefit from higher metal prices and higher gold sales volumes was only partially offset by lower copper and silver sales volumes.

Revenue less cost of goods sold was \$29.1 million for the three months ended March 31, 2017, compared to \$11.6 million in the prior-year period. The increase in revenue less cost of goods sold was primarily due to higher revenue as described above. Operating expenses were consistent with the prior-year period, as the impact of the strengthening of the Canadian and Australian dollars relative to the U.S. dollar on operating expenses was offset by the benefit of reduced mining activity at Cerro San Pedro as the mine transitioned from active mining to residual leaching in June 2016.

Net earnings were \$37.5 million or \$0.07 per basic share for the three months ended March 31, 2017, compared to \$25.6 million or \$0.05 per basic share in the prior-year period. Net earnings were positively impacted by higher revenue less cost of goods sold as described above. Net earnings for the three months ended March 31, 2017 included a foreign exchange gain of \$6.2 million, compared to \$33.9 million in the prior-year period. Additionally, net earnings in the current period included a gain on disposal of the 4% stream on future gold production from El Morro (the "El Morro stream") of \$33.0 million and a loss on the revaluation of the gold price option contracts of \$14.3 million.

Adjusted net earnings for the three months ended March 31, 2017 was \$9.4 million or \$0.02 per basic share, compared to an adjusted net loss of \$1.5 million or \$nil per basic share in the prior-year period. Adjusted net earnings benefited from higher revenue less cost of goods sold as described above and reduced finance costs as the Company has capitalized more interest to its qualifying development property than in the prior-year period.

Cash generated from operations for the three months ended March 31, 2017 was \$76.8 million, compared to \$61.5 million in the prior-year period. The increase in cash generated from operations was primarily due to higher revenue as described above. Additionally, at December 31, 2016, the Company held an outstanding concentrate receivable of \$21.2 million at New Afton which was collected in January 2017. As a result, for the three months ended March 31, 2017, the Company realized more favourable changes in non-cash working capital when compared to the prior-year period.

Cash and cash equivalents were \$349.5 million as at March 31, 2017, compared to \$185.9 million as at December 31, 2016. For the three months ended March 31, 2017, cash generated from operations was more than offset by cash used in investing activities due to growth capital expenditures on Rainy River. In order to increase financial flexibility, in the current period, the Company closed a bought deal financing of common shares for net proceeds of \$165.7 million and sold the El Morro stream for \$65.0 million. For further information on these transactions, please refer to the “Corporate Developments” section of this MD&A.

For further information on the Company’s liquidity and cash flow position, please refer to the “Liquidity and Cash Flow” section of this MD&A. For further information on the Company’s financial results, please refer to the “Financial Results” section of this MD&A.

## CORPORATE DEVELOPMENTS

New Gold's strategy involves strong operational execution at its current assets and disciplined growth both through organic initiatives and value-enhancing mergers and acquisitions. Since the middle of 2009, New Gold has focused on enhancing the value of its portfolio of assets, while also continually looking for compelling external growth opportunities. New Gold's objective is to pursue corporate development initiatives that will maximize long-term shareholder value.

On January 30, 2017, New Gold announced changes to its management and Board of Directors.

- Randall Oliphant stepped down as Executive Chairman, continuing as a member of the Board.
- Ian Pearce, a member of the Board, became non-executive Chair of the Board.
- Hannes Portmann became President and Chief Executive Officer.

On February 17, 2017, New Gold sold its 4% stream on future gold production from El Morro to an affiliate of Goldcorp Inc. for \$65 million cash. This transaction provided the Company with additional liquidity as the Company advances the construction of Rainy River.

On February 22, 2017, New Gold announced that the Company entered into an agreement with a syndicate of underwriters to purchase, on a bought deal basis, 53,600,000 common shares of New Gold (plus an over-allotment option) at a price of US\$2.80 per share. On March 10, 2017, New Gold closed the bought deal financing of 61,640,000 common shares (including the over-allotment) for net proceeds to New Gold of approximately \$165 million (gross proceeds of \$173 million less equity issuance costs).

## CORPORATE SOCIAL RESPONSIBILITY

### CORPORATE SOCIAL RESPONSIBILITY HIGHLIGHTS FOR Q1 2017

- For the fourth time, New Gold was recognized as the top ranking mining company, and 9th overall in the Future 40 Most Responsible Corporate Leaders in Canada by Corporate Knights, which identifies Canada's emerging sustainability leaders from small to mid-cap corporations.
- New Afton received the 2016 Towards Sustainable Mining Leadership Award and the 2016 J.T Ryan Safety Award for Metal Mines for the lowest accident frequency in British Columbia and Yukon.
- Cerro San Pedro achieved level A or greater for all protocols in Towards Sustainable Mining initiative including AAA rating for all performance indicators in the Community and Aboriginal Outreach protocol.

New Gold is committed to excellence in corporate social responsibility. The Company considers its ability to make a lasting and positive contribution toward sustainable development a key driver to achieving a productive and profitable business. New Gold aims to achieve this objective through the protection of the health and well-being of its people and host communities as well as employing industry-leading practices in the areas of environmental stewardship and community engagement and development.

As a participant of the United Nations Global Compact, New Gold's policies and practices are guided by its principles with regard to human rights, labour, environmental stewardship and anti-corruption. As a member of the Mining Association of Canada ("MAC"), New Gold's operations adopt the MAC's Towards Sustainable Mining protocols.

New Gold's objectives include protecting the welfare of its employees and contractors through safety-first work practices, upholding fair employment practices and encouraging a diverse workforce, where people are treated with respect and are supported to realize their full potential. The Company strives to create a culture of inclusiveness and tolerance that begins

at the top and is reflected in its hiring, promotion and overall human resources practices. In each of its host communities, the Company strives to be an employer of choice through the provision of competitive wages and benefits, and through the implementation of policies of recognizing and rewarding employee performance and promoting from within wherever possible.

The Company is committed to preserving the long-term health and viability of the natural environments that host its operations. Wherever New Gold operates – in all stages of mining activity, from early exploration and planning, to commercial mining operations through to eventual closure – the Company is committed to excellence in environmental management. From the earliest site investigations, New Gold carries out comprehensive environmental studies to establish baseline measurements for flora, fauna, earth, air and water. During operations, the Company promotes the efficient use of raw materials and resources and works to minimize environmental impacts and maintain robust monitoring programs. After mining activities are complete, New Gold’s objective is to restore the land to a sustainable end land use.

New Gold is committed to establishing relationships based on mutual benefit and active participation with its host communities to contribute to healthy and sustainable communities. Wherever the Company’s operations interact with Indigenous peoples, New Gold promotes understanding of and respect for traditional values, customs and culture and takes meaningful action to consider their interests through collaborative agreements aimed at creating jobs, training and other lasting socio-economic benefits. New Gold aims to foster open communication with local residents and community leaders and strives to partner in the long-term sustainability of those communities. The Company believes that by thoroughly understanding the people, their histories, and their needs and aspirations, we can engage in a meaningful and sustainable development process.

## OUTLOOK FOR 2017

With the Company's strong operational start to 2017, New Gold reiterates its guidance for full-year gold production of 380,000 to 430,000 ounces and operating expense per gold ounce sold of \$630 to \$670. The Company is particularly pleased to announce a reduction to full-year all-in sustaining costs. As indicated in late January, New Gold was actively evaluating cost savings opportunities to further enhance 2017 cash flow. Through a combination of the Company's business improvement initiatives and capital deferrals, New Gold identified cost savings of approximately \$15 million, or approximately \$40 per ounce. In addition, the Company has also fixed the price for 43.7 million pounds of the company's second half 2017 copper production at \$2.73 per pound, which compares favourably to the company's guidance assumption of \$2.50 per pound. The copper price benefit will provide an additional \$10 million, or approximately \$25 per ounce, towards 2017 cash flow. Combining the benefit of these initiatives positions New Gold to reduce its 2017 full-year all-in sustaining costs to \$760 to \$800 per ounce, representing a \$65 per ounce reduction from the Company's original guidance range of \$825 to \$865 per ounce.

## KEY PERFORMANCE DRIVERS

There is a range of key performance drivers that are critical to the successful implementation of New Gold's strategy and the achievement of its goals. The key internal drivers are production volumes and costs. The key external drivers are market prices of gold, copper and silver, as well as foreign exchange rates.

### Production Volumes and Costs

New Gold's portfolio of operating mines produced 89,327 gold ounces for the three months ended March 31, 2017. New Gold's portfolio of operating mines produced 90,811 gold ounces for the three months ended March 31, 2016.

Operating expenses per gold ounce sold for the three months ended March 31, 2017 was \$605, compared to \$606 in the prior-year period. Operating expenses per copper pound sold for the three months ended March 31, 2017 was \$1.21, compared to \$1.07 in the prior-year period. Operating expenses per silver ounce sold for the three months ended March 31, 2017 was \$8.23, compared to \$7.39 in the prior-year period.

For the three months ended March 31, 2017 total cash costs and all-in sustaining costs, net of by-product sales, were \$296 and \$597 per gold ounce sold, respectively. For the three months ended March 31, 2016 total cash costs and all-in sustaining costs, net of by-product sales, were \$354 and \$758 per gold ounce sold, respectively.

## Commodity Prices

### GOLD PRICES

(U.S. dollars per ounce)



### COPPER PRICES

(U.S. dollars per pound)



### SILVER PRICES

(U.S. dollars per ounce)



### *Gold prices*

The price of gold is the single largest factor affecting New Gold's profitability and operating cash flows. As such, the current and future financial performance of the Company is expected to be closely related to the prevailing price of gold. In the third quarter of 2016, the Company entered into gold price option contracts related to its production for the first half of 2017. New Gold purchased put options with a strike price of \$1,300 per ounce covering 120,000 ounces of gold and simultaneously sold call options with a strike price of \$1,400 per ounce covering an equivalent 120,000 ounces. The contracts cover 20,000 ounces of gold per month for six months beginning in January 2017. New Gold entered into the contracts in order to further increase cash flow certainty as the Company invests in the continued construction of its Rainy River project. The net cost of entering into these gold price option contracts was \$1.0 million. With the startup of the Rainy River project scheduled for September 2017, the Company may increase its hedging program to reduce the price risk associated with its operating cash flow prior to commercial production. For the three months ended March 31, 2017, the Company recognized \$4.6 million in revenue related to these gold price option contracts.

For the three months ended March 31, 2017, New Gold's gold revenue per ounce and average realized gold price per ounce were \$1,252 and \$1,286, respectively, compared to the LBMA p.m. average gold price of \$1,219 per ounce. The difference between New Gold's average realized gold price and the LBMA p.m. average gold price is primarily a result of the gold price option contracts described above.

### *Copper prices*

In November 2016, the Company entered copper swap contracts for 5.3 million pounds of copper per month from January through June 2017, at a fixed price of \$2.52 per pound settling against the LME monthly average price. In February 2017, the Company entered into further copper swap contracts for 7.3 million pounds of copper per month from July 2017 through December 2017 at a fixed price of \$2.73 per pound. The copper forward contracts are treated as derivative financial instruments and marked to market at each reporting period on the consolidated statement of financial position with changes in fair value recognized in other gains and losses.

For the three months ended March 31, 2017, New Gold's copper revenue per pound and average realized copper price per pound were \$2.35 and \$2.58, respectively, compared to the average LME copper price of \$2.65 per pound. For the three months ended March 31, 2017, New Gold's average realized copper price per pound was lower than the average LME copper price primarily due to the copper swap contracts described above.

### *Silver prices*

For the three months ended March 31, 2017, New Gold's silver revenue per ounce and average realized silver price per ounce were \$16.89 and \$17.51, respectively, compared to the LBMA p.m. average silver price of \$17.42 per ounce. The average realized silver price was consistent with the LBMA p.m. average silver price.

## **Foreign Exchange Rates**

The Company operates in Canada, the United States, Australia and Mexico, while revenue is generated in U.S. dollars. As a result, the Company has foreign currency exposure with respect to costs not denominated in U.S. dollars. New Gold's operating results and cash flows are influenced by changes in various exchange rates against the U.S. dollar. The Company has exposure to the Canadian dollar through New Afton, Rainy River and Blackwater, as well as through corporate administration costs. The Company also has exposure to the Australian dollar through Peak Mines, and to the Mexican peso through Cerro San Pedro.

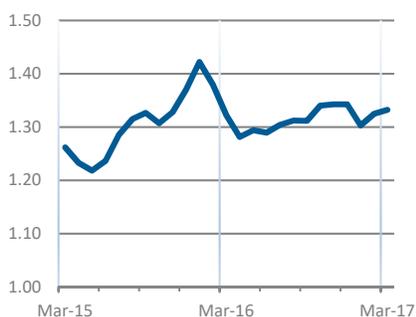
The Canadian dollar strengthened against the U.S. dollar by approximately 1% from December 31, 2016 to March 31, 2017. The average Canadian dollar against the average U.S. dollar for the three months ended March 31, 2017 strengthened by approximately 4% when compared to the prior-year period. The strengthening or weakening of the Canadian dollar

impacts costs in U.S. dollar terms at the Company’s Canadian operations, as well as capital costs at the Company’s Canadian development properties as a significant portion of operating and capital costs are denominated in Canadian dollars.

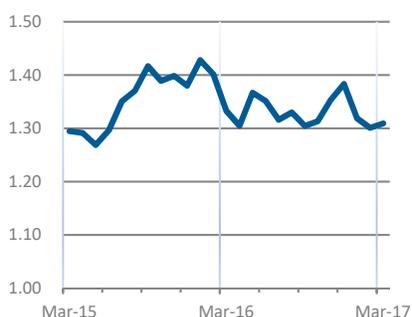
The Australian dollar strengthened against the U.S. dollar by approximately 5% from December 31, 2016 to March 31, 2017. The average Australian dollar against the average U.S. dollar for the three months ended March 31, 2017 strengthened by approximately 5% when compared to the prior-year period. The strengthening or weakening of the Australian dollar impacts costs in U.S. dollar terms at the Company’s Australian operation, Peak Mines, as a significant portion of operating costs are denominated in Australian dollars.

The Mexican peso strengthened against the U.S. dollar by approximately 9% from December 31, 2016 to March 31, 2017. The average Mexican peso against the average U.S. dollar for the three months ended March 31, 2017 weakened by approximately 13% when compared to the prior-year period. The strengthening or weakening of the Mexican peso impacts costs in U.S. dollar terms at the Company’s Mexican operation, Cerro San Pedro, as a portion of operating costs are denominated in Mexican pesos.

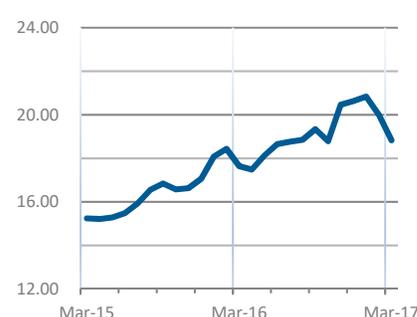
**AVERAGE MONTHLY USD TO CAD EXCHANGE RATES**



**AVERAGE MONTHLY USD TO AUD EXCHANGE RATES**



**AVERAGE MONTHLY USD TO MXN EXCHANGE RATES**



For an analysis of the impact of foreign exchange fluctuations on operating costs for the three months ended March 31, 2017 relative to prior-year periods, refer to the “Review of Operating Mines” sections for New Afton, Peak Mines and Cerro San Pedro.

**Economic Outlook**

The LBMA p.m. gold price increased by 9% since the start of 2017. Gold performed well during the quarter. The US Federal Reserve increased interest rates by 0.25%, but this was anticipated by the market and the gold price held up constructively. The Trump presidency continues to generate considerable uncertainty and unpredictability, which suggests a positive environment for gold. Although U.S. economic data continues to demonstrate progress, this comes hand in hand with enhanced inflation expectations, particularly if the infrastructure program being contemplated by the new administration comes to fruition, all of which would provide scope for increased investment demand for gold.

Prospects for gold are encouraged by several structural factors. Mine supply has been plateauing as high quality deposits become more difficult to find and more expensive to develop and mine. Exploration budgets have been cut in recent years, increasing the likelihood that supply will remain muted, even in the face of increasing gold prices. Gold held in exchange-traded products is down 30% from the peak in 2012, suggesting that the broad investment community has capacity to add length to positions as sentiment improves. As a low all-in sustaining cost producer with a pipeline of development projects, New Gold believes it is particularly well positioned both to operate in a lower gold price environment and to take advantage of higher prices in the gold market.

Economic events can have significant effects on the price of gold, through currency rate fluctuations, the relative strength of the U.S. dollar, gold supply and demand, and macroeconomic factors such as interest rates and inflation expectations. Management anticipates that the long-term economic environment should provide support for precious metals and for gold in particular, and believes the prospects for the business are favourable. New Gold's growth plan is focused on organic and acquisition-led growth, and the Company plans to remain flexible in the current environment to be able to respond to opportunities as they arise.

## FINANCIAL RESULTS

### Summary of Quarterly and Year-to-Date Financial Results

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	<b>2017</b>	<b>2016</b>
<b>FINANCIAL RESULTS</b>		
Revenue	<b>169.5</b>	154.5
Operating expenses	<b>82.9</b>	81.9
Depreciation and depletion <sup>(2)</sup>	<b>57.5</b>	61.0
Revenue less cost of goods sold <sup>(2)</sup>	<b>29.1</b>	11.6
Corporate administration	<b>7.5</b>	5.7
Share-based payment expenses	<b>1.2</b>	3.0
Exploration and business development	<b>3.2</b>	2.5
Earnings from operations <sup>(2)</sup>	<b>17.2</b>	0.4
Finance income	<b>0.2</b>	0.3
Finance costs	<b>(1.4)</b>	(4.6)
Other gains and losses		
Unrealized gain (loss) on share purchase warrants	<b>1.1</b>	(0.4)
Gain on foreign exchange	<b>6.2</b>	33.9
Other gain (loss) on disposal of assets	<b>0.2</b>	(0.1)
Unrealized loss on revaluation of gold stream obligation	<b>(3.0)</b>	(15.1)
Gain on disposal of El Morro stream	<b>33.0</b>	-
(Loss) gain on revaluation of gold price option contracts	<b>(14.3)</b>	3.3
Gain on revaluation of investments	<b>0.1</b>	-
Other	<b>0.5</b>	-
Income before taxes <sup>(2)</sup>	<b>39.8</b>	17.7
Income tax (expense) recovery <sup>(2)</sup>	<b>(2.3)</b>	7.9
<b>Net earnings<sup>(2)</sup></b>	<b>37.5</b>	25.6
<b>Adjusted net earnings (loss)<sup>(1) (2)</sup></b>	<b>9.4</b>	(1.5)

1. The Company uses certain non-GAAP financial performance measures throughout this Management's Discussion and Analysis ("MD&A"). For a detailed description of each of the non-GAAP measures used in this MD&A and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.

2. Prior-year period comparatives have been revised. Please refer to the "Key Quarterly Operating and Financial Information" section of this MD&A for further information.

#### Revenue

For the three months ended March 31, 2017, the increase in revenue was primarily due to a \$17.2 million increase driven by higher metal prices, partially offset by a \$2.2 million decrease from lower copper and silver sales volumes. A detailed discussion of production is included in the "Review of Operating Mines" section of this MD&A.

#### Operating expenses

For the three months ended March 31, 2017, operating expenses were consistent with the prior-year period. The impact of the strengthening of the Canadian and Australian dollars relative to the U.S. dollar on operating expenses was offset by the benefit of reduced mining activity at Cerro San Pedro as the mine transitioned from active mining to residual leaching in June 2016.

#### *Depreciation and depletion*

For the three months ended March 31, 2017, depreciation and depletion was consistent with the prior-year period. Higher depreciation and depletion at Mesquite was offset by lower depreciation and depletion at Peak Mines and New Afton. For the three months ended March 31, 2017, depreciation and depletion at Cerro San Pedro was consistent with the prior-year period.

#### *Revenue less cost of goods sold*

For the three months ended March 31, 2017, revenue less cost of goods sold increased primarily due to higher metal prices, partially offset by lower copper and silver sales volumes. For the three months ended March 31, 2017, operating expenses were consistent with the prior-year period as described above.

#### *Corporate administration and share-based payment expenses*

For the three months ended March 31, 2017, the increase in corporate administration costs was primarily attributable to the severance expenses incurred in the period. Corporate administration costs were negatively impacted by the strengthening of the Canadian dollar relative to the U.S dollar when compared to the prior-year period.

For the three months ended March 31, 2017, the decrease in share-based payment expenses was primarily attributable to the depreciation of the Company's share price in the current period, which resulted in lower costs for the Company's cash-settled share-based payment arrangements.

#### *Exploration and business development*

Expensed exploration in the current year was primarily incurred at Peak Mines and Rainy River. The prior-year period included expensed exploration costs primarily incurred at Peak Mines.

Capitalized exploration costs were \$1.8 million for the three months ended March 31, 2017, consistent with \$1.8 million in the prior-year period. Capitalized exploration in the current period was primarily incurred at the New Afton C-zone and Rainy River. The prior-year period included capitalized exploration primarily incurred at the New Afton C-zone, Peak Mines and Rainy River. Please refer to the "Development and Exploration review" section of this MD&A for further details on the Company's exploration and business development activities.

#### *Finance income and finance costs*

For the three months ended March 31, 2017, finance costs decreased as the Company has capitalized more interest to its qualifying development property than in the prior-year period.

#### *Other gains and losses*

The following other gains and losses are added back for the purposes of adjusted net earnings:

##### *Share purchase warrants*

For the three months ended March 31, 2017, the Company recorded a gain on share purchase warrants, compared to a loss in the prior-year period. As the traded value of the New Gold share purchase warrants increases or decreases, a related loss or gain on the mark-to-market of the liability is reflected in earnings.

##### *Gold stream obligation*

For the three months ended March 31, 2017, the unrealized loss on revaluation of the gold stream obligation derivative instrument was related to the increase in gold prices and accretion. The gain or loss on the revaluation of the gold stream obligation as a result of the change in the Company's own credit risk is recorded in other comprehensive income.

### Gold price option contracts

In the prior year, the Company entered into gold price option contracts whereby it sold a series of call option contracts and purchased a series of put option contracts. These gold price option contracts cover 120,000 ounces of New Gold's first half 2017 gold production. These derivative instruments are fair valued at the end of each reporting period. For the three months ended March 31, 2017, the Company recognized a loss on the revaluation of the gold price option contracts resulting from Company exercising its put option contracts during the period. For the three months ended March 31, 2017, the Company recognized \$4.6 million in revenue related to these gold price option contracts.

### Gain on disposal of El Morro gold stream

During the current year, the Company sold its 4% stream on future gold production from El Morro for \$65 million cash. As a result, the Company recorded a gain on disposal of \$33.0 million representing the difference between the net proceeds received and the carrying value of the asset. Please refer to the "Corporate Developments" section of this MD&A for more information on this transaction.

### Foreign exchange

Movements in foreign exchange are due to the revaluation of the non-monetary assets and liabilities at the balance sheet date and the appreciation or depreciation of the Canadian and Australian dollars compared to the U.S. dollar in the current period.

### Income tax

Income tax expense for the three months ended March 31, 2017 was \$2.3 million compared to an income tax recovery of \$7.9 million in the prior-year period, reflecting an effective tax rate of 5.8% for the first quarter of 2017 compared to 45% in the prior-year period. The primary reason for the change in the unadjusted effective tax rate is the impact of the lower tax rate applicable on the disposal of the El Morro stream and impact of foreign exchange movements on the deferred tax related to non-monetary assets and liabilities. For the three months ended March 31, 2017, the Company recorded a foreign exchange gain of \$5.5 million on non-monetary assets and liabilities, compared to \$33.9 million in the prior-year period with no associated tax impact.

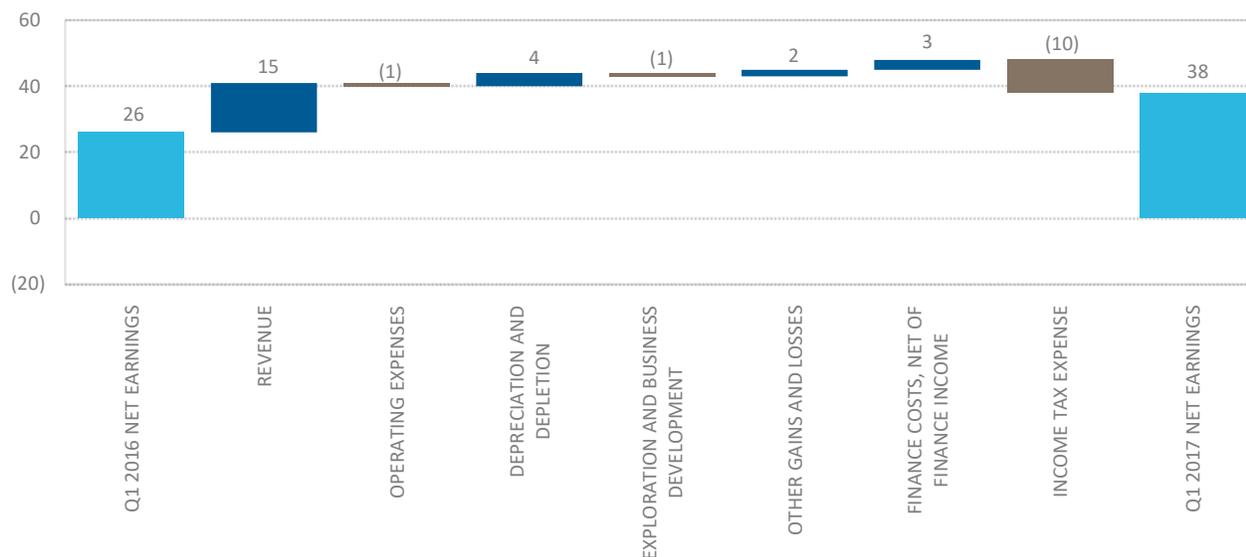
On an adjusted net (loss) earnings basis, the adjusted tax expense for the three months ended March 31, 2017 was \$6.1 million, compared to an adjusted tax recovery of \$1.7 million in the prior-year period. The adjusted tax expense excludes the impact of foreign exchange, disposal of the El Morro gold stream, the loss on revaluation of the gold stream obligation and the gain on revaluation of the gold price option contracts. Please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.

*Net earnings*

For the three months ended March 31, 2017, net earnings were positively impacted by higher revenue less cost of goods sold. Net earnings further benefitted from the gain on disposal of the El Morro gold stream, as described above. Please see below for a reconciliation of net earnings for the three months ended March 31, 2017 from the prior-year period.

**RECONCILIATION OF NET EARNINGS (LOSS) – Q1 2016 TO Q1 2017**

(in millions of U.S. dollars)

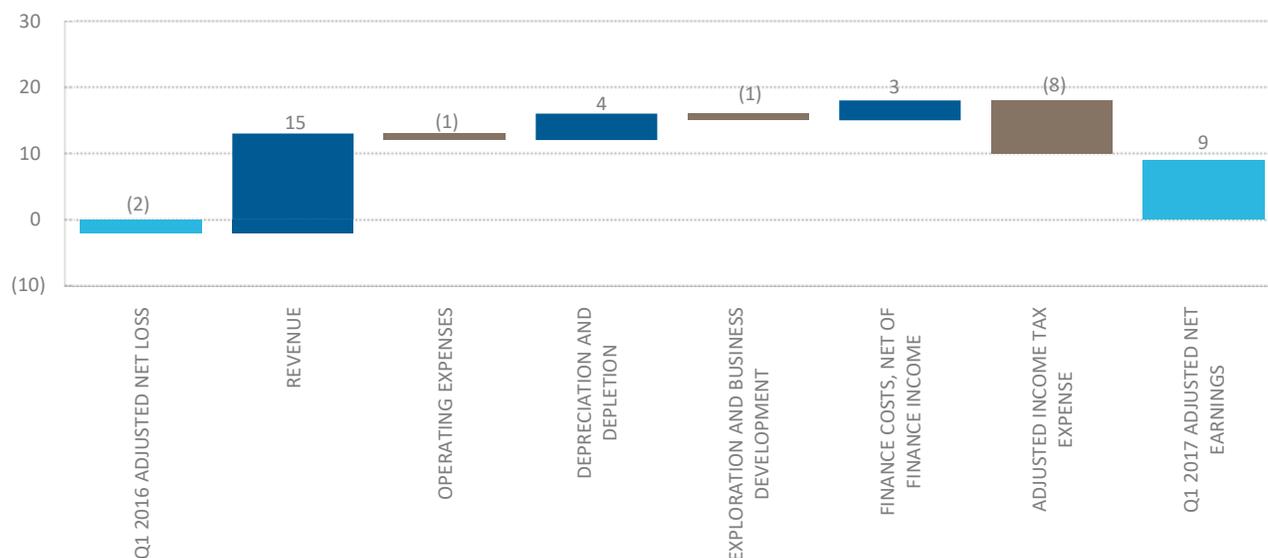


*Adjusted net earnings (loss)*

Please see below for a reconciliation of adjusted net earnings for the three months ended March 31, 2017 from the prior-year period.

**RECONCILIATION OF ADJUSTED NET (LOSS) EARNINGS – Q1 2016 TO Q1 2017**

(in millions of U.S. dollars)



The net earnings have been adjusted, including the associated tax impact, for inventory write-downs, asset impairments and costs in “Other gains and losses” on the unaudited condensed consolidated interim income statement. Key entries in this grouping are: the fair value changes for the gold stream obligation; share purchase warrants and the fair value changes for gold option contracts; foreign exchange gain or loss; and loss on disposal of assets. The adjusted entries are also impacted for tax to the extent that the underlying entries are impacted for tax in the unadjusted net earnings. Please refer to the “Non-GAAP Financial Performance Measures” section of this MD&A.

## Key Quarterly Operating and Financial Information

Selected financial and operating information for the current and previous quarters is as follows:

<i>(in millions of U.S. dollars, except where noted)</i>	<b>Q1 2017</b>	<b>Q4 2016</b>	<b>Q3 2016</b>	<b>Q2 2016</b>	<b>Q1 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>
<b>OPERATING INFORMATION</b>									
Gold production (ounces)	<b>89,327</b>	95,883	95,546	99,423	90,811	131,719	122,580	86,442	94,977
Gold sales (ounces)	<b>87,304</b>	93,936	96,452	101,820	86,031	133,005	115,695	87,754	92,398
Revenue	<b>169.5</b>	170.3	178.7	180.3	154.5	199.0	177.3	167.7	168.9
Net earnings (loss) <sup>(1)</sup> per share:	<b>37.5</b>	(22.3)	4.1	(13.9)	25.6	(9.5)	(157.8)	9.4	(43.8)
Basic (\$) <sup>(1)</sup>	<b>0.07</b>	(0.04)	0.01	(0.03)	0.05	(0.02)	(0.31)	0.02	(0.09)
Diluted (\$) <sup>(1)</sup>	<b>0.07</b>	(0.04)	0.01	(0.03)	0.05	(0.02)	(0.31)	0.02	(0.09)
Adjusted net earnings <sup>(1)</sup> (loss) per share:	<b>9.4</b>	(4.7)	12.4	8.6	(1.5)	2.6	(8.5)	(1.3)	(4.9)
Basic (\$) <sup>(1)</sup>	<b>0.02</b>	(0.01)	0.02	0.02	\$nil	0.01	(0.02)	\$nil	(0.01)
Diluted (\$) <sup>(1)</sup>	<b>0.02</b>	(0.01)	0.02	0.02	\$nil	0.01	(0.02)	\$nil	(0.01)

A detailed discussion of production is included in the "Operating Highlights" section of this MD&A.

In the first quarter of 2017 the Company identified an immaterial error relating to depletion of its New Afton mining interest for the year ended December 31, 2016 resulting in a reduction in 2016 net earnings of \$9.7 million.

The quarterly impact on the comparative condensed consolidated income statement is outlined in the table below. The resulting overstatement of the mining interests balance of \$15.4 million, overstatement of deferred tax liability of \$5.3 million and understatement of inventories totaling \$0.4 million as at December 31, 2016 has been revised in the comparative condensed consolidated statement of financial position and the associated notes to the unaudited condensed consolidated interim financial statements. There has been no change to the cash flows from operating, investing and financing activities in the comparative condensed consolidated statement of cash flow.

	Three months ended	Three months ended	Three months ended	Three months ended	Year ended
<i>(in millions of U.S. dollars)</i>	<b>March 31, 2016</b>	<b>June 30, 2016</b>	<b>September 30, 2016</b>	<b>December 31, 2016</b>	<b>December 31, 2016</b>
<b>IMPACT ON NET EARNINGS (LOSS)</b>					
Net earnings (loss) before revision	26.8	(8.8)	5.1	(19.9)	<b>2.7</b>
Depreciation and depletion	(3.4)	(4.1)	(3.4)	(4.1)	<b>(15.0)</b>
Income tax recovery (expense)	2.2	(1.0)	2.4	1.7	<b>5.3</b>
Revision to net earnings (loss)	(1.2)	(5.1)	(1.0)	(2.4)	<b>(9.7)</b>
Revised net earnings (loss)	25.6	(13.9)	4.1	(22.3)	<b>(7.0)</b>
Basic weighted average number of shares outstanding (in millions)	509.6	511.2	513.0	513.3	<b>511.8</b>
<i>Dilution of securities:</i>					
Stock options	1.1	-	2.8	-	-
Diluted weighted average number of shares outstanding (in millions)	510.7	511.2	515.8	513.3	<b>511.8</b>
<i>Net earnings (loss) per share before revision:</i>					
Basic	0.05	(0.02)	0.01	(0.04)	<b>0.01</b>
Diluted <sup>(1)</sup>	0.05	(0.02)	0.01	(0.04)	<b>0.01</b>
<i>Impact of revision to net earnings (loss) per share:</i>					
Basic	-	(0.01)	-	-	<b>(0.02)</b>
Diluted <sup>(1)</sup>	-	(0.01)	-	-	<b>(0.02)</b>
<i>Revised net earnings (loss) per share:</i>					
Basic	0.05	(0.03)	0.01	(0.04)	<b>(0.01)</b>
Diluted <sup>(1)</sup>	0.05	(0.03)	0.01	(0.04)	<b>(0.01)</b>

1. For the periods in which the Company records a loss, diluted loss per share is calculated using the basic weighted average number of shares outstanding, as using the diluted weighted average number of shares outstanding in the calculation would be anti-dilutive.

## REVIEW OF OPERATING MINES

### New Afton Mine, British Columbia, Canada

The New Afton Mine is located near Kamloops, British Columbia, Canada. The mine is a large underground block cave copper and gold mine. At December 31, 2016, the mine had 1.2 million ounces of Proven and Probable gold Mineral Reserves and 1.0 billion pounds of Proven and Probable copper Mineral Reserves, with 1.2 million ounces of Measured and Indicated gold Mineral Resources, exclusive of Mineral Reserves, and 950 million pounds of Measured and Indicated copper Mineral Resources, exclusive of Mineral Reserves. A summary of New Afton's operating results is provided below.

#### AT-A-GLANCE

##### 2017 GUIDANCE:

GOLD: 70,000 - 80,000 OUNCES

COPPER: 85 - 95 MILLION POUNDS

OPERATING EXPENSE/GOLD OZ: \$405 - \$445

ALL-IN SUSTAINING COSTS/OZ: (\$520) - (\$480)

##### Q1 2017 PRODUCTION:

GOLD: 20,937 OUNCES

COPPER: 20.5 MILLION POUNDS

OPERATING EXPENSE/GOLD OZ: \$458

ALL-IN SUSTAINING COSTS/OZ: (\$505)

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>OPERATING INFORMATION</b>		
Ore mined (thousands of tonnes)	1,608	1,554
Ore processed (thousands of tonnes)	1,440	1,388
Average grade:		
Gold (grams/tonne)	0.57	0.69
Copper (%)	0.80	0.87
Recovery rate (%):		
Gold	79.7	81.8
Copper	80.3	84.6
Gold (ounces):		
Produced <sup>(1)</sup>	20,937	25,068
Sold <sup>(1)</sup>	20,716	25,131
Copper (millions of pounds):		
Produced <sup>(1)</sup>	20.5	22.4
Sold <sup>(1)</sup>	19.9	22.0
Silver (millions of ounces):		
Produced <sup>(1)</sup>	0.1	0.1
Sold <sup>(1)</sup>	0.1	0.1
Revenue		
Gold (\$/ounce)	1,171	1,082
Copper (\$/pound)	2.34	1.93
Silver (\$/ounce)	16.10	13.38
Average realized price <sup>(1)(2)</sup> :		
Gold (\$/ounce)	1,282	1,196
Copper (\$/pound)	2.57	2.13
Silver (\$/ounce)	17.63	14.78

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>OPERATING INFORMATION</b>		
Operating expenses per gold ounce sold (\$/ounce) <sup>(4)</sup>	458	374
Operating expenses per copper pound sold (\$/pound) <sup>(4)</sup>	0.92	0.67
Total cash costs per gold ounce sold (\$/ounce) <sup>(2)(3)</sup>	(829)	(641)
All-in sustaining costs per gold ounce sold (\$/ounce) <sup>(2)(3)</sup>	(505)	(268)
Total cash costs on a co-product basis <sup>(2)(3)</sup>		
Gold (\$/ounce)	569	487
Copper (\$/pound)	1.14	0.87
All-in sustaining costs on a co-product basis <sup>(2)(3)</sup>		
Gold (\$/ounce)	679	631
Copper (\$/pound)	1.36	1.12

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>FINANCIAL INFORMATION:</b>		
Revenue	71.8	70.6
Operating margin <sup>(2)</sup>	43.6	46.2
Revenue less cost of goods sold <sup>(5)</sup>	9.6	7.9
Capital expenditures (sustaining capital) <sup>(2)</sup>	6.5	8.9
Capital expenditures (growth capital) <sup>(2)</sup>	1.2	1.0

1. Production is shown on a total contained basis while sales are shown on a net payable basis, including final product inventory and smelter payable adjustments, where applicable.
2. We use certain non-GAAP financial performance measures throughout our MD&A. Total cash costs and all-in sustaining costs per gold ounce sold, total cash costs and all-in sustaining costs on a co-product basis, average realized price, operating margin, and capital expenditures (sustaining capital and growth capital) are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.
3. The calculation of total cash costs per gold ounce is net of by-product revenue while total cash costs and all-in sustaining costs on a co-product basis removes the impact of other metal sales that are produced as a by-product of our gold production and apportions the cash costs to each metal produced on a percentage of revenue basis.
4. Operating expenses are apportioned to each metal produced on a percentage of revenue basis. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.
5. Prior-year period comparatives have been revised. Please refer to the "Key Quarterly Operating and Financial Information" section of this MD&A for further information.

## Operating results

### Production

For the three months ended March 31, 2017, the decrease in gold production was attributable to an expected decrease in gold grade and gold recovery, partially offset by an increase in mill throughput. For the three months ended March 31, 2017, the decrease in copper production was primarily attributable to a decrease in copper grade.

### Revenue

For the three months ended March 31, 2017, revenue was consistent with the prior-year period. The impact of a \$10.7 million increase driven by higher metal prices was partially offset by a \$9.5 million decrease in metal sales volumes.

At the end of the period, New Afton's exposure to the impact of movements in market metal prices for provisionally priced contracts was 15,100 ounces of gold and 32.5 million pounds of copper. Exposure to these movements in market metal prices is reduced by 13,000 ounces of gold swaps and 30.2 million pounds of copper swaps outstanding as at March 31, 2017, with settlement periods ranging from April 2017 to July 2017.

#### Revenue less cost of goods sold

For the three months ended March 31, 2017, the increase in revenue less cost of goods sold was primarily driven by lower depreciation and depletion resulting from lower production, partially offset by higher operating expenses associated with processing more tonnes. Revenue was consistent with the prior-year period, as described above.

#### Operating expenses, total cash costs and all-in sustaining costs per gold ounce sold

For the three months ended March 31, 2017, the increase in operating expenses per gold ounce sold was due to higher operating expenses and lower gold sales volumes. Operating expenses were higher than in the prior-year period due to New Afton processing more tonnes. Gold sales were lower than in the prior-year period due primarily to lower production resulting from a decrease in gold grade and gold recovery, as described above.

For the three months ended March 31, 2017, the decrease in total cash costs was primarily driven by an increase in by-product revenues resulting from higher copper prices, partially offset by an increase in operating expenses as described above. For the three months ended March 31, 2017, the decrease in all-in sustaining costs was primarily driven by lower total cash costs and lower sustaining capital expenditures.

#### Capital expenditures

In both the current and prior-year period, sustaining capital expenditures were primarily related to mine development costs. In both the current and prior-year period, growth capital expenditures were primarily related to capitalized exploration at the New Afton C-zone.

#### Impact of foreign exchange on operations

New Afton's operations continue to be impacted by fluctuations in the valuation of the U.S. dollar against the Canadian dollar. For the three months ended March 31, 2017, the value of the U.S. dollar averaged \$1.32 against the Canadian dollar compared to \$1.37 in the prior-year period, resulting in a negative impact on total cash costs of \$59 per gold ounce sold.

#### Exploration activities

During the first quarter of 2017, infill drilling commenced to further upgrade confidence in the C-zone block cave mineral reserve to provide further support for future mine development and production planning. The results of this drilling will be incorporated into the company's 2017 year-end mineral resource and resources estimation update.

#### Outlook for 2017

New Gold is pleased to reiterate New Afton's guidance for full-year gold production of 70,000 to 80,000 ounces and copper production of 85 to 95 million pounds. As a result of business improvement initiatives and capital deferrals, and the benefit of the copper hedges relative to the Company's guidance assumption, New Afton's full-year all-in sustaining cost guidance has been reduced to (\$520) to (\$480) per ounce, representing a \$240 per ounce reduction from the Company's original guidance range of (\$280) to (\$240) per ounce.

## 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. It is an open pit, run-of-mine heap leach gold mining operation. The mine was operated between 1985 and 2001 by Goldfields Mining Corporation, subsequently Santa Fe Minerals Corporation, and finally Newmont Mining Corporation with Western Goldfields Inc. acquiring the mine in 2003. The mine resumed production in 2008. New Gold acquired Mesquite as part of the business combination

with Western Goldfields in mid-2009. At December 31, 2016, the mine had 1.2 million ounces of Proven and Probable gold Mineral Reserves and 1.0 million ounces of Measured and Indicated gold Mineral Resources, exclusive of Mineral Reserves. A summary of Mesquite's operating results is provided below.

### AT-A-GLANCE

#### 2017 GUIDANCE:

GOLD: 140,000 - 150,000 OUNCES

OPERATING EXPENSES/OZ: \$675 - \$715

ALL-IN SUSTAINING COSTS/OZ: \$805 - \$845

#### Q1 2017 PRODUCTION:

GOLD: 30,403 OUNCES

OPERATING EXPENSES/OZ: \$695

ALL-IN SUSTAINING COSTS/OZ: \$765

	Three months ended March 31	
(in millions of U.S. dollars, except where noted)	2017	2016
<b>OPERATING INFORMATION</b>		
Ore mined and placed on leach pad (thousands of tonnes)	4,488	5,233
Waste mined (thousands of tonnes)	10,585	10,363
Ratio of waste to ore	2.36	1.98
Average grade:		
Gold (grams/tonne)	0.32	0.37
Gold (ounces):		
Produced <sup>(1)(2)</sup>	30,403	27,371
Sold <sup>(1)</sup>	29,153	24,929
Revenue		
Gold (\$/ounce)	1,274	1,202
Average realized price <sup>(3)</sup> :		
Gold (\$/ounce)	1,274	1,202
Operating expenses per gold ounce sold (\$/ounce) <sup>(4)</sup>	695	616
Total cash costs per gold ounce sold (\$/ounce) <sup>(3)</sup>	695	626
All-in sustaining costs per gold ounce sold (\$/ounce) <sup>(3)</sup>	765	1,101
<b>FINANCIAL INFORMATION</b>		
Revenue	37.2	30.0
Operating margin <sup>(3)</sup>	17.0	14.7
Revenue less cost of goods sold	6.3	5.8
Capital expenditures (sustaining capital) <sup>(3)</sup>	1.6	11.5

1. Production is shown on a total contained basis while sales are shown on a net payable basis, including final product inventory, where applicable.

2. Tonnes of ore processed each period does not necessarily correspond to ounces produced during the period, as there is a time delay between placing tonnes on the leach pad and pouring gold ounces.

3. We use certain non-GAAP financial performance measures throughout our MD&A. Total cash costs and all-in sustaining costs per gold ounce sold, average realized price, operating margin and capital expenditures (sustaining capital) are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.

4. Operating expenses are apportioned to each metal produced on a percentage of revenue basis. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.

## *Operating results*

### *Production*

For the three months ended March 31, 2017, the increase in production was due to higher recoveries as ore tonnes mined and placed in the prior-year period were impacted by lower recoveries from the transition zone.

### *Revenue*

For the three months ended March 31, 2017, the increase in revenue was attributable to the combined impact of \$5.1 million increase due to higher gold sales volumes and a \$2.1 million increase driven by higher gold prices.

### *Revenue less cost of goods sold*

For the three months ended March 31, 2017, revenue less cost of goods sold was consistent with the prior-year period. The increase in revenue described above was only partially offset by higher operating expenses resulting from Mesquite capitalizing waste stripping expenditures in the prior-year period. For the three months ended March 31, 2017, depreciation and depletion was higher than in the prior-year period primarily due to higher production.

### *Operating expenses, total cash costs and all-in sustaining costs per gold ounce sold*

For the three months ended March 31, 2017, the increase in operating expenses and total cash costs per gold ounce sold was primarily attributable to higher operating expenses as described above, partially offset by higher sales volumes.

For the three months ended March 31, 2017, the decrease in all-in sustaining costs per gold ounce sold was primarily attributable to lower sustaining capital expenditures resulting from Mesquite capitalizing waste stripping expenditures in the prior-year period.

### *Capital expenditures*

For the three months ended March 31, 2017, the decrease in capital expenditures was a result of waste stripping expenditures being capitalized in the prior-year period. Capital expenditures in the current period relate primarily to the purchase of component parts for the mobile fleet.

## Peak Mines, New South Wales, Australia

The Company's Peak Mines gold-copper mining operation is an underground mine/mill operation located in the Cobar Mineral Field near Cobar, New South Wales, Australia. Peak Mines was originally built by Rio Tinto Plc and commenced production in 1992. At December 31, 2016, the mine had 251,000 ounces of Proven and Probable gold Mineral Reserves and 80 million pounds of Proven and Probable copper Mineral Reserves, with 378,000 ounces of Measured and Indicated gold Mineral Resources, exclusive of Mineral Reserves, and 171 million pounds of Measured and Indicated copper Mineral Resources, exclusive of Mineral Reserves. A summary of Peak Mines' operating results is provided below:

### AT-A-GLANCE

#### 2017 GUIDANCE:

GOLD: 85,000 - 95,000 OUNCES  
 COPPER: ~15 MILLION POUNDS  
 OPERATING EXPENSES/GOLD OZ: \$780 - \$820  
 ALL-IN SUSTAINING COSTS/OZ: \$975 - \$1,015

#### Q1 2017 PRODUCTION

GOLD: 28,347 OUNCES  
 COPPER: 3.4 MILLION POUNDS  
 OPERATING EXPENSES/GOLD OZ: \$596  
 ALL-IN SUSTAINING COSTS/OZ: \$674

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>OPERATING INFORMATION</b>		
Ore mined (thousands of tonnes)	114	170
Ore processed (thousands of tonnes)	165	163
Average grade:		
Gold (grams/tonne)	6.46	3.72
Copper (%)	1.04	0.91
Recovery rate (%):		
Gold	91.3	94.1
Copper	85.7	92.2
Gold (ounces):		
Produced <sup>(1)</sup>	28,347	19,596
Sold <sup>(1)</sup>	27,391	17,149
Copper (millions of pounds):		
Produced <sup>(1)</sup>	3.4	3.0
Sold <sup>(1)</sup>	3.1	3.3
Revenue		
Gold (\$/ounce)	1,285	1,210
Copper (\$/pound)	2.41	2.02
Average realized price <sup>(2)</sup> :		
Gold (\$/ounce)	1,306	1,250
Copper (\$/pound)	2.67	2.20
Operating expenses per gold ounce sold (\$/ounce) <sup>(4)</sup>	596	870
Operating expenses per copper pound sold (\$/pound) <sup>(4)</sup>	1.22	1.53
Total cash costs per gold ounce sold <sup>(2)(3)</sup>	427	780
All-in sustaining costs per gold ounce sold <sup>(2)(3)</sup>	674	1,024
Total cash costs on a co-product basis <sup>(2)(3)</sup>		
Gold (\$/ounce)	630	887
Copper (\$/pound)	1.51	1.67
All-in sustaining costs on a co-product basis <sup>(2)(3)</sup>		
Gold (\$/ounce)	828	1,068
Copper (\$/pound)	1.91	1.98

Three months ended March 31

<i>(in millions of U.S. dollars, except where noted)</i>	<b>2017</b>	<b>2016</b>
<b>FINANCIAL INFORMATION</b>		
Revenue	<b>45.0</b>	27.7
Operating margin <sup>(2)</sup>	<b>24.5</b>	7.5
Revenue less cost of goods sold	<b>12.9</b>	(5.5)
Capital expenditures (sustaining capital) <sup>(2)</sup>	<b>5.1</b>	1.7
Capital expenditures (growth capital) <sup>(2)</sup>	<b>0.3</b>	-

1. Production is shown on a total contained basis while sales are shown on a net payable basis, including final product inventory and smelter payable adjustments, where applicable.
2. We use certain non-GAAP financial performance measures throughout our MD&A. Total cash costs and all-in sustaining costs per gold ounce sold, total cash costs and all-in sustaining costs on a co-product basis, average realized price, operating margin and capital expenditures (sustaining capital) are non-GAAP financial performance measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.
3. The calculation of total cash costs per gold ounce is net of by-product copper revenue. Total cash costs and all-in sustaining costs on a co-product basis removes the impact of other metal sales that are produced as a by-product of our gold production and apportions the cash costs to each metal produced on a percentage of revenue basis.
4. Operating expenses are apportioned to each metal produced on a percentage of revenue basis. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.

## Operating results

### Production

For the three months ended March 31, 2017, the increase in gold production was attributable to mining and processing of significantly higher gold grade material than in the prior-year period. For the three months ended March 31, 2017, the increase in copper production was attributable to higher copper grades.

### Revenue

For the three months ended March 31, 2017, the increase in revenue was attributable to the combined impact of a \$12.5 million increase as a result of increased metals sales volumes and a \$3.2 million increase driven by higher metal prices. For the three months ended March 31, 2017, Peak Mines further benefitted from \$1.6 million of revenue related to the sale of lead concentrate.

At the end of the period, Peak Mines' exposure to the impact of movements in market metal prices for provisionally priced contracts was 4,300 ounces of gold and 2.0 million pounds of copper. Exposure to these movements in market metal prices was reduced by 1.8 million pounds of copper swaps outstanding at the end of the period, with settlement periods ranging from April 2017 to May 2017.

### Revenue less cost of goods sold

For the three months ended March 31, 2017, the increase in revenue less cost of goods sold was primarily attributable to higher revenue as described above. Despite achieving higher production and the impact of the strengthening of the Australian dollar relative to the U.S dollar, operating expenses were consistent with the prior-year period. Depreciation and depletion was consistent with the prior-year period.

### Operating expenses, total cash costs and all-in sustaining costs

For the three months ended March 31, 2017, the decrease in operating expenses and total cash costs per gold ounce sold was primarily attributable to the increase in gold sales volumes while operating expenses remained consistent with the prior-year period. Total cash costs per gold ounce sold further benefitted from higher by-product credits resulting from higher coppers prices.

For the three months ended March 31, 2017, the decrease in all-in sustaining costs per gold ounce sold was a result of the decrease in total cash costs per gold ounce sold described above, partially offset by an increase in sustaining capital expenditures.

#### *Capital expenditures*

For the three months ended March 31, 2017, the increase in capital expenditures was a result of increases in capital development and increased capitalized exploration activities. Capital development is related to mine and infrastructure development.

#### *Impact of Foreign Exchange on Operations*

Peak Mines' operations continue to be impacted by fluctuations in the valuation of the U.S. dollar against the Australian dollar. For the three months ended March 31, 2017, the value of the U.S. dollar averaged \$1.32 against the Australian dollar compared to \$1.38 in the prior-year period, resulting in a negative impact on total cash costs of \$36 per gold ounce sold.

#### *Exploration Activities*

During the first quarter of 2017, exploration at the Peak Mines operation commenced with a surface drilling campaign designed to continue to test prospective gold and copper-gold targets along the Peak Mine Corridor that were identified during 2016. Three of the four targets tested during the quarter intercepted favorable geologic structures and associated mineralization that are being evaluated for drilling follow up. Additionally, detailed geologic mapping and geochemical sampling continued during the quarter to further identify and delineate new areas of prospective mineralization along the Peak Mine Corridor as well as the Company's greater regional exploration tenements.

#### *Outlook for 2017*

New Gold is pleased to reiterate Peak Mines' guidance for full-year gold production of 85,000 to 95,000 ounces and copper production of approximately 15 million pounds. As a result of business improvement initiatives and capital deferrals, Peak Mines' full-year all-in sustaining costs guidance has been reduced to \$975 to \$1,015 per ounce, representing an \$85 per ounce reduction from the company's original guidance range of \$1,060 to \$1,100 per ounce.

## Cerro San Pedro Mine, San Luis Potosí, 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 mine is a gold-silver, open pit, run-of-mine heap leach operation. Cerro San Pedro finished active mining late in the second quarter of 2016 and has now transitioned into residual leaching. A summary of Cerro San Pedro's operating results is provided below:

### AT-A-GLANCE

#### 2017 GUIDANCE:

GOLD: 35,000 - 45,000 OUNCES

OPERATING EXPENSES/GOLD OZ: \$1,080 - \$1,120

ALL-IN SUSTAINING COSTS/OZ: \$1,090 - \$1,130

#### Q1 2017 PRODUCTION

GOLD: 9,640 OUNCES

SILVER: 0.2 MILLION OUNCES

OPERATING EXPENSES/GOLD OZ: \$1,150

ALL-IN SUSTAINING COSTS/OZ: \$1,255

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>OPERATING INFORMATION</b>		
Ore mined and placed on leach pad (thousands of tonnes)	-	1,691
Waste mined (thousands of tonnes)	-	2,104
Ratio of waste to ore	-	1.24
Average grade:		
Gold (grams/tonne)	-	0.38
Silver (grams/tonne)	-	11.24
Gold (ounces)		
Produced <sup>(1)(2)</sup>	9,640	18,776
Sold <sup>(1)</sup>	10,044	18,822
Silver (millions of ounces)		
Produced <sup>(1)(2)</sup>	0.2	0.3
Sold <sup>(1)</sup>	0.2	0.3
Revenue		
Gold (\$/ounce)	1,268	1,185
Silver (\$/ounce)	17.47	14.77
Average realized price <sup>(3)</sup> :		
Gold (\$/ounce)	1,268	1,185
Silver (\$/ounce)	17.47	14.77
Operating expenses per gold ounce sold (\$/ounce) <sup>(5)</sup>	1,150	993
Operating expenses per silver ounce sold (\$/ounce) <sup>(5)</sup>	15.84	12.38
Total cash costs per gold ounce sold (\$/ounce) <sup>(3)(4)</sup>	1,099	934
All-in sustaining costs per gold ounce sold (\$/ounce) <sup>(3)(4)</sup>	1,255	952
Total cash costs on a co-product basis <sup>(2)(3)</sup>		
Gold (\$/ounce)	1,129	972
Silver (\$/ounce)	15.55	12.11
All-in sustaining costs on a co-product basis <sup>(2)(3)</sup>		
Gold (\$/ounce)	1,258	987
Silver (\$/ounce)	17.33	12.31
<b>FINANCIAL INFORMATION</b>		
Revenue	15.5	26.2
Operating margin <sup>(3)</sup>	1.5	4.2
Revenue less cost of goods sold	0.3	3.4
Capital expenditures (sustaining capital) <sup>(3)</sup>	0.7	0.2

1. Production is shown on a total contained basis while sales are shown on a net payable basis, including final product inventory adjustments, where applicable.

2. Tonnes of ore processed each period does not necessarily correspond to ounces produced during the period, as there is a time delay between placing tonnes on the leach pad and pouring gold ounces.

3. We use certain non-GAAP financial performance measures throughout our MD&A. Total cash costs and all-in sustaining costs per gold ounce sold, total cash costs and all-in sustaining costs on a co-product basis, average realized price, operating margin and capital expenditures (sustaining and growth) are non-GAAP financial performance

measures with no standard meaning under IFRS. For further information and a detailed reconciliation, please refer to the "Non-GAAP Performance Measures" section of this MD&A.

4. The calculation of total cash costs per gold ounce sold and all-in sustaining costs per gold ounce sold is net of by-product silver revenue. Total cash costs and all-in sustaining costs on a co-product basis removes the impact of other metal sales that are produced as a by-product of our gold production and apportions the cash costs to each metal produced on a percentage of revenue basis.
5. Operating expenses are apportioned to each metal produced on a percentage of revenue basis. For further information and a detailed reconciliation, please refer to the "Non-GAAP Financial Performance Measures" section of this MD&A.

## Operating results

### Production

Cerro San Pedro finished active mining late in the second quarter of 2016 and has now transitioned into residual leaching. As a result, and consistent with expectations, for the three months ended March 31, 2017, gold and silver production was lower than in the prior-year period.

### Revenue

For the three months ended March 31, 2017, the decrease in revenue was attributable to the impact of a \$12.0 million decrease in metal sales volumes as Cerro San Pedro has entered into the residual leach period, which was partially offset by a \$1.3 million increase driven by higher metal prices.

### Revenue less cost of goods sold

For the three months ended March 31, 2017, the decrease in revenue less cost of goods sold was primarily attributable to the decrease in revenue described above, partially offset by lower operating expenses.

### Operating expenses, total cash costs and all-in sustaining costs

For the three months ended March 31, 2017, the increase in operating expenses and total cash costs per gold ounce sold was primarily driven by lower gold sales volumes, partially offset by lower operating expenses resulting from no mining activity in the current period. Operating expenses and total cash costs per gold ounce sold were further negatively impacted by lower by-product credits resulting from lower silver sales volumes. For the three months ended March 31, 2017, the increase in all-in sustaining costs per gold ounce sold was attributable to the increase in total cash costs per gold ounce sold described above.

### Impact of Foreign Exchange on Operations

Cerro San Pedro was impacted by changes in the value of the Mexican peso against the U.S. dollar. For the three months ended March 31, 2017, the value of the Mexican peso averaged MXN20.3 against the U.S. dollar compared to MXN18.0 in the prior-year period. This had a positive impact on total cash costs of \$42 per gold ounce sold.

## DEVELOPMENT AND EXPLORATION REVIEW

### Rainy River Project, Ontario, Canada

Rainy River is a gold project located approximately 50 kilometres northwest of Fort Frances, a town of approximately 8,000 people, in northwestern Ontario, Canada. The project property is located near infrastructure and is comprised of approximately 192 square kilometres of freehold and leasehold patented surface rights and mining rights, properties and unpatented mining claims.

Rainy River enhances New Gold's growth pipeline through its significant production scale at below current industry average costs and exciting longer-term exploration potential in a great mining jurisdiction. Rainy River alone is expected to produce an average of 325,000 ounces of gold annually, which will more than offset the decrease in production and cash flow arising

#### AT-A-GLANCE

AS AT DECEMBER 31, 2016

#### 2017 GUIDANCE:

GOLD: 50,000 - 60,000 OUNCES  
 OPERATING EXPENSES/OZ: \$905 - \$945  
 ALL-IN SUSTAINING COSTS/OZ: \$1,200 - \$1,240

#### PROVEN AND PROBABLE RESERVES

GOLD: 3.9 MILLION OUNCES  
 SILVER: 10.0 MILLION OUNCES

from the transition of Cerro San Pedro to residual leaching. The Company looks forward to the commencement of commercial production at Rainy River which is expected to be in the fourth quarter of 2017.

#### *Project advancement*

### **RAINY RIVER – Q1 2017 KEY PROJECT UPDATES**

- Project spending during the first quarter totalled \$126 million, with estimated remaining capital to achieve November commercial production of \$389 million
- Mining rate during the quarter averaged over 110,000 tonnes per day
- Overall earthworks approximately 70% complete
- All key structural components of the process facilities complete
- Installation of mechanical, piping, electrical and instrumentation in processing facilities approximately 85% complete
- Primary crusher and conveyor system approximately 95% complete
- Commissioning of the crusher commenced in March 2017 with first crush scheduled for early May 2017

### **RAINY RIVER – UPCOMING KEY MILESTONES**

#### **Second Quarter 2017**

- Complete commissioning of crusher and commence first crush
- Commence commissioning of ball and SAG mill
- Energization of all site power lines

#### **Third Quarter 2017**

- Dry and wet commissioning of the full process circuit
- Complete tailings management area starter cell
- First ore to mill and mine start-up

Mining activities at Rainy River progressed well during the first quarter. The Company's mining rate during the quarter averaged over 110,000 tonnes per day, which was in line with New Gold's updated plan announced on January 30, 2017. The September start-up is based on an expectation that the mining rate will continue to increase to an average of approximately 120,000 tonnes per day, which includes both planned productivity gains and takes into consideration the impact of changing weather conditions through the spring and summer months. There are multiple catalysts for the planned productivity gains. As pit water management impacts productivity, particularly during the spring thaw, the commissioning of the water management pond will facilitate increased pit dewatering which, in turn, will provide greater access and improved mining conditions. As well, an additional construction rock source has been identified outside of the pit and closer to the tailings area, which is currently being brought online. Once fully operational, this will shorten the cycle time of rock material mined from the pit as it will primarily be delivered to the waste dump instead of the longer haul to the tailings area. These changes, as well as operational improvements in the mining and maintenance areas, underpin the planned increase in mining rate to 120,000 tonnes per day.

Overall earthworks are approximately 70% complete and tracking in line with New Gold's updated plan. Through March 31, 2017, over 800,000m<sup>3</sup> of construction material has been placed at the tailings management starter cell. The starter cell is scheduled to be completed in August 2017. Construction of the water management pond is tracking in line with the Company's updated plan. Completion and energization of all site overhead power lines and completion of the tailings pipeline corridor is planned for the second quarter. Subsequent to the end of the quarter, approval was received to commence construction of the mine rock pond.

All of the key structural components of the process facilities have been completed and the setting of mechanical equipment and installation of piping, electrical and instrumentation services is well advanced. The primary crusher and conveyor system are approximately 95% complete. Commissioning of the crusher commenced in March 2017 with the first crush expected in early May 2017. Thereafter, the commissioning of the ball and SAG mills should start during the second quarter and be completed in August 2017. Finally, the refining portion of the circuit should be completed and ready to begin commissioning early in the third quarter. Dry and wet commissioning of the full process circuit is scheduled to be completed in August 2017, which should leave approximately one month before targeted first production for any required adjustments to the circuit.

During the quarter, infill drilling was completed to confirm the estimated grades of mineralization in the resource block model and upgrade confidence in the portion of the reserve expected to be mined during the first year of commercial production.

#### *Permitting activities*

Key construction-related permits have been issued by the Ontario Ministry of Environment and Climate Change (“MOECC”) as well as the Ministry of Natural Resources and Forestry (“MNRF”). Receipt of additional provincial construction and operations phase permits is progressing in line with the project development schedule. New construction started on the Mine Rock Pond Intake and West Creek Natural Channel By-pass after receiving approval to commence construction from the MNRF in February 2017. New Gold has remained in regular communication with the MNRF as it relates to their review of other operational permits and permit amendments appropriate for the Project’s current stage of activity.

The 2016 Annual Reports for Environment Canada and MOECC were submitted to the regulators on March 31, 2017. A copy was posted on the New Gold website for public review.

The Company continues to work towards obtaining an amendment to Schedule 2 of the Metal Mining Effluent Regulations, required to close two small creeks and deposit tailings. In recent discussions with senior officials from Environment and Climate Change Canada, New Gold was advised that public notification of the proposed amendment is expected to be published in the second quarter of 2017, with the final publication and adoption of the Schedule 2 amendment expected to occur in January 2018.

As previously disclosed, New Gold is presently constructing a starter tailings cell, located within the broader tailings management area, that does not require a Schedule 2 amendment. This will allow New Gold to commence operations prior to completion of the Schedule 2 amendment. Based on its location and scale, the starter cell would provide capacity for approximately six months of tailings.

In addition, New Gold is finalizing its evaluation of an approach to constructing the creek closures which incorporates sheet pile at the centre of the portion of the dam which will cover the creeks. The purpose of this approach is both to reduce the construction time after receipt of the Schedule 2 amendment, and, most importantly, to be able to complete the work regardless of the weather conditions. The approach is expected to require provincial and federal regulatory approvals.

#### *Exploration*

During the first quarter of 2017, exploration efforts at Rainy River were directed toward completing the infill drilling program to upgrade reserves in the ODM starter pit area and commencing with exploration drilling to test the potential to expand and further confirm the mineral resource classification of the planned ODM underground mine area. Once completed, results of these drilling campaigns will be incorporated into the Rainy River life-of-mine operational plan.

### Environmental and community activities

New Gold has entered into Participation Agreements or Impact Benefit Agreements with the Naicatchewenin and Rainy River First Nations, Big Grassy First Nation, Naotkamegwaning First Nation, four of the communities of the Fort Frances Chiefs Secretariat and the Métis Nation of Ontario. The Participation Agreements and Impact Benefit Agreements provide for how the First Nation and Métis communities will benefit from the development of Rainy River and throughout the life of the mine. New Gold continues to meet with other local Indigenous communities as well. New Gold also sends out regular newsletters on Rainy River to all communities in the Rainy River District and parts of the Kenora District. Other engagement activities include community visits, public site tour, communication and tours with neighbours that are close to the project area and regular communication with the local municipality. New Gold continues to engage local communities in key areas of employment, contracting and procurement whenever possible.

### Project costs and outlook

For the three months ended March 31, 2017, capital expenditures at Rainy River totalled \$126.3 million, which includes \$125.6 million for development capital costs with the remainder primarily for exploration. This compares to \$82.2 million in the prior-year period. Based on a C\$1.30/US\$ exchange rate, the remaining capital cost from April 1, 2017 to the targeted November commercial production is estimated to be approximately \$389 million. Capital spending levels are expected to ramp up in the second and third quarters as the project enters the final phase of construction and transitions to operation.

## Blackwater Project, British Columbia, Canada

Blackwater is a bulk-tonnage gold-silver project located approximately 160 kilometres southwest of Prince George, a city of approximately 80,000 people, in central British Columbia, Canada. The project property position covers over 1,000 square kilometres and is located near infrastructure.

### Exploration

During the first quarter of 2017, exploration activity at Blackwater remained suspended while the Company continued its development focus at Rainy River.

### Environmental and permitting activities

The following environmental and permitting related activities occurred at Blackwater during the first quarter of 2017:

- The Provincial and Federal environmental assessment technical review stage continued, with approvals anticipated in 2017.
- Continued key engineering studies for advancement of post-environmental assessment approval permits.
- Continued discussions with key First Nations on Participation Agreements.

### Project costs and outlook

For the three months ended March 31, 2017, capital expenditures totalled \$1.8 million, consistent with \$1.8 million in the prior-year period. Expenditures in the current period related to the continued advancement of the environmental assessment process and related environmental and engineering studies and discussions with First Nations on Participation Agreements.

Blackwater's 2017 non-sustaining capital expenditures are expected to be approximately \$10 million related to the continued advancement of the Environmental Assessment process. The most recent technical report on Blackwater,

### AT-A-GLANCE

AS AT DECEMBER 31, 2016

#### PROVEN AND PROBABLE RESERVES

GOLD: 8.2 MILLION OUNCES  
SILVER: 60.8 MILLION OUNCES

#### MEASURED AND INDICATED RESOURCES

(Exclusive of Reserves)

GOLD: 1.3 MILLION OUNCES  
SILVER: 8.2 MILLION OUNCES

completed in 2014, estimated development capital costs for a 60,000 tonnes per day operation to be C\$1,973 million, assuming an exchange rate of a C\$0.95 to the U.S. dollar.

### **New Afton C-zone, British Columbia, Canada**

The C-zone is the down plunge extension of the B-zone block cave currently being mined at New Afton.

In the first quarter of 2016, New Gold completed a feasibility study which confirmed the viability and positive economics for the C-zone deposit. The feasibility study relates to the C-zone Mineral Reserves which have demonstrated economic viability at the New Afton property and is not part of, and should be distinguished from, the current mining of the B-zone reserves. Work completed in 2016 includes additional exploration drilling, mine optimizations and planning reviews, and development of a Project Implementation Plan. The detailed results from the feasibility study can be found in the Company's Management's Discussion and Analysis for the year ended December 31, 2015.

#### *Project update and costs*

During the first quarter of 2017, work on the C-zone included SAP Project testing and finalization of the Project Implementation Schedule. Optimization studies for tailings management were initiated in the first quarter as was the permit application to commence decline development. Exploration drilling on C-Zone started in Q1, 2017 and is scheduled to be completed in May, 2017 after which an updated block model for the resource will be generated. For the three months ended March 31, 2017, project capital expenditures totalled \$1.1 million, which includes exploration drilling expenditures of \$0.9 million and project development expenditures of \$0.2 million.

#### **AT-A-GLANCE**

AS AT DECEMBER 31, 2016

#### **MEASURED AND INDICATED RESOURCES**

*(Included in New Afton Measured and Indicated Resources)*

**GOLD: 483,000 OUNCES**

**COPPER: 385 MILLION POUNDS**

## FINANCIAL CONDITION REVIEW

### Balance Sheet Review

	As at March 31	As at December 31
<i>(in millions of U.S. dollars)</i>	<b>2017</b>	<b>2016</b>
<b>BALANCE SHEET INFORMATION</b>		
Cash and cash equivalents	<b>349.5</b>	185.9
Other current assets	<b>202.2</b>	224.1
Non-current assets	<b>3,586.9</b>	3,523.0
<b>Total assets</b>	<b>4,138.6</b>	3,933.0
Current liabilities	<b>174.9</b>	175.4
Non-current liabilities excluding long-term debt	<b>783.3</b>	794.9
Long-term debt	<b>890.0</b>	889.5
<b>Total liabilities</b>	<b>1,848.2</b>	1,859.8
<b>Total equity</b>	<b>2,290.4</b>	2,073.2
<b>Total liabilities and equity</b>	<b>4,138.6</b>	3,933.0

#### Assets

The increase in total assets is primarily attributable to the increase in cash and cash equivalents described below and growth capital expenditures at Rainy River.

#### Cash and cash equivalents

The increase in cash and cash equivalents was primarily driven by the Company's bought deal financing of common shares resulting in net proceeds of \$165.7 million, the sale of the El Morro stream for \$65.0 million, and the Company's operating cash flows generated during the current period. This was partially offset by growth capital expenditures at Rainy River as \$126.3 million was spent in the first quarter of 2017. Please see the "Corporate Developments" section of this MD&A for further information on the Company's bought deal financing of common shares and the sale of the El Morro stream.

#### Other current assets

Other current assets primarily consist of trade and other receivables, inventories and prepaid expenses. The decrease in other current assets is primarily attributable to the Company collecting a receivable of \$21.2 million relating to concentrate sales at New Afton in January 2017. This receivable was outstanding as at December 31, 2016.

#### Non-current assets

Non-current assets primarily consist of mining interests which include the Company's mining properties, development projects and property, plant and equipment. The increase in non-current assets is primarily attributable to the Company's investments in its mining interests less depreciation and depletion. For the three months ended March 31, 2017, the Company spent \$143.7 million, primarily focused on continued project advancement at Rainy River, and sustaining capital expenditures at the Company's operating sites.

#### Liabilities

##### Current liabilities

As at March 31, 2017, current liabilities were consistent with the prior year. Current liabilities primarily consist of trade and other payables.

#### Non-current liabilities excluding long-term debt

Non-current liabilities consist primarily of reclamation and closure cost obligations, the gold stream obligation, long-term debt and deferred tax liabilities. The increase in non-current liabilities is primarily attributable to the increase in the fair value of the gold stream obligation.

The Company's asset retirement obligations consist of reclamation and closure costs for New Afton, Mesquite, Peak Mines, Cerro San Pedro, Blackwater and Rainy River. Significant reclamation and closure activities include land rehabilitation, demolition of buildings and mine facilities, ongoing monitoring and other costs.

The long-term discounted portion of the liability as at March 31, 2017 was \$91.3 million compared to \$81.0 million as at December 31, 2016. For the three months ended March 31, 2017, the Company updated the reclamation and closure cost obligations for each of its mine sites. The impact of these assessments was an increase to the long-term discounted value of the liability primarily related to New Afton and Rainy River. New Afton's increase was a result of an acquisition of a historical tailings facility adjacent to the site, and a decrease in the discount rate. Key drivers of the Rainy River liability increase includes additional obligations related to the continued project advancement. The Company intends to spend \$1.2 million in the next year on reclamation activities, and the remainder in future periods.

The net deferred income tax liability decreased from \$230.3 million at December 31, 2016 to \$219.2 million at March 31, 2017. The decrease is mainly driven by the impact of foreign exchange movements on the deferred tax related to non-monetary assets and liabilities. For the three months ended March 31, 2017, the Company recorded a foreign exchange gain of \$5.5 million on non-monetary assets and liabilities. This was primarily due to the deferred tax liabilities being denominated in currencies other than the U.S. dollar and has no tax impact.

#### Long-term debt and other financial liabilities containing financial covenants

The majority of the Company's contractual obligations consist of long-term debt and interest payable. Long-term debt as at March 31, 2017 includes senior unsecured notes and the amounts drawn on the Company's revolving credit facility.

On July 20, 2015 the Company entered into a \$175 million streaming transaction with RGLD Gold AG, a wholly-owned subsidiary of Royal Gold Inc. ("Royal Gold"). The gold stream obligation is accounted for as a financial liability under the scope of IFRS 9. Accordingly, the Company values the liability at the present value of its expected future cash flows at the end of each reporting period, with the changes in fair value related to the change in the risk-free discount rate and changes in gold prices reflected in the consolidated income statements and the changes in fair value related to the Company's own credit risk reflected in the consolidated statements of comprehensive income. The gold stream obligation contains a maximum leverage ratio covenant (net debt to earnings before interest, taxes, depreciation, amortization, exploration, impairment and other non-cash adjustments "Adjusted EBITDA") of 3.5 : 1.0, with the exception that the net leverage covenant limit may increase to 4.0 : 1.0 for two consecutive quarters, provided that it thereafter returns to a maximum of 3.5 : 1.0. However, in order to provide additional flexibility, Royal Gold has agreed to adjust this leverage ratio to match the revised maximum leverage ratio under the revolving credit facility for the five consecutive quarters ending December 31, 2017.

On April 5, 2012, the Company issued \$300.0 million of senior unsecured notes ("2020 Unsecured Notes"). As at March 31, 2017 the face value was \$300.0 million. The 2020 Unsecured Notes are denominated in U.S. dollars, mature and become due and payable on April 15, 2020, and bear interest at the rate of 7% per annum. Interest is payable in arrears in equal semi-annual instalments on April 15 and October 15 of each year.

On November 15, 2012, the Company issued \$500.0 million of senior unsecured notes ("2022 Unsecured Notes"). As at March 31, 2017 the face value was \$500.0 million. The 2022 Unsecured Notes are denominated in U.S. dollars, mature and become

due and payable on November 15, 2022, and bear interest at the rate of 6.25% per annum. Interest is payable in arrears in equal semi-annual instalments on May 15 and November 15 of each year.

The 2020 and 2022 Unsecured Notes are subject to a minimum interest coverage incurrence covenant (earnings before interest taxes depreciation, amortization, impairment and other non-cash adjustments to interest) of 2.0 : 1.0. The test is applied on a pro-forma basis prior to the Company incurring additional debt, entering into business combinations or acquiring significant assets, or certain other corporate actions. There are no maintenance covenants with respect to the Company's 2020 and 2022 Unsecured Notes.

On October 3, 2016, the Company amended its revolving credit facility (the "Credit Facility") to increase the capacity from \$300.0 million to \$400.0 million. The Credit Facility expires on August 14, 2019. The Credit Facility previously provided the Company with the option to draw an additional \$50.0 million above and beyond the base facility, subject to lender participation, which is not part of the current amended Credit Facility.

The Credit Facility contains various covenants customary for a loan facility of this nature, including limits on indebtedness, asset sales and liens. Net debt is used to calculate leverage for the purpose of covenant tests and pricing levels. The Credit Facility contains two covenant tests, the minimum interest coverage ratio (Adjusted EBITDA to interest) and the maximum leverage ratio (net debt to Adjusted EBITDA), both of which are measured on a rolling four-quarter basis at the end of every quarter.

The Company regularly reviews its expected financial commitments and financial resources to evaluate covenant compliance. In order to provide additional flexibility, during February 2016 and October 2016 the Company amended the Credit Facility to vary the maximum leverage ratio from 3.5 : 1.0. Specifically, during the quarters ending March 31, 2017 and June 30, 2017 the maximum leverage ratio will be 4.5 : 1.0. For the following two quarters, ending September 30, 2017 and December 31, 2017, the maximum leverage ratio will be 4.0 : 1.0. Following that period, the maximum leverage ratio will return to 3.5 : 1.0.

Significant financial covenants are as follows:

		Twelve months ended March 31	
<b>Applicable financial covenant</b>		<b>2017</b>	
<b>FINANCIAL COVENANTS</b>			
Minimum interest coverage ratio (Adjusted EBITDA to interest)	<b>&gt;3.0 : 1</b>	<b>5.7 : 1</b>	
Maximum leverage ratio (net debt to Adjusted EBITDA)	<b>&lt;4.5 : 1</b>	<b>2.1 : 1</b>	

		Twelve months ended December 31	
<b>Applicable financial covenant</b>		<b>2016</b>	
<b>FINANCIAL COVENANTS</b>			
Minimum interest coverage ratio (Adjusted EBITDA to interest)	<b>&gt;3.0 : 1</b>	<b>5.7 : 1</b>	
Maximum leverage ratio (net debt to Adjusted EBITDA)	<b>&lt;3.5 : 1</b>	<b>2.6 : 1</b>	

The interest margin on drawings under the Credit Facility ranges from 1.00% to 3.25% over LIBOR, the Prime Rate or the Base Rate, based on the Company's net debt to Adjusted EBITDA ratio and the currency and type of credit selected by the Company. Based on the Company's net debt to Adjusted EBITDA ratio, the rate is 2.75% over LIBOR as at March 31, 2017. The standby fees on undrawn amounts under the Credit Facility range from 0.45% to 0.73%, depending on the Company's net debt to Adjusted EBITDA ratio. Based on the Company's net debt to Adjusted EBITDA ratio, the rate is 0.62% as at March 31, 2017 (December 31, 2016 – 0.73%).

As at March 31, 2017, the Company has drawn \$100.0 million under the Credit Facility and the Credit Facility has been used to issue letters of credit of \$123.1 million as at March 31, 2017 (at December 31, 2016 - \$122.1 million). No new letters of credit have been issued in the current year, with the increase due to the appreciation of the Canadian and Australian dollars relative to the U.S. dollar. Letters of credit relate to reclamation bonds, worker's compensation security and other financial assurances required with various government agencies. As at March 31, 2017, \$176.9 million remains undrawn from the Credit Facility.

## Liquidity and Cash Flow

As at March 31, 2017, the Company had cash and cash equivalents of \$349.5 million compared to \$185.9 million at December 31, 2016. 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 DBRS or an equivalent rating from Standard & Poor's or Moody's and with maturities of 12 months or less at the original date of acquisition. In addition, the Company is permitted to invest in bankers' acceptances and other evidences of indebtedness of certain financial institutions. Surplus corporate funds are only invested with approved government or bank counterparties.

The Company's liquidity is impacted by several factors which include, but are not limited to, gold and copper market prices, capital expenditures particularly associated with the Rainy River Development project, operating costs, interest rates and foreign exchange rates. These factors are monitored by the Company on a regular basis and will continue to be reviewed.

The Company's cash flows from operating, investing and financing activities, as presented in the unaudited condensed consolidated interim statements of cash flows, are summarized in the following table for the three months ended March 31, 2017:

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	<b>2017</b>	<b>2016</b>
<b>CASH FLOW INFORMATION</b>		
Cash generated from operations	<b>76.8</b>	61.5
Cash used by investing activities (capital expenditures)	<b>(143.7)</b>	(107.4)
Cash generated from (used by) investing activities (sale of El Morro stream and other)	<b>65.5</b>	(1.3)
Cash generated from (used by) financing activities	<b>164.3</b>	(0.3)
Effect of exchange rate changes on cash and cash equivalents	<b>0.7</b>	10.3
Change in cash and cash equivalents	<b>163.6</b>	(37.2)

## Operations

For the three months ended March 31, 2017, the increase in cash generated from operations was primarily due to higher revenue resulting from higher metal prices. Additionally, at December 31, 2016, the Company held an outstanding concentrate receivable of \$21.2 million at New Afton which was collected in January 2017. Although this benefit was partially offset by other less favourable changes in non-cash working capital for the three months ended March 31, 2017, overall, the Company realized more favourable changes in non-cash working capital when compared to the prior-year period.

## Investing Activities

Cash used in investing activities is primarily for the continued capital investment in the Company's operating mines and development projects. Spending was higher than in the prior-year period, with the Company spending \$143.7 million in the first quarter of 2017 compared to \$107.4 million in the prior-year period. In both the current and prior-year period,

investing activities primarily focused on continued project advancement at Rainy River. For the three months March 31, 2017, the Company received \$65.0 million in net proceeds related to the sale of the El Morro stream which was classified as cash generated from investing activities per the unaudited condensed consolidated interim statements of cash flows. Please refer to the “Corporate Developments” section of this MD&A for further information on this transaction.

The following table summarizes the capital expenditures (mining interests per the unaudited condensed consolidated interim statements of cash flows) for the three months ended March 31, 2017 and 2016:

<i>(in millions of U.S. dollars)</i>	Three months ended March 31	
	2017	2016
<b>CAPITAL EXPENDITURES BY SITE</b>		
New Afton	7.7	9.9
Mesquite	1.6	11.5
Peak Mines	5.4	1.7
Cerro San Pedro	0.7	0.2
Rainy River	126.3	82.2
Blackwater	1.8	1.8
Corporate	0.2	0.1
Total Capital Expenditures	143.7	107.4

#### Financing Activities

Cash generated from financing activities was primarily related to the bought deal financing of common shares in March 2017 for net proceeds of \$165.7 million, partially offset by interest paid. Please refer to the “Corporate Developments” section of this MD&A for further information on the bought deal financing transaction.

The Company’s March 31, 2017 cash balance of \$349.5 million, together with the \$176.9 million available for drawdown under the Credit Facility at March 31, 2017 provide the Company with approximately \$527 million of pro-forma liquidity, in addition to the net cash the Company’s operating mines are expected to generate, which will be used to fund the Rainy River capital expenditures. Based on a C\$1.30/US\$ exchange rate, the remaining capital cost from April 1, 2017 to the targeted November commercial production is estimated to be approximately \$389 million. As discussed under the heading “Balance Sheet Review”, the Company has increased the maximum leverage ratio in its Credit Facility in 2016 to provide additional flexibility during the Rainy River construction period.

The net cash generated by operations is highly dependent on metal prices, including gold and copper, as well as other factors, including the Canadian/U.S. dollar exchange rate. To mitigate a portion of this risk, in particular during the Rainy River construction period, New Gold entered into gold price option contracts covering 120,000 ounces of New Gold’s first half of 2017 production. Specifically, New Gold purchased put options with a strike price of US\$1,300 per ounce covering 120,000 ounces of gold and simultaneously sold call options with a strike price of US\$1,400 per ounce covering an equivalent 120,000 ounces. In aggregate, the option contracts provide the Company with a guaranteed floor price of US\$1,300 per ounce while also providing exposure to further increases in the gold price up to US\$1,400 per ounce. As at March 31, 2017, 60,000 ounces of gold remain covered under these contracts for the three-month period between April 2017 and June 2017. In November 2016, the Company entered copper swap contracts for 5.3 million pounds of copper per month from January through June 2017, at a fixed price of \$2.52 per pound settling against the LME monthly average price. As at March 31, 2017, 15.9 million pounds of copper remain covered under these contracts for the three-month period between April 2017 and June 2017. In February 2017, the Company entered into further copper swap contracts for 7.3 million pounds of copper per month from July 2017 through December 2017 at a fixed price of \$2.73 per pound. A decrease

in gold or copper prices or depreciation of the U.S. dollar relative to the Canadian dollar, or, to a lesser extent, the Australian dollar or Mexican peso, could negatively impact the Company's liquidity.

Since the Company's January 30, 2017 news release, in which New Gold estimated a liquidity shortfall of approximately \$100 million required to pay for the Company's normal operating requirements and to bring Rainy River to commercial production on the current schedule, the Company has made solid progress in enhancing its liquidity position. With the sale of the El Morro stream for \$65 million and successful completion of a bought deal financing for net proceeds of approximately \$165 million, both of which occurred in the first quarter, New Gold has enhanced its financial flexibility and is well positioned to complete the development of Rainy River. Assuming the continuation of prevailing commodity prices and exchange rates, operations performing in accordance with mine plans, and successful construction of Rainy River on schedule and on budget, the Company's liquidity position as at March 31, 2017, together with cash flows from operations, are expected to be sufficient to support the Company's normal operating requirements on an ongoing basis and the remaining development capital expenditures at Rainy River.

The Company has outstanding notes in the principal amount of \$300 million maturing in 2020 and \$500 million maturing in 2022. The Company also has \$100 million outstanding under the credit facility, excluding letters of credit. The Company may decide to refinance or restructure the outstanding debt in keeping with the Company's projected liquidity profile. Assuming the continuation of prevailing commodity prices and exchange rates, operations performing in accordance with mine plans, and successful construction of Rainy River on schedule and on budget, the Company will be able to repay indebtedness from internally generated cash flow during the projected life of the operating mines.

Taking into consideration the Company's current cash position, volatile equity markets and foreign exchange rates, global uncertainty in the capital markets and increasing cost pressures, the Company regularly reviews expenditures and assesses business opportunities to enhance liquidity in order to ensure adequate liquidity and flexibility to support its growth strategy, including the development of its projects, while continuing production at its current operations. In addition, the Company regularly evaluates the magnitude and timing of its capital commitments at Rainy River in relation to the Company's current and projected future financial resources, while also taking into account any potential implications for the project's development schedule. Even with the additional flexibility provided by the sale of the El Morro stream, the successful completion of the bought deal financing, and the gold price option contracts, a period of continuous low gold and copper prices may necessitate the deferral of capital expenditures which may impact the timing of development work and project completion, as well as production from mining operations. In such a price environment, the Company may be required to adopt one or more alternatives to increase liquidity. In addition, a sustained significant appreciation of the Canadian dollar relative to the U.S. dollar could impact the timing of the development work and project completion at Rainy River.

## Commitments

The Company has entered into a number of contractual commitments for capital items relating to operations and development. At March 31, 2017 these commitments totalled \$139.1 million, \$118.8 million of which are expected to fall due over the next 12 months. This compares to commitments of \$130.2 million as at December 31, 2016, \$103.2 million of which were expected to fall due in 2017. The increase is due to Rainy River having higher capital purchase commitments at the end of the current period as a result of project advancement when compared to the end of the prior year. Certain contractual commitments may contain cancellation clauses; however, the Company discloses its commitments based on management's intent to fulfill the contracts.

## 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 is 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. If the Company is unable to resolve these disputes favourably, it may have a material adverse impact on our financial condition, cash flow and results of operations.

## Contractual Obligations

The following is a summary of the Company's payments due under contractual obligations:

					As at March 31	As at December 31
	< 1 year	1-3 Years	4-5 Years	After 5 Years	2017 Total	2016 Total
<b>CONTRACTUAL OBLIGATIONS<sup>(1)</sup></b>						
Long-term debt	-	100.0	300.0	500.0	<b>900.0</b>	900.0
Interest payable on long-term debt	30.7	104.5	73.0	31.3	<b>239.5</b>	252.5
Operating lease commitments	0.8	0.2	-	-	<b>1.0</b>	2.6
Capital expenditure commitments	118.8	16.9	3.4	-	<b>139.1</b>	130.2
Reclamation and closure cost obligations	1.2	6.1	4.8	110.0	<b>122.1</b>	105.9
Gold stream obligation	9.9	49.2	46.1	173.8	<b>279.0</b>	277.7
Total contractual obligations	161.4	276.9	427.3	815.1	<b>1,680.7</b>	1,668.9

1. The majority of the Company's contractual obligations consist of long-term debt and interest payable. Long-term debt obligations are comprised of senior unsecured notes issued on April 5, 2012 and November 15, 2012. Refer to the section "Financial Condition Review – Balance Sheet Review – Long-term debt" for further details.

## Related Party Transactions

The Company did not enter into any related party transactions during the three months ended March 31, 2017.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Outstanding Shares

As at April 26, 2017, there were 575,531,632 common shares of the Company outstanding. The Company had 12,631,425 stock options outstanding under its share option plan, exercisable for up to 12,631,425 common shares. In addition, there are warrants outstanding exercisable for up to 27,849,865 common shares.

## NON-GAAP FINANCIAL PERFORMANCE MEASURES

### Total Cash Costs per Gold Ounce

“Total cash costs per gold ounce” is a non-GAAP measure that is a common financial performance measure in the gold mining industry but with no standard meaning under IFRS. New Gold reports total cash costs on a sales basis. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company’s performance and ability to generate liquidity through operating cash flow to fund future capital expenditures and working capital needs. New Gold believes that this measure, along with sales, is a key indicator of a company’s ability to generate operating earnings and cash flow from its mining operations.

Total cash cost figures are calculated in accordance with a standard developed by The Gold Institute, a worldwide association of suppliers of gold and gold products that ceased operations in 2002. Adoption of the standard is voluntary and the cost measures presented may not be comparable to other similarly titled measures of other companies. Total cash costs include mine site operating costs such as mining, processing and administration costs, royalties, production taxes and realized gains and losses on fuel contracts, but are exclusive of amortization, reclamation, capital and exploration costs and net of by-product sales. Total cash costs are then divided by gold ounces sold to arrive at the total cash costs per ounce sold.

The Company produces copper and silver as by-products of its gold production. The calculation of total cash costs per gold ounce for Cerro San Pedro is net of by-product silver sales revenue, and the calculation of total cash costs per gold ounce sold for Peak Mines and New Afton is net of by-product silver and copper sales revenue. New Gold notes that in connection with New Afton, the copper by-product revenue is sufficiently large to result in a negative total cash cost on a single mine basis. Notwithstanding this by-product contribution, as a company focused on gold production, New Gold aims to assess the economic results of its operations in relation to gold, which is the primary driver of New Gold’s business. New Gold believes this metric is of interest to its investors, who invest in the Company primarily as a gold mining company. To determine the relevant costs associated with gold only, New Gold believes it is appropriate to reflect all operating costs, as well as any revenue related to metals other than gold that are extracted in its operations.

To provide additional information to investors, New Gold has also calculated total cash costs on a co-product basis, which removes the impact of other metal sales that are produced as a by-product of gold production and apportions the cash costs to each metal produced on a percentage of revenue basis, and subsequently divides the amount by the total gold ounces, silver ounces or pounds of copper sold, as the case may be, to arrive at per ounce or per pound figures. Unless indicated otherwise, all total cash cost information in this MD&A is net of by-product sales.

Total cash costs are intended to provide additional information only and do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other mining companies. They should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The measure is not necessarily indicative of cash flow from operations under IFRS or operating costs presented under IFRS.

### All-in Sustaining Costs per Gold Ounce

“All-in sustaining costs per gold ounce” is a non-GAAP measure based on guidance announced by the World Gold Council (“WGC”) in June 2013. The WGC is a non-profit association of the world’s leading gold mining companies established in 1987 to promote the use of gold to industry, consumers and investors. The WGC is not a regulatory body and does not have the authority to develop accounting standards or disclosure requirements. The WGC has worked with its member companies, including New Gold, to develop a measure that expands on IFRS measures such as operating expenses and non-GAAP measures to provide visibility into the economics of a gold mining company. Current IFRS measures used in the gold industry, such as operating expenses, do not capture all of the expenditures incurred to discover, develop and sustain

gold production. New Gold believes the all-in sustaining costs measure provides further transparency into costs associated with producing gold and will assist analysts, investors and other stakeholders of the Company in assessing its operating performance, its ability to generate free cash flow from current operations and its overall value.

All-in sustaining costs per gold ounce is intended to provide additional information only and does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other mining companies. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The measure is not necessarily indicative of cash flow from operations under IFRS or operating costs presented under IFRS.

New Gold defines all-in sustaining costs per ounce as the sum of total cash costs, net capital expenditures that are sustaining in nature, corporate general and administrative costs, capitalized and expensed exploration that is sustaining in nature, and environmental reclamation costs, all divided by the total gold ounces sold to arrive at a per ounce figure. To determine sustaining capital expenditures, New Gold uses cash flow related to mining interests from its statement of cash flows and deducts any expenditures that are non-sustaining. Capital expenditures to develop new operations or capital expenditures related to major projects at existing operations where these projects will materially increase production are classified as non-sustaining and are excluded. The table “Sustaining Capital Expenditure Reconciliation” reconciles New Gold’s sustaining capital to its cash flow statement. The definition of sustaining versus non-sustaining is similarly applied to capitalized and expensed exploration costs. Exploration costs to develop new operations or that relate to major projects at existing operations where these projects are expected to materially increase production are classified as non-sustaining and are excluded.

Costs excluded from all-in sustaining costs are non-sustaining capital expenditures and exploration costs, financing costs, tax expense, transaction costs associated with mergers and acquisitions, and any items that are deducted for the purposes of adjusted earnings.

By including total cash costs as a component of all-in sustaining costs, the measure deducts by-product revenue from gross cash costs. Refer to the discussion above regarding total cash costs per gold ounce for the discussion of deduction of by-product revenue.

## Cash Costs and All-in Sustaining Costs (“AISC”) per Ounce Reconciliation Tables

The following tables reconcile these non-GAAP measures to the most directly comparable IFRS measure on an aggregate and mine-by-mine basis.

	Three months ended March 31, 2017			
<i>(in millions of U.S. dollars, except where noted)</i>	Gold	Copper	Silver	Total
<b>CONSOLIDATED OPEX, CASH COST AND AISC RECONCILIATION</b>				
Operating expenses <sup>(1)</sup>	52.8	27.9	2.2	82.9
Units of metal sold (ounces/millions of pounds/millions of ounces)	87,304	23.0	0.3	
Operating expenses per unit of metal sold (\$/ounce or pound)	605	1.21	8.23	
Operating expenses <sup>(1)</sup>	52.8	27.9	2.2	82.9
Treatment and refining charges on concentrate sales	2.9	5.2	0.2	8.3
Adjustments <sup>(2)</sup>	0.1	0.1	-	0.2
Total cash costs	55.8	33.2	2.4	91.4
By-product silver and copper sales				(65.6)
Total cash costs net of by-product revenue				25.8
Units of metal sold (ounces/millions of pounds/millions of ounces)	87,304	23.0	0.3	87,304
Total cash costs on a co-product basis <sup>(3)</sup> (\$/ounce or pound)	639	1.45	8.87	
Total cash costs per gold ounce sold (\$/ounce)				296
Total co-product cash costs	55.8	33.2	2.4	
Total cash costs net of by-product revenue				25.8
Sustaining capital expenditures <sup>(4)</sup>	8.9	4.7	0.4	14.0
Sustaining exploration - expensed	1.2	0.7	0.1	2.0
Corporate G&A including share-based compensation <sup>(5)</sup>	5.4	2.9	0.2	8.5
Reclamation expenses	1.2	0.6	-	1.8
Total co-product all-in sustaining costs	72.5	42.1	3.1	
Total all-in sustaining costs net of by-product revenue				52.1
All-in sustaining costs on a co-product basis <sup>(3)</sup> (\$/ounce or pound)	831	1.83	11.48	
All-in sustaining costs per gold ounce sold (\$/ounce)				597

1. Operating expenses (“Opex”) are apportioned to each metal produced on a percentage of revenue basis.

2. Adjustments include non-cash items related to inventory write-down reversals and social closure costs incurred at Cerro San Pedro that are included in operating expenses.

3. Amounts presented on a co-product basis remove the impact of other metal sales that are produced as a by-product of our gold production and apportion the cash costs to each metal produced on a percentage of revenue basis.

4. See “Total Sustaining Capital Expenditure Reconciliation” below to reconcile sustaining capital expenditures to mining interests per the statement of cash flows.

5. Includes the sum of corporate administration costs and share-based payment expense per the income statement, net of any non-cash depreciation within those figures.

Three months ended March 31, 2016

<i>(in millions of U.S. dollars, except where noted)</i>	<b>Gold</b>	<b>Copper</b>	<b>Silver</b>	<b>Total</b>
<b>CONSOLIDATED OPEX, CASH COST AND AISC RECONCILIATION</b>				
Operating expenses <sup>(1)</sup>	52.1	27.1	2.7	81.9
Units of metal sold (ounces/millions of pounds/millions of ounces)	86,031	25.3	0.4	
Operating expenses per unit of metal sold (\$/ounce or pound)	606	1.07	7.39	
Operating expenses <sup>(1)</sup>	52.1	27.1	2.7	81.9
Treatment and refining charges on concentrate sales	3.5	5.0	0.1	8.6
Adjustments <sup>(2)</sup>	(0.5)	(0.3)	-	(0.8)
Total cash costs	55.1	31.8	2.8	89.7
By-product silver and copper sales				(59.4)
Total cash costs net of by-product revenue				30.3
Units of metal sold (ounces/millions of pounds/millions of ounces)	86,031	25.3	0.4	86,031
Total cash costs on a co-product basis <sup>(3)</sup> (\$/ounce or pound)	641	1.26	7.58	
Total cash costs per gold ounce sold (\$/ounce)				354
Total co-product cash costs	55.1	31.8	2.8	
Total cash costs net of by-product revenue				30.3
Sustaining capital expenditures <sup>(4)</sup>	14.3	7.4	0.7	22.4
Sustaining exploration - expensed	1.3	0.8	0.1	2.2
Corporate G&A including share-based compensation <sup>(5)</sup>	5.5	2.9	0.3	8.7
Reclamation expenses	0.9	0.4	-	1.3
Total co-product all-in sustaining costs	77.1	43.3	3.9	
Total all-in sustaining costs net of by-product revenue				64.9
All-in sustaining costs on a co-product basis <sup>(3)</sup> (\$/ounce or pound)	898	1.72	10.72	
All-in sustaining costs per gold ounce sold (\$/ounce)				758

1. Operating expenses are apportioned to each metal produced on a percentage of revenue basis.

2. Adjustments include non-cash items related to inventory write-downs, the amortization of Mesquite's Purchase Price Allocation ("PPA") associated with royalties and social closure costs incurred at Cerro San Pedro that are included in operating expenses.

3. Amounts presented on a co-product basis remove the impact of other metal sales that are produced as a by-product of our gold production and apportion the cash costs to each metal produced on a percentage of revenue basis.

4. See "Total Sustaining Capital Expenditure Reconciliation" below to reconcile sustaining capital expenditures to mining interests per the statement of cash flows.

5. Includes the sum of corporate administration costs and share-based payment expense per the income statement, net of any non-cash depreciation within those figures.

Three months ended March 31, 2017

<i>(in millions of U.S. dollars, except where noted)</i>	<b>Gold</b>	<b>Copper</b>	<b>Silver</b>	<b>Total</b>
<b>NEW AFTON OPEX, CASH COSTS AND AISC RECONCILIATION</b>				
Operating expenses <sup>(1)</sup>	9.6	18.2	0.4	28.2
Units of metal sold (ounces/millions of pounds/millions of ounces)	20,716	19.9	0.1	
Operating expenses per unit of metal sold (\$/ounce or pound)	458	0.92	6.30	
Operating expenses	9.6	18.2	0.4	28.2
Treatment and refining charges on concentrate sales	2.3	4.4	0.1	6.8
Total cash costs	11.9	22.6	0.5	35.0
By-product silver and copper sales				(52.1)
Total cash costs net of by-product revenue				(17.1)
Units of metal sold (ounces/millions of pounds/millions of ounces)	20,716	19.9	0.1	20,716
Total cash costs on a co-product basis <sup>(2)</sup> (\$/ounce or pound)	569	1.14	7.83	
Total cash costs per gold ounce sold (\$/ounce)				(829)
Total co-product cash costs	11.9	22.6	0.5	
Total cash costs net of by-product revenue				(17.1)
Sustaining capital expenditures <sup>(3)</sup>	2.2	4.2	0.1	6.5
Reclamation expenses	0.1	0.1	-	0.2
Total co-product all-in sustaining costs	14.2	26.9	0.6	
Total all-in sustaining costs net of by-product revenue				(10.4)
All-in sustaining costs on a co-product basis <sup>(2)</sup> (\$/ounce or pound)	679	1.36	9.33	
All-in sustaining costs per gold ounce sold (\$/ounce)				(505)

1. Operating expenses are apportioned to each metal produced on a percentage of revenue basis.

2. Amounts presented on a co-product basis remove the impact of other metal sales that are produced as a by-product of our gold production and apportions the cash costs to each metal produced on a percentage of revenue basis.

3. See "New Afton Sustaining Capital Expenditure Reconciliation" below to reconcile sustaining capital expenditures to mining interests per the statement of cash flows.

Three months ended March 31, 2016

<i>(in millions of U.S. dollars, except where noted)</i>	<b>Gold</b>	<b>Copper</b>	<b>Silver</b>	<b>Total</b>
<b>NEW AFTON OPEX, CASH COSTS AND AISC RECONCILIATION</b>				
Operating expenses <sup>(1)</sup>	9.4	14.7	0.3	24.4
Units of metal sold (ounces/millions of pounds/millions of ounces)	25,131	22.0	0.1	
Operating expenses per unit of metal sold (\$/ounce or pound)	374	0.67	4.62	
Operating expenses	9.4	14.7	0.3	24.4
Treatment and refining charges on concentrate sales	2.9	4.4	0.1	7.4
Total cash costs	12.3	19.1	0.4	31.8
By-product silver and copper sales				(47.9)
Total cash costs net of by-product revenue				(16.1)
Units of metal sold (ounces/millions of pounds/millions of ounces)	25,131	22.0	0.1	25,131
Total cash costs on a co-product basis <sup>(2)</sup> (\$/ounce or pound)	487	0.87	6.02	
Total cash costs per gold ounce sold (\$/ounce)				(641)
Total co-product cash costs	12.3	19.1	0.4	
Total cash costs net of by-product revenue				(16.1)
Sustaining capital expenditures <sup>(3)</sup>	3.5	5.3	0.1	8.9
Sustaining exploration - expensed	0.1	0.1	-	0.2
Reclamation expenses	0.1	0.2	-	0.3
Total co-product all-in sustaining costs	16.0	24.7	0.5	
Total all-in sustaining costs net of by-product revenue				(6.7)
All-in sustaining costs on a co-product basis <sup>(2)</sup> (\$/ounce or pound)	631	1.12	7.80	
All-in sustaining costs per gold ounce sold (\$/ounce)				(268)

1. Operating expenses are apportioned to each metal produced on a percentage of revenue basis.

2. Amounts presented on a co-product basis remove the impact of other metal sales that are produced as a by-product of our gold production and apportions the cash costs to each metal produced on a percentage of revenue basis.

3. See "New Afton Sustaining Capital Expenditure Reconciliation" below to reconcile sustaining capital expenditures to mining interests per the statement of cash flows.

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	<b>2017</b>	<b>2016</b>
<b>MESQUITE OPEX, CASH COSTS AND AISC RECONCILIATION</b>		
Operating expenses	<b>20.2</b>	15.3
Gold ounces sold	<b>29,153</b>	24,929
Operating expenses per gold ounce sold	<b>695</b>	616
Operating expenses	<b>20.2</b>	15.3
Adjustments <sup>(1)</sup>	-	0.2
Total cash costs	<b>20.2</b>	15.5
Gold ounces sold	<b>29,153</b>	24,929
Total cash costs per gold ounce sold (\$/ounce)	<b>695</b>	626
Total cash costs	<b>20.2</b>	15.5
Sustaining capital expenditures <sup>(2)</sup>	<b>1.6</b>	11.5
Sustaining exploration - expensed	-	-
Reclamation expenses	<b>0.4</b>	0.4
Total all-in sustaining costs	<b>22.2</b>	27.4
All-in sustaining costs per gold ounce sold (\$/ounce)	<b>765</b>	1,101

1. Adjustments include the amortization of Mesquite's Purchase Price Allocation ("PPA") associated with royalties.

2. See "Total Sustaining Capital Expenditure Reconciliation" below to reconcile sustaining capital expenditures to mining interests per the statement of cash flows.

Three months ended March 31, 2017

<i>(in millions of U.S. dollars, except where noted)</i>	Gold	Copper	Silver	Total
<b>PEAK MINES OPEX, CASH COSTS AND AISC RECONCILIATION</b>				
Operating expenses <sup>(1)</sup>	16.3	3.8	0.4	20.5
Units of metal sold (ounces/millions of pounds/millions of ounces)	27,391	3.1	0.1	
Operating expenses per unit of metal sold (\$/ounce or pound)	596	1.22	7.96	
Operating expenses	16.3	3.8	0.4	20.5
Treatment and refining charges on concentrate sales	0.6	0.8	0.1	1.5
Adjustments <sup>(2)</sup>	0.4	0.1	-	0.5
Total cash costs	17.3	4.7	0.5	22.5
By-product silver and copper sales				(10.7)
Total cash costs net of by-product revenue				11.8
Units of metal sold (ounces/millions of pounds/millions of ounces)	27,391	3.1	0.1	27,391
Total cash costs on a co-product basis <sup>(3)</sup> (\$/ounce or pound)	630	1.51	9.69	
Total cash costs per gold ounce sold (\$/ounce)				427
Total co-product cash costs	17.3	4.7	0.5	
Total cash costs net of by-product revenue				11.8
Sustaining capital expenditures <sup>(4)</sup>	4.1	0.9	0.1	5.1
Sustaining exploration - expensed	1.2	0.3	-	1.5
Reclamation expenses	0.2	-	-	0.2
Total co-product all-in sustaining costs	22.8	5.9	0.6	
Total all-in sustaining costs net of by-product revenue				18.6
All-in sustaining costs on a co-product basis <sup>(3)</sup> (\$/ounce or pound)	828	1.91	12.32	
All-in sustaining costs per gold ounce sold (\$/ounce)				674

1. Operating expenses are apportioned to each metal produced on a percentage of revenue basis.

2. Adjustments include non-cash items related to inventory write-down reversals.

3. Amounts presented on a co-product basis remove the impact of other metal sales that are produced as a by-product of our gold production and apportions the cash costs to each metal produced on a percentage of revenue basis.

4. See "Total Sustaining Capital Expenditure Reconciliation" below to reconcile sustaining capital expenditures to mining interests per the statement of cash flows.

Three months ended March 31, 2016

<i>(in millions of U.S. dollars, except where noted)</i>	<b>Gold</b>	<b>Copper</b>	<b>Silver</b>	<b>Total</b>
<b>PEAK MINES OPEX, CASH COSTS AND AISC RECONCILIATION</b>				
Operating expenses <sup>(1)</sup>	14.9	5.0	0.3	20.2
Units of metal sold (ounces/millions of pounds/millions of ounces)	17,149	3.3	0.1	
Operating expenses per unit of metal sold (\$/ounce or pound)	870	1.53	9.80	
Operating expenses	14.9	5.0	0.3	20.2
Treatment and refining charges on concentrate sales	0.7	0.5	-	1.2
Adjustments <sup>(2)</sup>	(0.4)	(0.1)	-	(0.5)
Total cash costs	15.2	5.4	0.3	20.9
By-product silver and copper sales				(7.5)
Total cash costs net of by-product revenue				13.4
Units of metal sold (ounces/millions of pounds/millions of ounces)	17,149	3.3	0.1	17,149
Total cash costs on a co-product basis <sup>(3)</sup> (\$/ounce or pound)	887	1.67	9.54	
Total cash costs per gold ounce sold (\$/ounce)				780
Total co-product cash costs	15.2	5.4	0.3	
Total cash costs net of by-product revenue				13.4
Sustaining capital expenditures <sup>(4)</sup>	1.3	0.4	-	1.7
Sustaining exploration - expensed	1.5	0.5	-	2.1
Reclamation expenses	0.3	0.1	-	0.4
Total co-product all-in sustaining costs	18.3	6.4	0.4	
Total all-in sustaining costs net of by-product revenue				17.6
All-in sustaining costs on a co-product basis <sup>(3)</sup> (\$/ounce or pound)	1,068	1.98	11.56	
All-in sustaining costs per gold ounce sold (\$/ounce)				1,024

1. Operating expenses are apportioned to each metal produced on a percentage of revenue basis.

2. Adjustments include non-cash items related to inventory write-downs.

3. Amounts presented on a co-product basis remove the impact of other metal sales that are produced as a by-product of our gold production and apportions the cash costs to each metal produced on a percentage of revenue basis.

4. See "Total Sustaining Capital Expenditure Reconciliation" below to reconcile sustaining capital expenditures to mining interests per the statement of cash flows.

	Three months ended March 31, 2017			Three months ended March 31, 2016		
<i>(in millions of U.S. dollars, except where noted)</i>	Gold	Silver	Total	Gold	Silver	Total
<b>CERRO SAN PEDRO OPEX, CASH COSTS AND AISC RECONCILIATION</b>						
Operating expenses <sup>(1)</sup>	11.5	2.5	14.0	18.7	3.3	22.0
Units of metal sold (ounces/millions of ounces)	10,044	0.2		18,822	0.3	
Operating expenses per unit of metal sold (\$/ounce)	1,150	15.84		993	12.38	
Operating expenses <sup>(1)</sup>	11.5	2.5	14.0	18.7	3.3	22.0
Adjustments <sup>(2)</sup>	(0.2)	-	(0.2)	(0.4)	(0.1)	(0.5)
Total cash costs	11.3	2.5	13.8	18.3	3.2	21.5
By-product silver and copper sales			(2.8)			(3.9)
Total cash costs net of by-product revenue			11.0			17.6
Units of metal sold (ounces/millions of ounces)	10,044	0.2	10,044	18,822	0.3	18,822
Total cash costs on a co-product basis <sup>(3)</sup> (\$/ounce)	1,129	15.55		972	12.11	
Total cash costs per gold ounce sold (\$/ounce)			1,099			934
Total co-product cash costs	11.3	2.5		18.3	3.2	
Total cash costs net of by-product revenue			11.0			17.6
Sustaining capital expenditures <sup>(4)</sup>	0.6	0.1	0.7	0.2	-	0.2
Reclamation expenses	0.8	0.2	1.0	0.2	-	0.2
Total co-product all-in sustaining costs	12.7	2.8		18.7	3.2	
Total all-in sustaining costs net of by-product revenue			12.7			18.0
All-in sustaining costs on a co-product basis <sup>(3)</sup> (\$/ounce)	1,258	17.33		987	12.31	
All-in sustaining costs per gold ounce sold (\$/ounce)			1,255			952

1. Operating expenses are apportioned to each metal produced on a percentage of revenue basis.

2. Adjustments include social closure costs that are included in operating expenses.

3. Amounts presented on a co-product basis remove the impact of other metal sales that are produced as a by-product of our gold production and apportion the cash costs to each metal produced on a percentage of revenue basis.

4. See "Cerro San Pedro Sustaining Capital Expenditure Reconciliation" below to reconcile sustaining capital expenditures to mining interests per the statement of cash flows.

## Sustaining Capital Expenditures Reconciliation Tables

	Three months ended March 31	
(in millions of U.S. dollars, except where noted)	2017	2016
<b>TOTAL SUSTAINING CAPITAL EXPENDITURES</b>		
Mining interests per statement of cash flows	143.7	107.4
New Afton growth capital expenditure <sup>(1)</sup>	(1.2)	(1.0)
Peak growth capital expenditure <sup>(1)</sup>	(0.3)	-
Rainy River growth capital expenditure	(126.3)	(82.2)
Blackwater growth capital expenditure	(1.9)	(1.8)
Total sustaining capital expenditures	14.0	22.4

1. Growth capital expenditures at New Afton in the current period and prior-year period relate to exploration for the C-zone. Growth capital expenditures at Peak Mines in the current period relate to capitalized exploration activities at Great Cobar.

	Three months ended March 31	
(in millions of U.S. dollars, except where noted)	2017	2016
<b>NEW AFTON SUSTAINING CAPITAL EXPENDITURES</b>		
Capital expenditure per segmented information	7.7	9.9
New Afton growth capital expenditure <sup>(1)</sup>	(1.2)	(1.0)
New Afton sustaining capital expenditures	6.5	8.9

1. Growth capital expenditures at New Afton in the current period and prior-year period relate to exploration for the C-zone.

	Three months ended March 31	
(in millions of U.S. dollars, except where noted)	2017	2016
<b>PEAK SUSTAINING CAPITAL EXPENDITURES</b>		
Capital expenditure per segmented information	5.4	1.7
Peak growth capital expenditure <sup>(1)</sup>	(0.3)	-
Peak sustaining capital expenditures	5.1	1.7

1. Growth capital expenditures at Peak Mines in the current period relate to capitalized exploration activities at Great Cobar.

## Adjusted Net Earnings and Adjusted Net Earnings per Share

“Adjusted net earnings” and “adjusted net earnings per share” are non-GAAP financial measures with no standard meaning under IFRS which exclude the following from net earnings:

- Impairment losses;
- Inventory write-downs;
- Items included in “Other gains and losses” as per Note 3 of the Company’s unaudited condensed consolidated interim financial statements; and
- Certain non-recurring items.

Net earnings have been adjusted, including the associated tax impact, for the group of costs in “Other gains and losses” on the audited consolidated income statements. Key entries in this grouping are: the fair value changes for the gold stream obligation; share purchase warrants and the gold option contracts; foreign exchange gain or loss; and loss on disposal of assets. Other adjustments to net earnings also include inventory write downs. The adjusted entries are also impacted for tax to the extent that the underlying entries are impacted for tax in the unadjusted net earnings.

The Company uses adjusted net earnings for its own internal purposes. Management’s internal budgets and forecasts and public guidance do not reflect the items which have been excluded from the determination of adjusted net earnings.

Consequently, the presentation of adjusted net earnings enables shareholders to better understand the underlying operating performance of our core mining business through the eyes of management. Management periodically evaluates the components of adjusted net earnings based on an internal assessment of performance measures that are useful for evaluating the operating performance of our business and a review of the non-GAAP measures used by mining industry analysts and other mining companies.

Adjusted net earnings is intended to provide additional information only and does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The measure is not necessarily indicative of operating profit or cash flows from operations as determined under IFRS. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure.

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>ADJUSTED NET EARNINGS RECONCILIATION</b>		
Net earnings before taxes <sup>(2)</sup>	39.8	17.7
Other (gains) losses <sup>(1)</sup>	(23.8)	(21.6)
Inventory write-down	(0.5)	0.7
Adjusted net earnings (loss) before taxes <sup>(2)</sup>	15.5	(3.2)
Income tax (expense) recovery <sup>(2)</sup>	(2.3)	7.9
Income tax adjustments	(3.8)	(6.2)
Adjusted income tax (expense) recovery <sup>(2)</sup>	(6.1)	1.7
Adjusted net earnings (loss) <sup>(2)</sup>	9.4	(1.5)
Adjusted earnings (loss) per share (basic and diluted) <sup>(2)</sup>	0.02	\$nil
Adjusted effective tax rate <sup>(2)</sup>	39%	53%

1. Please refer to Note 3 of the Company's unaudited condensed consolidated interim financial statements for a detailed breakdown of other gains and losses.
2. Prior-year period comparatives have been revised. Please refer to the "Key Quarterly Operating and Financial Information" section of this MD&A for further information.

## Cash Generated from Operations, before Changes in Non-Cash Operating Working Capital

"Cash generated from operations, before changes in non-cash operating working capital" is a non-GAAP financial measure with no standard meaning under IFRS, which excludes changes in non-cash operating working capital. Management uses this measure to evaluate the Company's ability to generate cash from its operations before temporary working capital changes.

Cash generated from operations, before non-cash changes in working capital is intended to provide additional information only and does not have any standardized meaning under IFRS; it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Other companies may calculate this measure differently and this measure is unlikely to be comparable to similar measures presented by other companies.

	Three months ended March 31	
<i>(in millions of U.S. dollars)</i>	2017	2016
<b>CASH RECONCILIATION</b>		
Cash generated from operations	76.8	61.5
Add back (deduct): Change in non-cash operating working capital	(7.4)	0.6
Cash generated from operations before changes in non-cash operating working capital	69.4	62.1

## Operating Margin

“Operating margin” is a non-GAAP financial measure with no standard meaning under IFRS, which management uses to evaluate the Company’s aggregated and mine-by-mine contribution to net earnings before non-cash depreciation and depletion charges. Operating margin is calculated as revenue less operating expenses and therefore does not include depreciation and depletion. Operating margin is intended to provide additional information only and does not have any standardized meaning under IFRS; it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Other companies may calculate this measure differently and this measure is unlikely to be comparable to similar measures presented by other companies. The following tables reconcile this non-GAAP measure to the most directly comparable IFRS measure on an aggregated and mine-by-mine basis.

### Operating Margin Reconciliation Tables

	Three months ended March 31	
<i>(in millions of U.S. dollars)</i>	2017	2016
<b>TOTAL OPERATING MARGIN</b>		
Revenue	169.5	154.5
Less: Operating expenses	(82.9)	(81.9)
Total operating margin	86.6	72.6

	Three months ended March 31	
<i>(in millions of U.S. dollars)</i>	2017	2016
<b>NEW AFTON OPERATING MARGIN</b>		
Revenue	71.8	70.6
Less: Operating expenses	(28.2)	(24.4)
New Afton operating margin	43.6	46.2

	Three months ended March 31	
<i>(in millions of U.S. dollars)</i>	2017	2016
<b>MESQUITE OPERATING MARGIN</b>		
Revenue	37.2	30.0
Less: Operating expenses	(20.2)	(15.3)
Mesquite operating margin	17.0	14.7

	Three months ended March 31	
<i>(in millions of U.S. dollars)</i>	2017	2016
<b>PEAK MINES OPERATING MARGIN</b>		
Revenue	45.0	27.7
Less: Operating expenses	(20.5)	(20.2)
Peak Mines operating margin	24.5	7.5

	Three months ended March 31	
<i>(in millions of U.S. dollars)</i>	2017	2016
<b>CERRO SAN PEDRO OPERATING MARGIN</b>		
Revenue	15.5	26.2
Less: Operating expenses	(14.0)	(22.0)
Cerro San Pedro operating margin	1.5	4.2

## Average Realized Price

“Average realized price per ounce of gold sold” is a non-GAAP financial measure with no standard meaning under IFRS. Management uses this measure to better understand the price realized in each reporting period for gold sales. Average realized price is intended to provide additional information only and does not have any standardized meaning under IFRS; it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Other companies may calculate this measure differently and this measure is unlikely to be comparable to similar measures presented by other companies. The following tables reconcile this non-GAAP measure to the most directly comparable IFRS measure on an aggregate and mine-by-mine basis.

### Average Realized Price Reconciliation Tables

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>TOTAL AVERAGE REALIZED PRICE</b>		
Revenue from gold sales	109.1	100.3
Treatment and refining charges on gold concentrate sales	2.9	3.5
Gross revenue from gold sales	112.0	103.8
Gold ounces sold	87,304	86,031
Total average realized price per gold ounce sold (\$/ounce)	1,286	1,206

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>NEW AFTON AVERAGE REALIZED PRICE</b>		
Revenue from gold sales	24.2	27.2
Treatment and refining charges on gold concentrate sales	2.3	2.8
Gross revenue from gold sales	26.5	30.0
Gold ounces sold	20,716	25,131
New Afton average realized price per gold ounce sold (\$/ounce)	1,282	1,196

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>MESQUITE AVERAGE REALIZED PRICE</b>		
Revenue from gold sales	37.2	30.0
Gold ounces sold	29,153	24,929
Mesquite average realized price per gold ounce sold (\$/ounce)	1,274	1,202

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>PEAK MINES AVERAGE REALIZED PRICE</b>		
Revenue from gold sales	35.0	20.8
Treatment and refining charges on gold concentrate sales	0.6	0.7
Gross revenue from gold sales	35.6	21.5
Gold ounces sold	27,391	17,149
Peak Mines average realized price per gold ounce sold (\$/ounce)	1,306	1,250

	Three months ended March 31	
<i>(in millions of U.S. dollars, except where noted)</i>	2017	2016
<b>CERRO SAN PEDRO AVERAGE REALIZED PRICE</b>		
Revenue from gold sales	12.7	22.3
Gold ounces sold	10,044	18,822
Cerro San Pedro average realized price per gold ounce sold (\$/ounce)	1,268	1,185

## ENTERPRISE RISK MANAGEMENT AND RISK FACTORS

The Company is subject to various financial and other risks that could materially adversely affect the Company's future business, operations and financial condition. The following is a summary of certain risks facing the Company. For a more comprehensive discussion of these and other risks facing Company, please refer to the section entitled "Risk Factors" in the Company's most recent Annual Information Form and the section entitled "Enterprise Risk Management" in the Company's Management's Discussion and Analysis for the year ended December 31, 2016, both filed on SEDAR at [www.sedar.com](http://www.sedar.com). There were no significant changes to those risks or to the Company's management of exposure to those risks during the three months ended March 31, 2017, except as noted below:

### *Metal price risk*

The Company's earnings, cash flows and financial condition are subject to risk due to fluctuations in the market price of gold, copper and silver.

For the three months ended March 31, 2017, the Company's revenues and cash flows were impacted by gold prices in the range of \$1,151 to \$1,258 per ounce, and by copper prices in the range of \$2.49 to \$2.79 per pound. Low metal prices could cause continued development of, and commercial production from, the Company's properties to be uneconomic. In addition, there is a time lag between the shipment of gold and copper and final pricing, and changes in pricing can impact the Company's revenue and working capital position. As at March 31, 2017, working capital includes unpriced gold and copper concentrate receivables totalling 6,400 ounces of gold and 2.5 million pounds of copper relating to the Peak Mines and New Afton not offset by copper swap contracts.

The Company's exposure to changes in gold prices has been significantly reduced during the current year and during the first six months of 2017 as the Company has entered into gold price option contracts (whereby it sold a series of call option contracts and purchased a series of put option contracts) to reduce exposure to changes in gold prices.

The details of the remaining contracts are as follows as at March 31, 2017:

	Quantity outstanding	Remaining term	Exercise price (\$)	Fair value - asset (liability) <sup>(1)</sup>
<b>GOLD OPTION CONTRACTS OUTSTANDING</b>				
Gold call contracts - sold	60,000 oz	April – June 2017	1,400	(0.1)
Gold put contracts - purchased	60,000 oz	April – June 2017	1,300	3.4

1. The Company presents the fair value of its put and call options on a net basis on the condensed consolidated statements of financial position. The Company has a legally enforceable right to set off the amounts under its options contracts and intends to settle on a net basis. The 2017 contracts cover 20,000 ounces of gold per month.

A \$100 change in the gold price per ounce would have an impact of \$0.6 million on the Company's working capital position. A \$0.10 change in the copper price per pound would have an impact of \$0.3 million on the Company's working capital position.

An increase in gold, copper and silver prices would increase the Company's net earnings whereas an increase in fuel or share unit vesting prices would decrease the Company's net earnings. A 10% change in commodity prices would impact the Company's net earnings (loss) before taxes and other comprehensive income (loss) before taxes as follows:

	Three months ended March 31		Three months ended March 31	
	2017 Net Earnings (Loss)	2017 Other Comprehensive Income (Loss)	2016 Net Earnings (Loss)	2016 Other Comprehensive Income (Loss)
<i>(in millions of U.S. dollars, except where noted)</i>				
<b>IMPACT OF 10% CHANGE IN COMMODITY PRICES</b>				
Gold price	11.2	-	10.4	-
Copper price	5.9	-	5.4	-
Silver price	0.3	-	0.4	-

## CRITICAL JUDGMENTS AND ESTIMATION UNCERTAINTIES

The preparation of the Company's consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about the future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values are described in the Company's audited consolidated financial statements for the year ended December 31, 2016 and have been consistently applied in the preparation of the unaudited condensed consolidated interim financial statements.

## ACCOUNTING POLICIES

The Company's significant accounting policies and future changes in accounting policies are presented in the audited consolidated financial statements for the year ended December 31, 2016 and have been consistently applied in the preparation of the unaudited condensed consolidated interim financial statements.

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

The Company's management, with the participation of and under the supervision of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") and in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, as at and for the year ended December 31, 2016. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as at and for the year ended December 31, 2016, 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.

### Internal Controls over Financial Reporting

New Gold's management, with the participation of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal controls over financial reporting. Internal controls over financial reporting 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 International Financial Reporting Standards. New Gold's management assessed the effectiveness of the Company's internal controls over financial reporting as at and for the year ended December 31, 2016 based on the 2013 updated Committee of Sponsoring Organization of the Treadway Commission ("COSO") and has concluded that New Gold's internal controls over financial reporting are effective as at and for the year ended December 31, 2016.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 has been audited by Deloitte LLP, the Company's independent registered public accounting firm, as stated in their report immediately preceding the Company's audited consolidated financial statements for the year ended December 31, 2016.

### Limitations of Controls and Procedures

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. Due to the inherent limitations of 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.

### Changes in Internal Controls 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 controls over financial reporting during the period covered by this MD&A.

## CAUTIONARY NOTES

### Cautionary Note to U.S. Readers Concerning Estimates of Mineral Reserves and 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 MD&A are Canadian mining terms as defined in the CIM Definition Standards for Mineral Resources and Mineral Reserves adopted by the CIM Council on May 10, 2014 and incorporated by reference in National Instrument 43-101 (“NI 43-101”). While the terms “Mineral Resource”, “Measured Mineral Resource”, “Indicated Mineral Resource” and “Inferred Mineral Resource” are recognized and required by Canadian securities regulations, they are not defined terms under standards of the United States Securities and Exchange Commission. As such, certain information contained in this MD&A 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. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies. It cannot be assumed that all or any part of an “Inferred Mineral Resource” will ever be upgraded to a higher confidence category through additional exploration drilling and technical evaluation. Readers are cautioned not to assume that all or any part of an “Inferred Mineral Resource” exists or is economically or legally mineable.

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 estimation is made. Readers are cautioned not to assume that all or any part of the Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. 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.

### Cautionary Note Regarding Forward-Looking Statements

Certain information contained in this MD&A, including any information relating to New Gold’s future financial or operating performance are “forward looking”. All statements in this MD&A, other than statements of historical fact, which address events, results, outcomes 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 use of forward-looking terminology such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “targeted”, “estimates”, “forecasts”, “intends”, “anticipates”, “projects”, “potential”, “believes” or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will be taken”, “occur” or “be achieved” or the negative connotation of such terms. Forward-looking statements in this MD&A include those under the heading “Outlook for 2017” and “Development and Exploration Review” include, among others, statements with respect to: guidance for production, operating expenses per gold ounce sold, total cash costs and all-in sustaining costs, and the factors contributing to those expected results, as well as expected capital expenditures; Mineral Reserve and Mineral Resource estimates; grades expected to be mined at the Company’s operations; the expected production, costs, economics and operating parameters of Rainy River, Blackwater and New Afton C-zone; planned activities for 2017 and beyond at the Company’s operations and projects, as well as planned exploration activities and expenses; expected permitting and development activities for Blackwater and the New Afton C-zone; planned preparations for operations at the Rainy River project, including the mining rate, removal of overburden and waste and storage of water prior to commissioning and timing expectations regarding the receipt of the Schedule 2 Amendment (defined below); the expected

capital costs and contingency amounts as well as production, costs, economics, grade and other operating parameters of the Rainy River project; the capacity of the starter dam at the Rainy River project; and targeted timing for permits and development activities, commissioning, start-up and production for the Rainy River project.

All forward-looking statements in this MD&A 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. Certain material assumptions regarding such forward-looking statements are discussed in this MD&A, New Gold's Annual Information Form and its Technical Reports filed on SEDAR at [www.sedar.com](http://www.sedar.com). In addition to, and subject to, such assumptions discussed in more detail elsewhere, the forward-looking statements in this MD&A are also subject to the following assumptions: (1) there being no significant disruptions affecting New Gold's operations; (2) political and legal developments in jurisdictions where New Gold operates, or may in the future operate, being consistent with New Gold's current expectations; (3) the accuracy of New Gold's current Mineral Reserve and Mineral Resource estimates; (4) the exchange rate between the Canadian dollar, Australian dollar, Mexican peso and U.S. dollar being approximately consistent with current levels; (5) prices for diesel, natural gas, fuel oil, electricity and other key supplies being approximately consistent with current levels; (6) equipment, labour and material costs increasing on a basis consistent with New Gold's current expectations; (7) arrangements with First Nations and other Aboriginal groups in respect of Rainy River and Blackwater being consistent with New Gold's current expectations; (8) all required permits, licenses and authorizations being obtained from the relevant governments and other relevant stakeholders within the expected timelines; (9) the results of the feasibility studies for Rainy River, the New Afton C-zone and Blackwater being realized; and (10) in the case of production, cost and expenditure outlooks at operating mines for 2017, commodity prices and exchange rates being consistent with those estimated for the purposes of 2017 guidance.

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 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 and the availability and management of capital resources; additional funding requirements; price volatility in the spot and forward markets for metals and other commodities; fluctuations in the international currency markets and in the rates of exchange of the currencies of Canada, the United States, Australia and Mexico; discrepancies between actual and estimated production, between actual and estimated Mineral Reserves and Mineral Resources and between actual and estimated metallurgical recoveries; changes in national and local government legislation in Canada, the United States, Australia and Mexico 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 in which New Gold operates, including, but not limited to: in Canada, obtaining the necessary permits for Rainy River, New Afton C-zone and Blackwater; and in Mexico, where Cerro San Pedro has a history of ongoing legal challenges related to our environmental authorization; the lack of certainty with respect to 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 New Gold is or may become a party to; diminishing quantities or grades of Mineral Reserves and Mineral Resources; competition; loss of key employees; rising costs of labour, supplies, fuel and equipment; actual results of current exploration or reclamation activities; uncertainties inherent to mining economic studies including the feasibility studies for Rainy River, New Afton C-zone and Blackwater; the uncertainty with respect to prevailing market conditions necessary for a positive development or construction decision at Blackwater; 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; unexpected delays and costs inherent to consulting and accommodating rights of First Nations and other Aboriginal groups; uncertainties and unanticipated delays associated with obtaining and maintaining

necessary licenses, permits and authorizations and complying with permitting requirements, including those associated with the environmental assessment process for Blackwater. In addition, there are risks and hazards associated with the business of mineral exploration, development and mining, including environmental events and 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 "Risk Factors" included in New Gold's disclosure documents filed on and available on SEDAR at [www.sedar.com](http://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 MD&A 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.

### Technical Information

The scientific and technical information relating to the construction of and expected operations at New Gold's Rainy River project contained herein has been reviewed and approved by Binsar Sirait, Director, Mine Engineering of New Gold. The scientific and technical information relating to Mineral Resources and exploration contained herein has been reviewed and approved by Mark A. Petersen, Vice President, Exploration of New Gold. Mr. Sirait is a Professional Engineer and a SME Registered Member. Mr. Petersen is a SME Registered Member, AIPG Certified Professional Geologist. Mr. Sirait and Mr. Petersen are "Qualified Persons" for the purposes of NI 43-101.

The estimates of Mineral Reserves and Mineral Resources discussed in this MD&A may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing and other relevant issues. New Gold's current Annual Information Form and the NI 43-101 Technical Reports for its mineral properties, all of which are available on SEDAR at [www.sedar.com](http://www.sedar.com), contain further details regarding Mineral Reserve and Mineral Resource estimates, classification and reporting parameters, key assumptions and associated risks for each of New Gold's mineral properties, including a breakdown by category.