

Growth Stocks Weekly

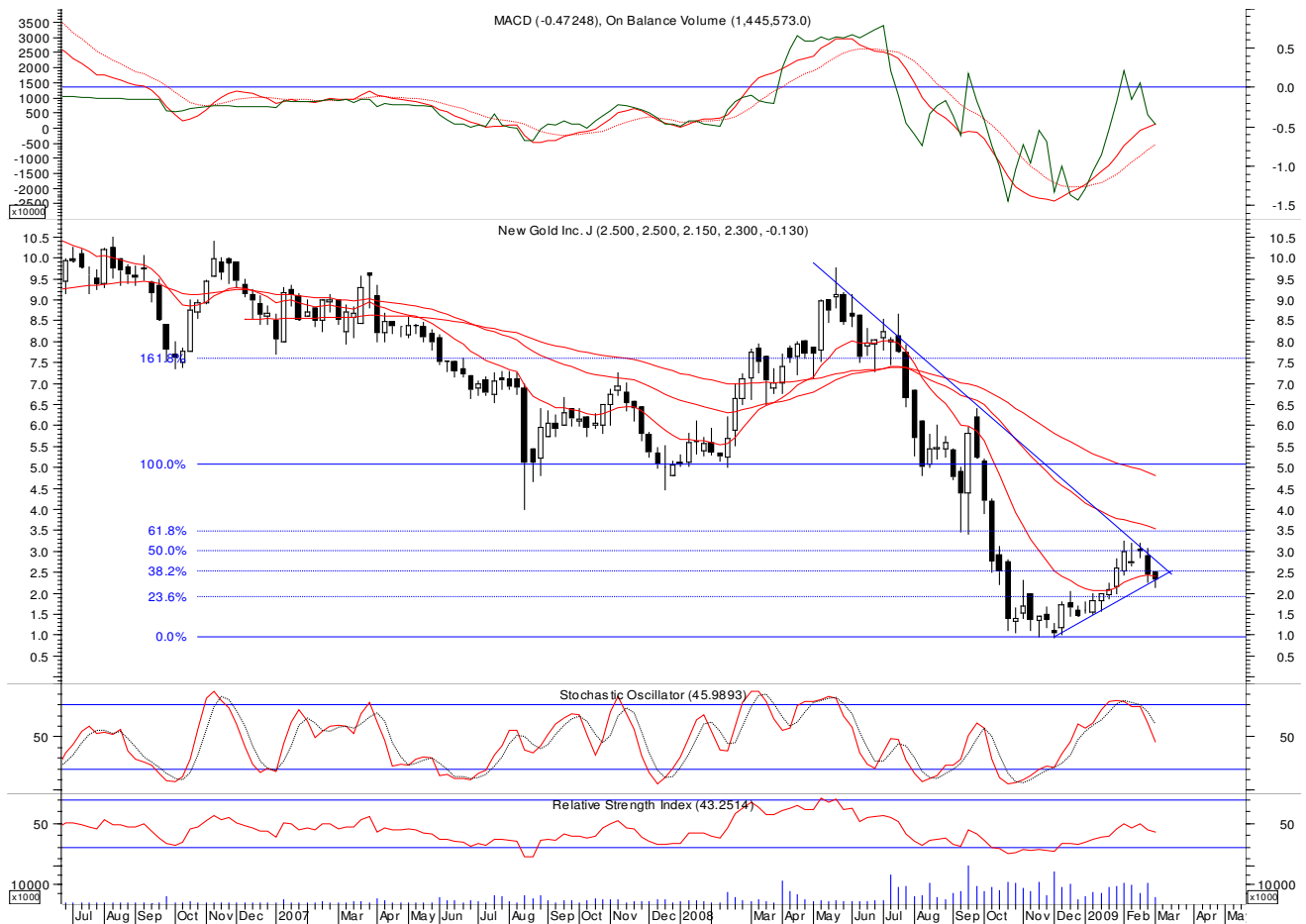
Publisher: Agilis Capital Corporation ~ Since: May, 1995 ~ Editor: Richard Reinhard ~ E-Mail: reinhard@shaw.ca

Performance: 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%; 2007 8.8%; 2008 -25.2%

Junior Gold and Natural Resource Sector Report

March 5, 2009

New Gold (NGD-TSX Venture) UPDATE



Weekly chart: High C\$10.50, Low \$0.94, Last Trade \$2.30

\$280-million merger deal with Western Goldfields

In an exchange of stock, New Gold announced plans to acquire Western Goldfields. New Gold will acquire all of the outstanding common shares of Western Goldfields in exchange for one New Gold common share and \$0.0001 in cash for each common share of Western Goldfields. The boards of directors of both companies have unanimously supported the transaction. The all-stock deal is worth about \$280-million.

Upon completion of the transaction, new New Gold will have a diversified gold production base from three gold mines in mining friendly jurisdictions with forecasted gold production of roughly

335,000 ounces in 2009, expected to grow to over 400,000 ounces in 2012. The company will have measured and indicated resources of 12.2 million gold ounces. The new New Gold will have approximately 348 million shares outstanding (436 million fully-diluted) and the fully-diluted in-the-money ownership split is expected to be approximately 58% New Gold shareholders and 42% Western Goldfields shareholders.

New Gold is effectively resuming its ambition to be the dominant consolidator of junior gold companies. Through this acquisition New Gold adds Western Goldfields' Mesquite mine in California to its stable of gold properties.

New Gold is already a cash-flow-positive intermediate gold producer with a complimentary portfolio of global assets in Mexico, Canada, Australia, Brazil, and Alaska. Its stated goal is to become a million-ounce-per-year gold producer, with a lower than industry average cash cost per ounce, by 2012.

It was only ten months ago that New Gold unveiled a three-way merger deal intended to create a \$1.5-billion gold company. Its founders include mining legends Seymour Schulich, Pierre Lassonde, Ian Telfer and Frank Giustra's Endeavour Financial.

Seymour Schulich, along with partner Pierre Lassonde, were the creators of the original Franco Nevada gold royalty company, and built it into a multi-billion dollar company. Ian Telfer is the ex-CEO of both Wheaton River Minerals and Chairman of Goldcorp. Western Goldfields' chairman Randall Oliphant, who was formerly chief executive officer of Barrick Gold, will be the executive chairman of New Gold, rounding out "the" dream team for the gold sector.

When the bottom fell out of the market last fall, New Gold was forced to slow development of its New Afton copper and gold project in British Columbia. The company also shut down its Amapari mine in Brazil after exploration efforts failed to find significant new deposits of gold.

With the added cash flow generated by Western's Mesquite mine, New Gold hopes to be able to internally fund construction and start production at New Afton by mid-2012, thereby avoiding having to raise further equity. It is a very complimentary transaction for both companies.

Quick Review

A merger between Peak Gold, Metallica and New Gold was completed in July 2008, just ahead of the largest market crash of a generation unfolding. We inherited our interest in New Gold via our Peak Gold portfolio position accumulated while it was still a shell.

We positioned our subscribers into Peak's predecessor "shell" called Imperial Plastech between early May 2005 through late 2006, accumulating our shares at an average cost in the low \$0.30's. The payoff came by early 2007 as we sold off most of our shares as the stock ran up through the \$1.10 area, on rising volume with no news.

What attracted us to the shell were the share structure and the sponsorship of Endeavour Financial Group, which had acquired effective control of the company. Soon thereafter Endeavour proved its value once again by reassembling the original Wheaton River team, and announcing a \$326 million financing and acquisition.

New Gold's share price declined from a high of \$10.50 last year to low of \$0.94 on December 3rd, well below its cash value. On December 2nd we sent out an alert, added to the model portfolio at an average \$1.05 per share, and followed up with a full report on January 11, 2009 with the share price at \$1.83.

Please refer to our [New Gold report](#) of January 11, 2009 for a review of last year's events, our base-case valuation and additional discussion.

Technical Comments

The share price worked higher off an effective triple bottom, with all the lows in the \$0.94 to \$1.00 range made during the severe panic lows set during the October through December period. MACD and OBV continued to be positive price moved above the 13, 40 and 80-day moving

averages (MA) which crossed to the upside in early January at the \$1.60-1.70 area, as we highlighted then. Two weeks ago we warned of the toppy nature of the gold stocks and suggested taking trading positions off the table, and did so with New Gold as it hit overhead resistance at the \$3.00 area Fibonacci Retracement line. The air is slowly coming out of gold's over-bought technicals (covered recently in our daily commentary), but it will need to find and form a support base, possibly back between the US\$850-875 area. For New Gold we see the \$2.25 Fibonacci Retracement area as potential support, and wish to re-establish non-core trading positions here.

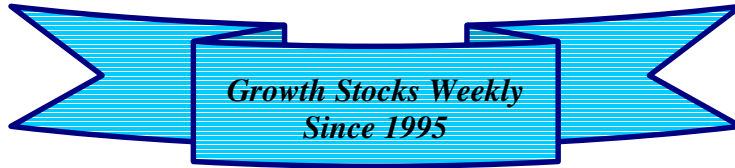


Daily chart: High C\$9.75, Low \$0.94, Last Trade \$2.30

We continue to consider New Gold a "must own" holding during this gold bull market, with the expectation that the U.S. dollar will come under increasing pressure as the bloom comes off the rose and the "safe haven" trade reverses. New Gold should be an excellent way to trade the next leg down.

As we have detailed previously through our daily missives, the bubble in the bond market and long-term US Treasuries is where lots of big money has gone for safety. We expect that the U.S. currency is going to drop through the floor when the trade reverses. We just need to point to when the crowd tried to exit the US housing sector, the Tech sector, etc., for an example of what can happen. It's an accident waiting to happen.

Staying with Canadian energy, precious metals, mining and beaten down resource stocks in general is ultimately where the opportunities lie. Just because it hasn't happened yet and the crowd is running one way doesn't mean it won't. Don't be lulled into complacency.



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