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Update Report

August 8, 2007

WESTERN GOLDFIELDS INC.

(C$2.75/US$2.62 WGI:TSX & WGDFF:OTC)

Recommendation
Speculative Buy

Risk
High

Target Price
C$4.20 / US$4.00

Price (Aug 7)
C$2.75; US$2.62

Potential Return
53%

52-Week Range
C$3.50-$1.40

% Below High
21%

% Above Low
96%

Shares O/S
117.2 million

Market Cap
$322.3 million

Average Daily Volume
20-Day: 308,400
150-Day: 404,400

Year-End
December 31

Statements Currency
U.S. Dollar

	BVPS	EPS
2005A	$0.10	$(0.09)
2006A	$0.19	$(0.18)
2007E	$0.46	$(0.18)
2008E	$0.61	$0.15

BVPS: Book Value Per Share
EPS: Earnings Per Share

Analysts
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Data Source: www.BigCharts.com

UPFRONT

With so much uncertainty prevailing in the currently volatile markets, skittish investors are seeking a safe haven? If there is one, we think it is gold. Since gold prices have not been keeping pace with the price increases of other precious and base metals, we think it is now catch-up time. Couple that with the Company's transition to producer in less than six months and we consider the shares of Western Goldfields Inc. represent an excellent (albeit speculative) investment opportunity. (See "Mining Cycle", page 5.)

RECOMMENDATION

eResearch is maintaining its Recommendation for the shares of Western Goldfields Inc. ("Western Goldfields" or the "Company") as a Speculative Buy. Our 12-month Target Price is raised to C$4.20 (US$4.00), for a 53% increase from the current price.

PROFILE

Western Goldfields is a Canadian-based junior mining company engaged in precious metals production and exploration in south-eastern California.

HIGHLIGHTS

- ▶ Transitioning from development stage to production output in January 2008.
- ▶ Shareholders poised to benefit from a possible re-evaluation of the shares as the Company moves towards becoming a gold producer.
- ▶ Risk profile is lowered: mine fully permitted and development financing in place.
- ▶ The Company's Mesquite Mine is one of few multi-million ounce gold reserves in the U.S.A. not controlled by a major producer; this could invite takeover overtures.
- ▶ Exploration could add to resources/reserves and potentially extend mine life.
- ▶ Future Amex listing is expected to broaden the U.S. shareholder base.
- ▶ Low-grade Mesquite requires large scale operations to maximize profitability.
- ▶ High-cost operation of Mesquite increases sensitivity to gold prices.

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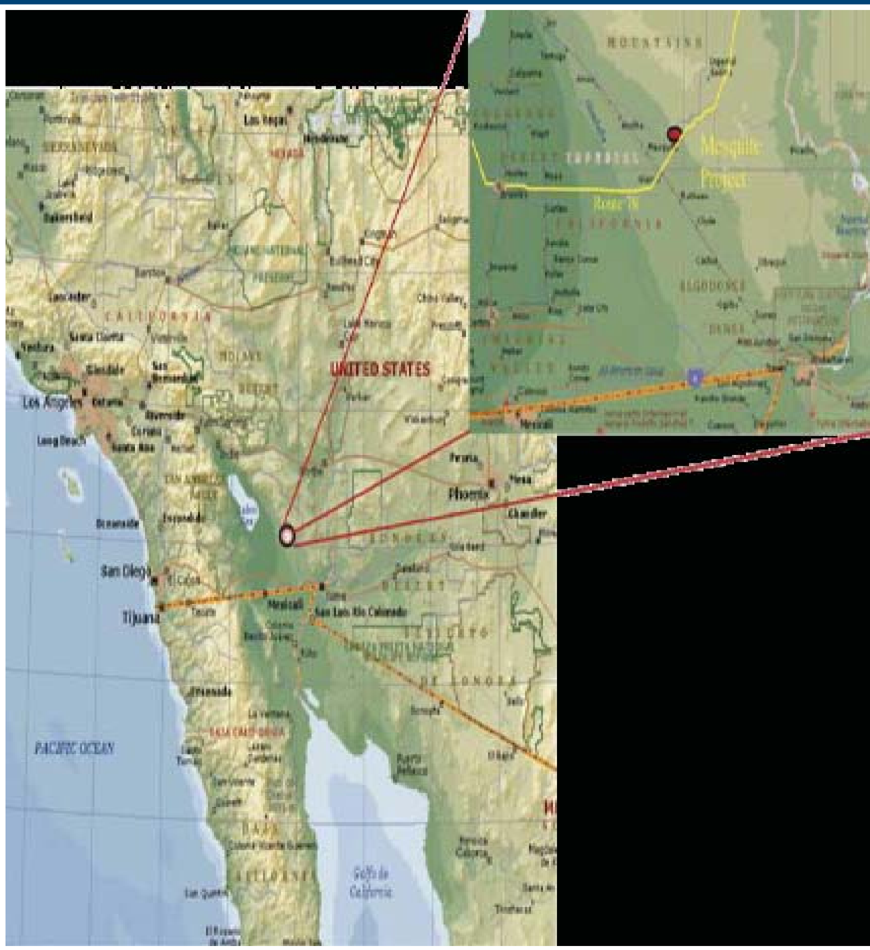
THE COMPANY

Western Goldfields Inc. is a gold mining company with operations focused in south-eastern California. The Company's principal asset is the Mesquite Mine ("Mesquite") located in Imperial County, California which Western Goldfields acquired from Newmont Mining Corporation in 2003.

The Mesquite Mine is a permitted mining and processing site using simple, low tech proven heap leach and mining processes in a politically stable geography. Gold recovery from Mesquite is expected to continue for the next several years.

Figure 1. Location of Mesquite Mine, California



Source: Company

2006 CORPORATE RESTRUCTURING

In early 2006, Western Goldfields underwent a corporate restructuring and developed a new team of mining people led by Randall Oliphant who took over the direction of the Company. This new team is focused on bringing Mesquite back into full production, which is now scheduled for January 2008.

The Company recently completed a corporate re-domestication, in which it changed its jurisdiction of incorporation to Ontario from Idaho. The reorganization allows Western Goldfields to take advantage of financial and other business opportunities that are not available under the prior corporate structure, including the ability to complete transactions requiring shareholder approval more quickly, which would facilitate the corporate strategy of growth through acquisitions.

INVESTMENT CONSIDERATIONS

1. Strengths

- Shareholders of Western Goldfields should benefit from an expected re-evaluation of the Company, stemming from its imminent transition from a mine developer to producer (See Mining Cycle, page 5);
- Provided that the price of gold exceeds US$600 per ounce, the Mesquite Mine should be very profitable;
- Funding and permitting are all in place, reducing risk associated with the Mesquite project;
- Mesquite production timeline has been moved forward three months to January 2008, providing a full year of cash flow generation in 2008;
- Feasibility study, completed in August 2006, indicates a 6-year payback period, with a 16% after-tax IRR at a $500 gold price;
- The risk associated with reserve/resource estimate is reduced by 16 years of historic mining and production of 3.9 million ounces of gold (which ended in May 2001 when low gold prices made the mining uneconomic);
- Exploration upside could potentially add further to the resource base and mine life – recently extended from 9 ½ to 12 years;
- Mesquite is located in California, a jurisdiction that has a stable political and legal system which protects large capital investments;
- Strong and experienced management team with recognized mining reputation and accomplishments;
- eResearch believes management will pursue other mining opportunities by utilizing cash flow from the Mesquite Mine and potential drawings on its bank loan facility (of which US$20 million is available for projects other than Mesquite) to add to shareholder value; and
- With no controlling shareholder(s), Western Goldfields is a potential takeover target, particularly as the Mesquite Mine is one of few multi-million ounce gold reserves in the U.S.A. not controlled by a major producer.

2. Challenges

- Mesquite's low grade makes it a high-cost operation in terms of dollars per ounce, and one that is highly sensitive to changes in the gold price and operating costs;
- With total production costs estimated at US$416 per oz (cost of sales estimated at US$355 per oz, and capital costs of US$61 per oz), the economics of the Mesquite Mine will become problematic if gold declines towards this level and remains depressed, and no amount of innovative engineering or financial acumen will make it economic;

- Increases in production costs would have large effects on profitability of the operation – fuel, labour, environmental reclamation, etc.; and
- Strategically, management must determine how it will continue to add value for shareholders once Mesquite is in production. Similar near-production opportunities are rare.

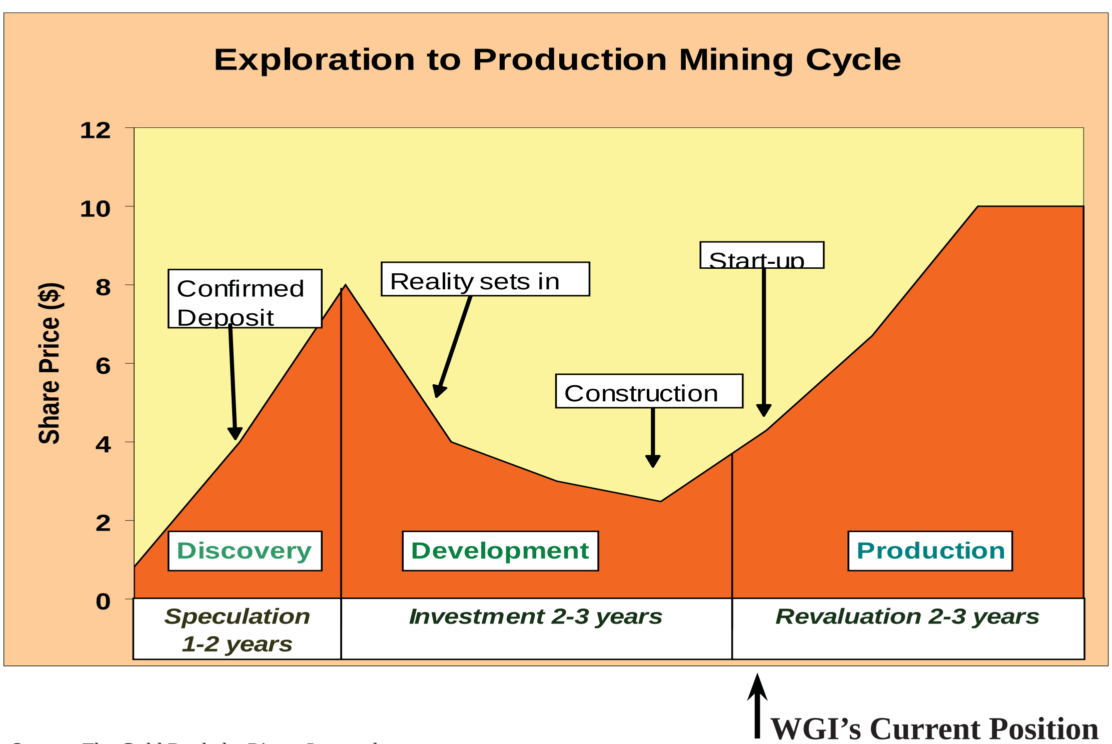
3. Hedging

- The bank credit facility requires that Western Goldfields hedges 429,000 oz of gold production, equal to 66,000 oz of production annually over 6.5 years. This leaves approximately 100,000 oz, or 60% of annual production unhedged.
- The Company has entered a flat forward hedge contract at US$801. This is one of the highest forward gold price hedges we have seen.
- Following the period of hedged production, Western Goldfields' shareholders will be in a position to benefit from further gold price upside.

MINING CYCLE

The following chart, taken from The Gold Book authored by Pierre Lassonde, renowned mining executive, shows what typically happens to the shares of a mining company as it proceeds through its various life stages.

Figure 2. Exploration to Production Mining Cycle



Source: The Gold Book, by Pierre Lassonde.

As indicated, during the exploration period, the shares are a speculation on the possibilities of the company being successful with the drill bit. If there is a "hit" ("Confirmed Deposit"), the shares usually rise to reflect it, the amount of the rise being a function of how good the strike is.

If the exploration activity indicates that there could be sufficient resources to bring the mine into production, the company undertakes feasibility studies to ascertain the project's economic probabilities and the need to raise funds to bring the property forward. During this phase "Reality sets in", and unless there is significant exploratory drilling on the company's other properties (which often there is not as management and financial resources are required to bring the mine to the production stage), the shares usually drift lower over time.

As "Construction" is being completed, the shares begin to rise in anticipation of the "Start-up" of production, which means the generation of revenue and profits. This positive phase for the shares usually lasts a few years.

COMMENT: *Western Goldfields will be at the "Start-up" position in January 2008. Thus, we foresee good upside potential in the share price as the Company brings its Mesquite Mine into production and generates significant revenue and cash flow.*

OPERATIONS

Mesquite Mine

Figure 3. Mine Site

Source: Company

- The mine is in Imperial County, California, in the south-east corner of the state. It is located six miles north-east of Glamis, California;
- The property consists of 213 unpatented and 53 patented mining lode claims, 127 patented and 97 patented mill site claims, 263.2 ha (658 acres) of California state lease land and 126 ha (315 acres) of fee lands that cover a total area of about 2,080 ha (5,200 acres);
- It was operated between 1985 and 2001 by Gold Fields Mining Corporation, Santa Fe Pacific Gold Corporation, and finally Newmont Gold Company, which changed its name to Newmont Mining Corporation;
- It closed in 2001 due to low gold prices and unfavourable conditions to undertake a mine expansion;
- Mining was by truck-and-shovel methods;

Figure 4. First Load: Western Mesquite Mine

Source: Company

- Initially ore was crushed before being placed on the leach pads but it was found recoveries were the same with Run-of-Mine ("ROM") material and the crusher was shut down in 1996;
- During the mining operations it produced 139.7 million tonnes (T) (154 million tons) of 0.89 g/T (0.026 oz/ton) Au for a total of 3,986,200 oz.;
- Approximately 2,975,000 oz Au had been recovered by November 2003, for a recovery of 75%;

- In March 2007, Western Goldfields announced updated mineral resource and reserve data for Mesquite Mine. This had the impact of extending the reserve life by approximately two and a half years from the original feasibility study, based on production at 165,000 oz per year. See the following table:

Table 1. Mineral Resources

Mesquite Mine

Mineral Resources (including Reserves)
(March 26, 2007)

Classification	Category	Tons (000s)	Grade (Au oz/T)	Contained (Au ozs.)
Measured	Oxide	111,196	0.016	1,748,000
	Non-Oxide	30,587	0.024	729,000
	Sub-Total	141,783	0.017	2,477,000
Indicated	Oxide	44,523	0.017	759,000
	Non-Oxide	27,335	0.023	633,000
	Sub-Total	71,858	0.019	1,392,000
Measured and Indicated Total		213,641	0.018	3,869,000

Former Mineral Resources (including Reserves)
(August 1, 2006)

Classification	Category	Tons (000s)	Grade (Au oz/T)	Contained (Au ozs.)
Measured	Oxide	73,355	0.016	1,188,000
	Non-Oxide	19,591	0.024	470,000
	Sub-Total	92,946	0.018	1,658,000
Indicated	Oxide	82,611	0.016	1,338,000
	Non-Oxide	26,338	0.022	566,000
	Sub-Total	108,949	0.017	1,904,000
Measured and Indicated Total		201,895	0.018	3,562,000

Source: Company

Current Mine Expansion Plan

The plan to expand the Mesquite Mine includes the following steps:

- Purchasing a new mining fleet and related equipment (US$70.6 million): DONE!;
- Mining the reserves located in the Big Chief, Rainbow and Vista pits;
- Extending the Pad 6 heap leaching facilities;
- Establishing permanent diversion ditches;
- Installing a new carbon column circuit; and
- Expanding the gold recovery and refinery circuit.

FINANCIAL REVIEW AND OUTLOOK

Currency: Western Goldfields reports in U.S. dollars, and incurs most of its expenses in U.S. dollars. However, the stronger Canadian dollar negatively impacts G&A costs paid in Canadian dollars.

Revenue/Income: As expected, the remaining revenue generation continues to decline, given that no new material has been placed on the leach pads for the past several years. This lower production was partially offset by the higher average selling price per ounce. The costs of mining, exploration and general and administrative expenses leave the Company with a sizable net loss for 2007, but with a full year of production expected in 2008, we expect strong revenue and profit for that year. eResearch has estimated year one production at 146,000 oz. reflecting the start-up of production, but we expect 165,000 oz. thereafter. We derive our revenue forecast as follows:

2008 Revenue Forecast	Ounces Produced	Gold Price	Forecasted Revenues
Hedged Production	66,000	$801	$52,866,000
Unhedged Production	80,000	$650	$52,000,000
	146,000		$104,866,000

Cash: As at the end of its last reporting period, March 31, 2007, Western Goldfields had US$57.1 million cash on hand, and working capital of US$56.4 million. This improvement from year end 2006 reflects the US$59.2 million (net proceeds) common equity offering in Q1/2007.

Burn Rate: General and administrative expenses (i.e., the "burn", which includes all non-discretionary expenses, such as salaries, rent, office operating expense, professional fees, and shareholder costs, etc.) were US$370,000 monthly for the first half of 2007. eResearch estimates that, over the ensuing twelve months, the Company's monthly burn will be closer to US$500,000 as the mine commences production.

Operating Costs: For 2008, we have calculated mine operating costs at US$335/oz, and royalties and California gold tax at US$19/oz. Average cost of capital is US$61/oz.

Capex: In 2007, Western Goldfield's capital expenditures ("capex") increased sharply as production nears at the Mesquite Mine, and exploration drilling continues. The Company made purchase commitments of US$70.6 million for its mining fleet and related equipment for the development of the mine. In addition, the Company has planned capital spending of approximately US$36.9 million in other aspects of the mine's expansion in 2007. As of June 30, the Company has taken delivery of six haul trucks and two shovels as part of the mine fleet.

Financing: Western Goldfields now has all its financing in place for the development of the Mesquite Mine. In addition to the US$59.2 million equity financing, the Company entered into a new term loan facility with Investec Bank (UK) Limited under which the Company will be able to borrow up to $105 million. The Company plans to draw US$85 million of the facility for development of the Mesquite Mine, with the balance available for other corporate purposes until late in 2009. This term loan facility is subject to certain conditions, including an acceptable gold hedging program for approximately 450,000 ounces of production.

COMMENT: *Western Goldfields has US$20 million available under the term loan facility to allocate towards potential acquisitions and other projects. This could help provide additional financial flexibility in the future, if needed.*

Warrants: The Company has the following warrants outstanding. Newmont Mining Corporation holds the 6,056,180 amount.

1. Warrants

Number	Exercise Price	Expiry Date	Comment	Potential Equity
1,000,000	*$0.30*	*February 17, 2008*	*In-the-Money*	*$300,000*
5,433,333	*$0.45*	*February 13, 2008*	*In-the-Money*	*$2,445,000*
225,000	$0.60	February 23, 2010	In-the-Money	$135,000
6,056,180	$0.76	TBD	In-the-Money	$4,602,697
12,714,513				$7,482,697

Note: The entries in italics are within our 12-month forecast period, and total:
6,433,333 additional shares, and potential new equity of: $2,745,000

TBD= To be determined; warrants not yet effective by way of registration

Source: Company and eResearch

2. Options

As of June 30, 2007, Western Goldfields had 13.2 million stock options outstanding at a weighted average exercise price of $0.61.

Capital Structure: Western Goldfields has 117,226,002 shares outstanding which, at current share prices, gives a market capitalization of C$322.3 million. We anticipate the Company will draw upon its new bank debt facility in order to pay for the significant near term capex.

Insider Holdings: Insiders control 6.8% of the outstanding shares, or 11.6% on a fully diluted basis.

Financing Statements: Set out overleaf are Western Goldfield's financial statements:

Table 2. Selected Financial Statements

	First Half to June 30		Year Ending December 31:			
U.S. Dollars	2006	2007	2005	2006	2007E	2008E
Statement of Income/(Loss):						
Net Revenue	4,878,943	2,778,877	9,024,085	7,556,521	4,000,000	104,866,000
Non-Operating Income	178,614	1,042,253	173,479	391,824	500,000	200,000
Mine Operating Costs	(3,871,503)	(4,569,386)	(6,550,537)	(7,192,596)	(6,800,000)	(49,056,000)
Exploration Costs	(711,217)	(1,031,926)	(207,903)	(1,220,892)	(1,500,000)	(1,500,000)
Other Operating Costs	(1,188,924)	(1,209,460)	(2,615,118)	(613,244)	(3,000,000)	(2,774,000)
General & Administrative Expense	(2,175,604)	(2,222,490)	(1,915,158)	(4,261,067)	(5,000,000)	(6,000,000)
Amortization	(647,244)	(752,318)	(1,230,410)	(1,352,034)	(2,500,000)	(8,906,000)
Stock-based Compensation	(1,770,156)	(1,288,554)	(684,777)	(3,209,285)	(3,000,000)	(3,000,000)
Other Non-Cash Items	(1,100,888)	854,383	1,390,919	(547,200)	(500,000)	(500,000)
EBIT	(6,407,979)	(6,398,621)	(2,615,420)	(10,447,973)	(17,800,000)	33,330,000
Interest Expense	(20,434)	(839)	(348,959)	(20,434)	(3,400,000)	(6,800,000)
Other Income/(Expenses)	0	(241,250)	(375,870)	(1,114,858)	0	0
Income (loss) Before Tax	(6,428,413)	(6,640,710)	(3,340,249)	(11,583,265)	(21,200,000)	26,530,000
Income Tax	0	0	0	0	0	(7,959,000)
After-Tax Income/(Loss)	(6,428,413)	(6,640,710)	(3,340,249)	(11,583,265)	(21,200,000)	18,571,000
Preference Dividends	(16,979)	0	(34,375)	(16,979)	0	0
Net Income/(Loss)	(6,445,392)	(6,640,710)	(3,374,624)	(11,600,244)	(21,200,000)	18,571,000
Total Shares Outstanding	69,554,289	117,221,002	39,468,051	78,452,876	120,300,378	134,233,710
Weighted Avg Shares Outstanding	56,025,181	108,240,372	38,942,158	63,664,614	116,813,087	127,267,044
Earnings (Loss) Per Share	($0.12)	($0.06)	($0.09)	($0.18)	($0.18)	$0.15
Statement of Cash Flow:						
Net Income (Loss)	(6,428,413)	(6,640,710)	(3,374,624)	(11,600,244)	(21,200,000)	18,571,000
All Non-Cash Items	2,654,042	1,229,947	1,590,585	3,752,455	6,000,000	12,406,000
Cash Flow from Operations	(3,774,371)	(5,410,763)	(1,784,039)	(7,847,789)	(15,200,000)	30,977,000
Capital Expenditures (Properties)	(387,779)	(31,376,510)	(10,853)	(3,444,353)	(107,500,000)	(2,000,000)
Other Investing Items	0	(2,090,094)	48,368	0	0	0
Free Cash Flow	(4,162,150)	(38,877,367)	(1,746,524)	(11,292,142)	(122,700,000)	28,977,000
Working Capital Changes	491,057	(8,532,640)	1,024,572	515,292	(4,832,945)	(2,000,000)
Equity Financing	9,598,896	61,507,731	0	18,466,559	62,115,599	7,619,999
Debt Financing	(2,205,186)	(850,073)	(1,500,000)	(2,205,186)	85,000,000	(5,000,000)
Other Items	0	0	739,561	(34,375)	0	0
Change in Cash	3,722,617	13,247,651	(1,482,391)	5,450,148	19,582,654	29,596,999
Cash, Beginning of the Period	52,387	5,502,535	1,534,778	52,387	5,502,535	25,085,189
Cash, End of the Period	3,775,004	18,750,186	52,387	5,502,535	25,085,189	54,682,188
		As at June 30	As at December 31			
Balance Sheet:		2007	2005	2006	2007E	2008E
Cash		18,750,186	52,387	5,502,535	25,085,189	54,682,188
Other Current Assets		8,962,033	1,223,889	1,576,806	10,000,000	12,000,000
Property, Plant, Equipment		49,825,173	4,871,287	7,209,287	112,209,287	105,303,287
Remediation/Reclamation Investments		8,448,953	6,248,220	6,337,006	9,500,000	10,500,000
Other Assets		6,051,047	1,480,490	1,588,701	8,000,000	8,500,000
Total Assets		92,037,392	13,876,273	22,214,335	164,794,476	190,985,475
Loan Payable (Current)		0	1,500,000	0	0	0
Other Current Liabilities		16,185,425	2,291,171	2,529,985	18,000,000	21,000,000
Remediation/Reclamation Liabilities		4,825,645	6,196,570	4,805,473	6,000,000	8,000,000
Other Liabilities			0	0	0	0
Debt Obligations		0	0	0	85,000,000	80,000,000
Total Liabilities		21,011,070	9,987,741	7,335,458	109,000,000	109,000,000
Shareholders' Equity		71,026,322	3,888,532	14,878,877	55,794,476	81,985,475
Total Liabilities & Equity		92,037,392	13,876,273	22,214,335	164,794,476	190,985,475
Book Value (S.E.) Per Share		$1.05	$0.10	$0.19	$0.46	$0.61

Source: eResearch

COMMENT: *Western Goldfields is expected to commence production in early 2008 at its recently expanded Mesquite Mine. The former Mesquite Mine continues to generate modest revenues, but the ramping up of development costs has led to sharply higher net losses until production starts. Operating cash flow also remains negative, but there is now sufficient cash and financing in place to complete the mine's development. Accordingly, another risk has been reduced, and shareholder value is expected to benefit from the Company's re-rating as a producer rather than development company. Strong free cash flow in 2008 should enable the Company to pay down a considerable portion of bank debt. Book value is expected to increase to US$82 million by year-end 2008, for a book value per share of US$0.61.*

VALUATION

We have used a Discounted Cash Flow ("DCF") analysis to derive the Net Asset Value ("NAV") for Western Goldfields.

Since the Mesquite Mine will soon be in production, we place most emphasis on deriving a Net Present Value for the property by discounting at various appropriate risk rates (20%, 15%, and 10%) the expected net cash flows that the property is anticipated to generate over the 12-year life of the mine.

Once we have determined the NPV for the Mesquite Mine, we add to this the value of cash (per share) and deduct debt (per share) to arrive at a Net Asset Value per share. The results of our calculations are summarized below:

Table 3: NPV Per Share at Selected Discount Rates and Gold Prices

Mesquite Mine NPV Per Share @	Share Price in US Dollars				
Various Gold Prices Per Ounce	$600	$650	$700	$750	$800
20% Discount Rate	$3.01	$3.61	$4.10	4.67	5.25
15% Discount Rate	$3.69	**$4.45**	$5.03	5.75	6.47
10% Discount Rate	$4.62	$5.62	$6.31	7.24	8.17
NPV Mesquite Mine		**$4.45**			
Add: Cash Per Share*		$0.21			
Less: Debt Per Share *		-$0.68			
Net Asset Value		**$3.98**			

Mesquite Mine NPV Per Share @	Share Price in Canadian Dollars				
Various Gold Prices Per Ounce	$600	$650	$700	$750	$800
20% Discount Rate	$3.19	$3.82	$4.35	$4.95	$5.57
15% Discount Rate	$3.91	**$4.71**	$5.33	$6.10	$6.86
10% Discount Rate	$4.90	$5.95	$6.69	$7.67	$8.66
NPV Mesquite Mine		**$4.71**			
Add: Cash Per Share*		$0.23			
Less: Debt Per Share *		-$0.72			
Net Asset Value		**$4.21**			

* Based on forecasted debt and cash levels 12 months forward.

Source: Company

Assumptions:

The following assumptions were used in our calculations:

- Gold prices per ounce: US$600 to US$800, and increasing at 2% per annum;
- Mine life: 12 years;
- Average annual gold production: 165,000 ounces (as per Feasibility Study). Year 1 estimated at 146,000 ounces;
- Production hedge: 66,000 oz. of annual production is hedged at US$801. Approximately 100,000 oz. per year remains exposed to spot prices. Total hedging requirement is 429,000 oz., or 6.5 years.
- Average cost of goods sold/operating costs: US$335 per ounce (as per Feasibility Study), increasing at 3% per annum;
- Average cost of royalties and California gold tax: US$14 per ounce and US$5 per ounce, respectively (as per Feasibility Study), and held constant;
- Average cost of "life-of-mine" capital: US$61 per ounce (as per Feasibility Study), and held constant;
- Total cost per ounce over "life-of-mine": US$416
- Discount rates of 20%; 15%; and 10%; and
- Number of shares currently outstanding: 117,226,002.

Valuation Analysis

*e*Research believes that there is an upward bias for the price of gold over the next few years. As indicated in our DCF table above, we think that the price of gold is most likely to swing between US$600 and US$700 per ounce over our 12 month forecast period. This compares with the current price of US$660 per ounce. If there is increasing political strife in the world, increased demand from Asia and/or a weaker U.S. dollar, then we expect the price to be in the upper end of our stated range.

We have lowered the range of discount rates since our initial report to reflect the lower risk profile as the Company moves closer to production at the Mesquite Mine. With regulatory permits in place, full development financing now arranged, pre-stripping underway, and the production date moved forward to January 2008, there is significantly greater likelihood that the Company will be generating cash flow in early 2008.

Accordingly, using the mid-point gold price of US$650, and the discount rate of 15%, we derive an Net Asset Value for Western Goldfields shares of US$3.98. This compares with the current price on the OTCBB of US$2.62.

Translating into Canadian dollars at the current exchange rate of US$1.00 = C$1.06, the equivalent Canadian dollar intrinsic value is C$4.21 compared to the current TSX price of C$2.75.

Valuation Conclusion

Consequently, our 12-month Target Price for the shares of Western Goldfields is C$4.20 or US$4.00.

TECHNICAL ANALYSIS

By Stephen Whiteside - CEO - TheUpTrend.com

Western Goldfields, Inc. (TSX:WGI, OTC BB:WGDF.OB)

When we last looked at Western Goldfields in late June, we were looking for a move from the $2.60 area up to the $3 area (Canadian $), that objective has now been reached (1).

Looking at the chart below, we are now projecting a move back down to the to $2.20 - $2.40 area (2). This cycle move lower may not happen, as we have a band of support in the $2.40 - $2.60 area (3). Our long-term bullish view of this stock would remain intact, as long as we continue to trade above the two rising trendlines (4, 5).

APPENDIX 1: MANAGEMENT AND DIRECTORS

Randall Oliphant, Chairman and Director
Randall Oliphant is the Chairman and CEO of Rockcliff Group Limited and is on the Advisory Board of Metalmark Capital LLC and serves on the Board of Western Oil Sands Inc. as well as a number of private companies and not-for-profit organizations. Until 2003, he was the President and CEO of Barrick Gold Corporation. Mr. Oliphant is a Chartered Accountant.

Raymond W. Threlkeld, President and Chief Executive Officer
Raymond W. Threlkeld has over 30 years of mineral industry experience and holds a degree in geology. He is the Chief Operating Officer of Silver Bear Resources Inc., a private mineral resource company. Mr. Threlkeld held various senior management positions in precious metal mine development with Barrick Gold Corporation and Coeur d'Alene Mines Corporation.

Brian Penny, Chief Financial Officer
Brian Penny has over 20 years of experience in mine finance and accounting. Mr. Penny is the Chief Financial Officer of Silver Bear Resources Inc., and is a Director of and chairs the Audit Committees of three publicly traded companies. He has served as Chief Financial Officer with Kinross Gold Company and is a Certified Management Accountant.

Paul G. Semple, Vice President, Projects
Paul G. Semple has a 23 year career in the mining industry, and has focused on feasibility studies, project development, and operations of precious and base metals deposits. Prior to joining Western Goldfields, Mr. Semple held various positions at Kilborn (later SNC-Lavalin). Mr. Semple is a professional engineer.

Wesley C. (Wes) Hanson, Vice President, Mine Development
Wesley C. (Wes) Hanson, joined Western Goldfields on July 7, 2006 as Vice President, Mine Development. Mr. Hanson has over 24 years of mining experience. Prior to joining Western Goldfields, Mr. Hanson served as Vice President Technical Services for Kinross Gold Corporation, and is a Professional Geologist.

Julie Taylor, Director of Regulatory Affairs & Investor Relations
Ms. Taylor joined the Company in August 2006. She previously worked for 15 years in various business capacities with General Motors Corporation in both the United States and Canada.

Vahan Kololian, Director
Vahan Kololian founded and is Managing Partner of TerraNova Partners LP, which invests in the industrial, services and resource sectors. Mr. Kololian is also Chairman of Precinda Corporation, a private manufacturing company and also serves on the boards of both public and private companies.

Martyn Konig, Director
Martyn Konig is CEO of AIM-listed Latitude Resources Plc. He has extensive experience in the natural resource sector. Mr. Konig was a main Board Director of NM Rothschild for 15 years and held senior positions at Goldman Sachs and UBS.

Gerald Ruth, Director
Gerald Ruth has operated an independent corporate finance consulting business providing services to companies in a broad range of industries. Mr. Ruth also serves as a Director and Senior Officer with public and private companies. Mr. Ruth has held various positions at The Toronto Stock Exchange, where he served as Head of Listings from 1997 to 2003.

APPENDIX 2: THE MESQUITE DEPOSIT

A. Geology

The Mesquite District is on the southwest flank of the Chocolate mountains, in amphibolite grade metamorphic rocks of the upper plate of the Vincent-Chocolate Mountain Thrust. These upper plate rocks are a fragment of Precambrian and Mesozoic continental crust that has had an extremely complex geological history. During the Precambrian, a gneissic complex was formed followed by several periods of intrusion into the gneisses. Granitic rocks again intruded during the early Triassic and late Jurassic to early Cretaceous periods. The upper plate rocks were subjected to several phases of amphibolite facies regional metamorphism.

Gold mineralization was deposited in an epithermal setting, estimated 150 to 330 metres from surface. Gold occurs as:

(1) Pods of mineralization, with limited lateral and vertical extent, at fault intersections; and

(2) Broad zones of mineralization along faults.

Gold mineralization is on steep dipping structures that split into multiple smaller fractures (horsetails) near surface. There is little information on the distribution of gold in the deposit below the oxide zone. Grades in the non oxide zone seem higher and very limited metallurgical testing indicates the gold is not refractory. The form of the non oxide zones is not defined. The flat-lying shape of the oxide zone may be due more to the pattern of oxidation than to the primary distribution of gold. In the non oxide zone some gold will be widely distributed , but some may be concentrated on individual fault structures. The will give large disseminated ore bodies of gold perhaps similar in grade to the oxide zone and narrow structurally controlled zones of higher grade material below them.

This should allow continued bulk tonnage mining by extending the existing pits downward. However, it may also allow underground mining of narrow higher grade zones. Both possibilities have implications on the processing method used. For the bulk tonnage zones in the non-oxide material, ROM heap leaching gives a ±40% recovery based on both production and metallurgical testing. This may not be enough to make these zones ore bodies. For the narrow, structurally controlled ore bodies mining will be on a much smaller scale and may require a conventional mill to recover the gold.

B. Mineral Resource

The resource is based on 6,221 drill holes, including 103 diamond drill holes. This represents about 837,000 metres (2.7 million ft) of drilling and 487,850 1.55 metres (5ft) samples. In general the disseminated, oxide mineralization is flat lying or with a moderate southwest dip and the vertical drilling provides an appropriate measure of the true thickness.

Independent Mining Corporation (2006) ("IMC") developed and updated resource models to reflect resources available at prices of $500 to $600/oz Au. These resources are within floating cone geometry and based on a cut-off grade of 0.21 g/T (0.006 oz/t) Au for oxide and 0.41 g/T (0.012 oz/t) Au for non-oxide, a $500/oz gold price, and recoveries of 75% and 35% for oxide and non-oxide material.

Measured and Indicated Resources for all areas are 182 million tonnes (201.0 million tons) at 0.62 g/T (0.018 oz/t) Au for 3.6 million contained ounces of gold. Inferred Resources are an additional 11.2 million tonnes (12.4 million tons) at 0.65 g/T (0.0019 oz/t) Au for an additional 236,000 contained ounces of gold. Of Measured and Indicated Resources, 77% are oxide and 23% are non-oxide.

Micon International Limited (2006) ("Micon") has pointed out that the drill holes to date in the non-oxide part of the deposit suggest significant potential to increase the resource base. Many of these holes intersected anomalous grade mineralization over mineable widths, which suggest a significant opportunity to develop reasonable continuity and estimated mineral resources.

C. Mining Method

The mining method summarized in the reports by IMC and Micon is based on conventional open-pit mining methods, truck-and-shovel. Within this mine plan the commercial life of the project is about 9.5 years, and ore containing about 165,000 oz Au will be delivered to the leach pads each year. Depending on the grade, this will involve moving 9.1 to 14.7 million tonnes (10.1 to 16.2 million tons) of ore each year. Pre-production stripping is estimated at 24.0 million tonnes (26.5 million tons) and will be completed in less than one year.

Micon has estimated a mine operating cost of $0.83 per tonne ($0.76 per ton). Diesel fuel is 36% of this cost and truck tires represent another 11.5%. Preliminary scoping studies suggest that replacing the truck fleet with mobile conveyors capable of handling ROM material would reduce mining operating costs considerably. Micon has recommended a more detailed study of this alternative.

D. Mineral Processing And Recovery

Historical production data, including heap leaching of 132.4 million tonnes (146 million tons) of oxide ore and 7.5 million tonnes (8.3 million tons) on non-oxide ore show a life-of-mine recovery of 76%. After reviewing these numbers and various metallurgical tests by Newmont and Kappes Cassidy Associates ("KCA"), Micon estimated gold recoveries of 79% and 75% for higher grade >0.55g/T (>0.016 oz/t) Au and lower grade ROM non-oxide material and 40% for ROM non-oxide material. If these estimates are applied to the historic life-of-mine production schedule the weighed average recovery approximates the 76% obtained by production.

Non-oxide recovery was reviewed by KCA (1999) and predicted an ultimate heap leaching recovery of 40% for ROM ore based on historical results and tests run by KCA and Newmont.

Newmont ran gravity separations on three non-oxide samples taken from the Vista Pit and graded between 0.54 g/T (0.016 oz/ton) and 11.7 g/T (0.34 oz/ton) Au. Samples were ground to <200 mesh and treated on a Gemini table. Gravity concentrate recoveries were about 90% into >5% of the sample mass. The concentrate showed coarse (>500 µm) Au.

Micon has recommended additional metallurgical studies to improve recovery of the non-oxide mineralization. They point out that preliminary data suggest opportunities related to both gravity and flotation recovery.

E. Feasibility Study

Micon's feasibility study is based on a conventional truck-and-shovel mining and heap leaching ROM material. The project will have a life of about ten years at a production rate of about 14 million tons of ore pre year. It is expected to produce 1.66 million ounces of gold at an average cost of US$335 per ounce, excluding pre-stripping expenses. The estimated pre-production capital cost of the project is US$97.9 million. This will be financed by project debt. Micon's cash flow analysis which includes all applicable royalties and taxes indicates that the project is expected to yield an overall rate of return of 16% per year on a 100% equity basis.

APPENDIX 3: THE BIG CHIEF PIT

Figure 5: Big Chief Pit

Source: Company

ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

***e*Research analysts on this report: Nigel Heath, BBM (Accounting/Finance), CFA:** Nigel Heath has been analyzing companies from both a fixed income and equity perspective for 17 years. His experience extends to both Dominion Bond Rating Service where he was a sector lead analyst and a member of the Rating Committee, and at RBC Capital Markets where he served in London, England to gain an international perspective. He has held responsibility for analyzing companies in the following sectors: natural resources, industrials, energy, autos, and financial services.

Bob Weir, B. Comm, B.Sc., CFA. Bob Weir has 40 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined *e*Research in 2004.

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Buy: Expected total return within the next 12 months is between 10% and 40%.

Speculative Buy: Expected total return within the next 12 months is substantial, but Risk is High (see below).

Hold: Expected total return within the next 12 months is between 0% and 10%.

Sell: Expected total return within the next 12 months is negative.

*e*Research Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk: *Financial* - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.

Operational - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.

Medium Risk: *Financial* - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.

Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry

Low Risk: *Financial* - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.

Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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