

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

BAY RESOURCES LTD
Form 10QSB
May 13, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 0-16097

BAY RESOURCES LTD.
(Exact name of Registrant as specified in its charter)

Delaware 98-0079697

(State or other jurisdiction of (IRS Employer
incorporation or organisation) Identification No.)

Level 8, 580 St. Kilda Road, Melbourne, Victoria, 3004 Australia

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 011 (613) 8532 2860

Indicate by check mark whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12,13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.
Yes_____ No_____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. There were 16,711,630 outstanding shares of Common Stock as of March 31, 2005.

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

Transitional Small Business Disclosure Format (Check one) Yes No

Table Of Contents

| | PAGE NO |
|---------------|---|
| | ----- |
| PART I. | FINANCIAL INFORMATION |
| Item 1 | Financial Statements 2 |
| Item 2 | Management's Discussion and Analysis or Plan of Operations 11 |
| Item 3 | Controls and Procedures 16 |
| PART II | OTHER INFORMATION |
| Item 1 | Legal Proceedings 17 |
| Item 2 | Changes in Securities and Use of Proceeds 17 |
| Item 3 | Defaults Upon Senior Securities 17 |
| Item 4 | Submission of Matters to a Vote of Security Holders 17 |
| Item 5 | Other Information 17 |
| Item 6 | Exhibits and Reports on Form 8-K 17 |
| SIGNATURES | 18 |
| EXHIBIT INDEX | 19 |
| Exh. 31.1 | Certification 20 |
| Exh. 31.2 | Certification 22 |
| Exh. 32.1 | Certification 24 |
| Exh. 32.2 | Certification 25 |

1

Item 1. FINANCIAL STATEMENTS

Introduction to Interim Financial Statements.

The interim financial statements included herein have been prepared by Bay Resources Ltd. ("Bay Resources" or the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (The "Commission"). Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2004.

In the opinion of management, all adjustments, consisting of normal recurring adjustments and consolidating entries, necessary to present fairly the financial position of the Company and subsidiaries as of March 31, 2005, the results of its operations for the three and nine month periods ended March 31, 2005 and

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

March 31, 2004, and the changes in its cash flows for the nine month periods ended March 31, 2005 and March 31, 2004, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

UNLESS OTHERWISE INDICATED, ALL FINANCIAL INFORMATION PRESENTED IS IN AUSTRALIAN DOLLARS.

2

BAY RESOURCES LTD. AND SUBSIDIARIES
(An Exploration Stage Company)
Consolidated Balance Sheet
March 31, 2005
(Unaudited)

| | A\$000's ----- |
|--|-------------------|
| ASSETS | |
| Current Assets: | |
| Cash | 1 |
| Receivables | 132 |
| Prepayments and Deposits | 93 |
| | ----- |
| Total Current Assets | 226 |
| | ----- |
| Non Current Assets: | |
| Property and Equipment, net | 19 |
| | ----- |
| Total Non Current Assets | 19 |
| | ----- |
| Total Assets | 245 |
| | ===== |
| | |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | |
| Current Liabilities: | |
| Accounts Payable and Accrued Expenses | 480 |
| Short Term Loan - Affiliate | 817 |
| | ----- |
| Total Current Liabilities | 1,297 |
| | ----- |
| Total Liabilities | 1,297 |
| | ----- |
| Stockholders' Equity (Deficit): | |
| Common Stock: \$.0001 par value | |
| 25,000,000 shares authorized, | |
| 16,714,130 issued | 2 |
| Less Treasury Stock at Cost, 2,500 shares | (20) |
| Additional Paid-in-Capital | 30,275 |

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

| | |
|--|----------|
| Deferred Compensation | (324) |
| Other Comprehensive Loss | (4) |
| Retained (Deficit) | (30,981) |
| | ----- |
| Total Stockholders' Equity (Deficit) | (1,052) |
| | ----- |
| Total Liabilities and Stockholders' Equity (Deficit) | 245 |
| | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

3

BAY RESOURCES LTD. AND SUBSIDIARIES
(An Exploration Stage Company)
Consolidated Statements of Operations
Three and Nine Months Ended March 31 2005,
and March 31, 2004
(Unaudited)

| | Three Months Ended March 31, 2005 A\$000's | Three Months Ended March 31, 2004 A\$000's | Nine Months Ended March 31, 2005 A\$000's | Nine Months Ended March 31, 2004 A\$000's |
|--|---|---|--|--|
| Revenues: | \$ -- | \$ -- | \$ -- | \$ -- |
| | ----- | ----- | ----- | ----- |
| Costs and Expenses: | | | | |
| Exploration Expenditure | 45 | 61 | 1,233 | 87 |
| Interest Expense, net | 19 | 40 | 24 | 125 |
| Stock Based Compensation | 251 | -- | 251 | -- |
| Legal, Accounting & Professional | 31 | 12 | 117 | 40 |
| Administrative | 139 | 176 | 555 | 297 |
| | ----- | ----- | ----- | ----- |
| | 485 | 289 | 2,180 | 549 |
| | ----- | ----- | ----- | ----- |
| Loss from Operations | (485) | (289) | (2,180) | (549) |
| Foreign Currency Exchange Gain | 5 | -- | 5 | -- |
| | ----- | ----- | ----- | ----- |
| Income (Loss) before Income Tax | (480) | (289) | (2,175) | (549) |
| Provision for Income Tax | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Net Income (Loss) | (480) | (289) | (2,175) | (549) |
| | ----- | ----- | ----- | ----- |
| Net (Loss) Per Common Equivalent Share | \$ (.03) | \$ (.03) | \$ (.13) | \$ (.08) |
| | ----- | ----- | ----- | ----- |
| Weighted Number of Common | | | | |

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

| | | | | |
|--|--------|-------|--------|-------|
| Equivalent Shares Outstanding (in thousands) | 16,714 | 8,302 | 16,714 | 6,992 |
| | ----- | ----- | ----- | ----- |

The accompanying notes are an integral part of these consolidated financial statements

4

BAY RESOURCES LTD. AND SUBSIDIARIES
(An Exploration Stage Company)
Consolidated Statements of Stockholders' Equity (Deficit)
March 1, 2005

| | Shares | Common Stock Amount | Treasury Stock, at Cost | Additional Paid-in Capital | Retained Earnings (Deficit) | Def |
|---|--------|---------------------|-------------------------|----------------------------|-----------------------------|-------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 000's | A\$000's | A\$000's | A\$000's | A\$000's | A |
| Balance June 30, 2002 | 6,347 | \$ 1 | \$ (20) | \$ 25,175 | \$ (26,402) | |
| Net loss | -- | -- | -- | -- | (681) | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance June 30, 2003 | 6,347 | \$ 1 | \$ (20) | \$ 25,175 | \$ (27,083) | |
| Issuance of 1,753,984 shares and warrants in lieu of debt repayment | 1,754 | -- | -- | 2,273 | -- | |
| Sale of 1,670,000 shares and warrants | 1,670 | -- | -- | 2,253 | -- | |
| Issuance of 6,943,057 shares on cashless exercise of options | 6,943 | 1 | -- | (1) | -- | |
| Net unrealised loss on foreign exchange | -- | -- | -- | -- | -- | |
| Net (loss) | -- | -- | -- | -- | (1,723) | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance June 30, 2004 | 16,714 | \$ 2 | \$ (20) | \$ 29,700 | \$ (28,806) | |
| Issuance of 1,400,000 options under 2004 Stock Option Plan | -- | -- | -- | 575 | -- | |
| Amortisation of 1,400,000 options issued under 2004 Stock Option Plan | -- | -- | -- | -- | -- | |

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

| | | | | | |
|---|--------|------|---------|-----------|-------------|
| Net unrealized gain on foreign exchange | -- | -- | -- | -- | -- |
| Net (loss) | -- | -- | -- | -- | (2,175) |
| Balance March 31, 2005 | 16,714 | \$ 2 | \$ (20) | \$ 30,275 | \$ (30,981) |

5

BAY RESOURCES LTD. AND SUBSIDIARIES
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
Nine Months Ended March 31, 2005 and 2004
(Unaudited)

| | 2005 A\$000's | 2004 A\$000's |
|--|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net (Loss) | (2,175) | (549) |
| Adjustments | | |
| Foreign Currency Exchange Gain | (5) | -- |
| Depreciation of Plant and Equipment | 7 | -- |
| Accrued interest added to principal | 24 | 125 |
| Options Issued for Stock Based Compensation | 251 | -- |
| Net Change in: | | |
| Receivables | (45) | (11) |
| Prepayments and Deposits | 148 | -- |
| Accounts Payable and Accrued Expenses | (5) | 1 |
| Net Cash Provided (Used) in Operating Activities | (1,800) | (434) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of Plant and Equipment | (6) | (4) |
| Net Cash (Used) in Investing Activities | (6) | (4) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Short-Term Loan - Affiliate | -- | 62 |
| Proceeds from issued shares of common stock | -- | 2,273 |
| Net Borrowings from Affiliates | 689 | (1,897) |
| Net Cash Provided by Financing Activities | 689 | 438 |
| Net Increase (Decrease) in Cash | (1,117) | -- |
| Cash at Beginning of Period | 1,118 | 1 |
| Cash at End of Period | 1 | 1 |
| Supplementary Disclosures | | |

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

| | | |
|---|-----|-------|
| Interest Paid | -- | 125 |
| Conversion of debt to equity - 1,753,984 shares | -- | 2,273 |
| Stock Options recorded as Deferred Compensation | 575 | -- |

The accompanying notes are an integral part of these consolidated financial statements

6

BAY RESOURCES LTD. AND SUBSIDIARIES
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
March 31, 2005

(1) Organisation

Bay Resources Ltd. (Bay Resources) is incorporated in the State of Delaware. The principal shareholder of Bay Resources is Edensor Nominees Proprietary Limited (Edensor), an Australian corporation. Edensor owned 44.2% of Bay Resources as of March 31, 2005. During fiscal 1998, Bay Resources incorporated a further subsidiary, Baynex.com Pty Ltd (formerly Bayou Australia Pty Ltd), under the laws of Australia. Baynex.com Pty Ltd has not traded since incorporation. On August 21, 2000, Bay Resources incorporated a new wholly owned subsidiary, Bay Resources (Asia) Pty Ltd (formerly Bayou International Pty Ltd), a corporation incorporated under the laws of Australia. In June 2002, the Company incorporated a new wholly owned subsidiary, Golden Bull Resources Corporation, formerly 4075251 Canada Inc, a corporation incorporated under the laws of Canada. Golden Bull Resources Corporation is undertaking exploration activities for gold in Canada.

(2) Affiliate Transactions

Bay Resources advances to and receives advances from various affiliates. All advances between consolidated affiliates are eliminated on consolidation.

During the nine months ending March 31, 2005 and 2004, AXIS Consultants Pty Ltd ("AXIS"), an affiliated management company, billed Bay Resources for management fees in the amounts A\$90,000 and A\$180,000, respectively and A\$195,179 and A\$169,986 for direct costs, including salaries, incurred on behalf of the Company. Bay Resources paid an amount of A\$243,500 and A\$675,253 to AXIS during the nine months to March 31, 2005 and 2004, respectively. At March 31, 2005 and 2004, the Company owed AXIS A\$191,469 and A\$41,468, respectively, for services provided in accordance with the Service Agreement. During the nine months ending March 31, 2005 and 2004, AXIS charged interest of A\$7,665 and A\$41,868, respectively, on outstanding balances. AXIS is affiliated through common management and ownership.

Wilzed Pty Ltd, a company associated with the President of the Company, Joseph Gutnick, provided loan funds to enable the Company to meet its liabilities and has paid certain expenses on behalf of the Company. During the nine months ending March 31, 2005, Wilzed loaned the Company A\$609,133 and charged interest of A\$16,087. At March 31, 2005, the Company owed Wilzed A\$625,220.

Chevas Pty Ltd, a company associated with the President of the Company, Joseph Gutnick, provided loan funds to enable the Company to meet its liabilities and has paid certain expenses on behalf of the Company. At June 30 2003, the Company owed Chevas A\$1,239,315. During the nine months ending March 31, 2004, Chevas loaned a further A\$274,989 and charged A\$82,268 in interest to the Company on

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

the loan account. The amount owed to Chevas was repaid in full in March 2004. At March 31, 2005 there are no amounts owing to Chevas.

At June 30, 2003, the Company owed Tahera A\$1,361. During the nine months ending March 31, 2004 Tahera incurred further exploration and administration costs in Canada on behalf of the Company amounting to A\$9,130. During the nine months ending March 31, 2004, Tahera did not charge the Company interest on amounts outstanding. At March 31, 2004, the Company owed Tahera A\$1,339. Mr. JI Gutnick, the President of the Company, ceased to be the President and Chairman of Tahera in October 2003 and the Company's principal stockholder, Edensor Nominees Pty Ltd., of which Mr. Gutnick is a director and shareholder, ceased to be a major stockholder of Tahera in October 2003.

7

BAY RESOURCES LTD. AND SUBSIDIARIES
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
March 31, 2005

(3) Affiliate Transactions (Cont'd)

During the year ended June 30, 2003, Mr JI Gutnick paid certain amounts owing to Tahera on behalf of the Company and at December 31, 2003, the amount of A\$47,000 was owing to Mr Gutnick. This amount was repaid in March 2004.

Quantum Resources Limited ("QUR"), a company associated with, Mr J I Gutnick, incurred certain costs on behalf of the Company during the nine months ended March 31, 2004 amounting to A\$43,941 in respect to the Company's activities in Tibet China as a result of QUR's contacts in China. The amount was repaid in March 2004.

Kerisridge Pty Ltd, an entity associated with Mr J I Gutnick, loaned the Company A\$2,273,186 in March 2004 for the purpose of rpaying long term debt. On March 31, 2004, Kerisridge agreed to convert all of the debt owed to them into common stock and warrants of the Company. The Company issued 1,753,984 shares of common stock and 1,753,984 warranets exercisable at US\$1.30 per share and at any time up to March 31, 2006 in full repayment of the \$2,273,186 owing to Kerisridge.

On February 19, 2004 Edensor Nominees Pty Ltd ("Edensor") advised the Company that it was exercising the 6,000,000 options for common stock of the Company it held utilizing the cashless exercise feature of the terms and conditions of the issue of the options. The Company issued 5,142,857 shares of common stock to Edensor on March 3, 2004 as a result of the exercise of the options.

Interest expense incurred on loans and advances due to affiliated entities approximated A\$23,752 and A\$124,136 in the nine months ended March 31, 2005 and 2004, respectively.

(4) Going Concern

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of Bay Resources as a going concern. Bay Resources is in the exploration stage, has sustained recurring losses and has a net working capital deficiency which raises substantial doubts as to its ability to continue as a going concern. However, Bay Resources anticipates that it will be able to defer repayment of obligations until it has sufficient liquidity to enable these loans to be repaid or other arrangements to be put in place. In addition Bay Resources has historically relied on loans and advances from corporations affiliated with

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

the President of Bay Resources. Based on discussions with these affiliate companies, Bay Resources believes this source of funding will continue to be available. Other than the arrangements noted above, Bay Resources has not confirmed any other arrangement for ongoing funding. As a result Bay Resources may be required to raise funds by additional debt or equity offerings in order to meet its cash flow requirements during the forthcoming year.

The accumulated deficit of the Company from inception through March 31, 2005 amounted to A\$30,981,000 of which A\$4,579,000 has been accumulated from July 2002, the date the Company entered the Exploration Stage, through March 31, 2005.

8

BAY RESOURCES LTD. AND SUBSIDIARIES
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
March 31, 2005

(5) Income Taxes

Bay Resources should have carry forward losses of approximately US\$20.5 million as of June 30, 2004 which will expire in the various years through 2023. Bay Resources will need to file tax returns for those years having losses on which returns have not been filed to establish the tax benefits of the net operating loss carry forwards. Due to the uncertainty of the availability and future utilization of those operating loss carry forwards, management has provided a full valuation against the related tax benefit.

(6) Contingent Liabilities

The Company has received an invoice from a corporation that conducted the pegging of the claims in Canada on behalf of the Company. A number of claims that were pegged were not ultimately issued to the Company due to a number of errors by the pegging Company. The Company had advised the pegging company that it does not believe any further payments are due to the pegging company as a result of the economic loss incurred by Bay Resources. The Company believes that if it is unsuccessful in defending any claim that is brought against it, the maximum potential liability is CDN\$59,000. No accrued liability has been recorded in the accompanying financial statements pending the ultimate disposition of this matter.

(7) Employment Contract

In October 2004, the Company entered into an employment agreement with a new Chief Operating Officer. The agreement expires on December 31, 2006 and provides for an annual salary of US\$110,000. As part of this employment contract, the Company granted options to purchase 750,000 shares of the Company common stock at US\$1.00 per share (see Note 8). The 750,000 options vest as follows: 250,000 immediately, 250,000 on September 1, 2005 and 250,000 on December 31, 2006. The issue of the second 250,000 and third 250,000 options are subject to availability of options in the Stock Option Plan.

(8) Issue of Options under Stock Option Plan

In October 2004, the Board of Directors and Remuneration Committee of the Company adopted a Stock Option Plan and agreed to issue 1,400,000 options and up to a further 500,000 options to acquire shares of common stock in the Company, at an exercise price of US\$1.00 per option, subject to shareholder approval which was subsequently received on January 27, 2005. Of the total 1,400,000

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

options issued, 350,000 vest immediately following shareholder approval, 50,000 vest on March 31, 2005, 333,331 vest on July 27, 2005, 333,334 vest on January 27, 2006 and the balance of 333,335 vest on July 27, 2006. If the additional 500,000 options are granted, they will vest 250,000 on September 1, 2005 and 250,000 on December 31, 2006. The exercise price of US\$1.00 was derived from the issue price of common stock from the placement of shares on March 31, 2004 and is considered by the Company's Directors to be the fair value of the common stock.

9

In December 2004, the Financial Accounting Standards Board issued Statement Number 123 (revised 2004) ("SFAS 123 (R)"), Share-Based Payments. SFAS 123 (R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, such as stock options granted to employees. The Company is required to apply SFAS 123 (R) on a modified prospective method. Under this method, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In addition, the Company may elect to adopt SFAS 123 (R) by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in their pro forma disclosures that had been required by SFAS 123. SFAS 123 (R) is effective as of the beginning of the Company's next fiscal year.

The Company has accounted for all options issued in 2005 based upon their fair market value using the Black Scholes pricing model. There were no options issued by the Company prior to 2005.

The Company has calculated the fair value of the options using the Black Scholes valuation method using a share price of US\$1.00, strike price of US\$1.00, maturity period of 5 years 7 1/2 months, risk free interest rate of 5.15% and volatility of 20%. This equates to a value of US\$31.85 cents per option. The total value of the options equates to A\$575,100 (US\$445,900) and has been reflected as Deferred Compensation Expense within the Shareholders Equity Statement. The gross fair value is amortised into operations over the vesting period. For the quarter ended March 31, 2005, the amortization amounted to \$251,408.

10

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FUND COSTS CONVERSION

The consolidated statements of operations and other financial and operating data contained elsewhere here in and the consolidated balance sheets and financial results have been reflected in Australian dollars unless otherwise stated.

The following table shows the average rate of exchange of the Australian dollar as compared to the US dollar and Canadian dollar during the periods indicated:

| | |
|-------------------------------|-----------------------|
| 9 months ended March 31, 2004 | A\$1.00 = US\$0.7589 |
| 9 months ended March 31, 2005 | A\$1.00 = US\$0.7484 |
| 9 months ended March 31, 2004 | A\$1.00 = CDN\$0.9529 |
| 9 months ended March 31, 2005 | A\$1.00 = CDN\$0.9357 |

RESULTS OF OPERATION

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

Three Months Ended March 31, 2005 vs. Three Months Ended March 31 2004.

Costs and expenses increased from A\$289,000 in the three months ended March 31, 2004 to A\$485,000 in the three months ended March 31, 2005. The Company's financial statements are prepared in Australian dollars (A\$). A number of costs and expenses of the Company are incurred in US\$ and CDN\$ and the conversion of these costs to A\$ means that the comparison of the three months ended March 2005 to the three months ended March 2004 does not always present a true comparison. The increase in expenses is a net result of:

- a) a decrease in interest expense (net) from A\$40,000 for the three months ended March 31, 2004 to A\$19,000 for the three months ended March 31, 2005 as all long term debt was converted into equity in March 2004 and the Company raised funds through the issue of shares and warrants in March 2004 to fund the Company's operations. During the 2004 quarter, the interest rate of 8.60% was charged on outstanding amounts by Chevas. Chevas is a company associated with Mr. J.I. Gutnick, our President, which provided funding for the Company's operations during the prior year. AXIS Consultants provides management and geological services to the Company pursuant to a Service Deed dated November 25, 1988. AXIS Consultants charged interest at a rate of 10.60% to 10.85% for fiscal 2005 compared to 9.60% and 10.10% for fiscal 2004. During the three months ended March 31, 2005. Wilzed loaned the Company a further A\$609,133 and charged the Company A\$16,087 in interest. The interest rate charged by Wilzed was at the rate of 9.1% to 9.35%. During the March 2005 quarter, AXIS charged interest of A\$7,665 on amounts outstanding.
- b) an increase in legal, accounting and professional expense from A\$12,000 for the three months ended March 31, 2004 to A\$31,000 for the three months ended March 31, 2005 as a result of an increase in legal fees in relation to the preparation of a listing of the Company's securities on the Toronto Venture Exchange.
- c) a decrease in administrative costs including salaries from A\$176,000 in the three months ended March 31, 2004 to A\$139,000 in the three months ended March 31, 2005. In the March 31, 2004 quarter, the consultant who provided investor relations and business development services billed the Company for work from November 2003 in excess of the amount anticipated by the Company. There is no similar amount in the current year.
- d) an decrease in the exploration expenditure expense from \$61,000 for the three months ended March 31, 2004 to \$45,000 for the three months ended March 31, 2005. In March 2004, we appointed a Vice President Exploration in Canada and commenced the exploration program on the Committee Bay and Slave Properties. These properties

11

are in Nunavet in an isolated area and exploration can only be undertaken between June and September each year due to ground conditions. Exploration is costly as we were required to hire and construct a temporary camp which also had to be transported by charter flight. All supplies and temporary employees also needed to be transported to the temporary camp by charter flights and/or helicopter. The properties are located approximately 100 kilometers from the camp and employees are transported by helicopter daily from camp to the exploration site. For the three months ended March 2005,

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

exploration in Canada was minimal due to the seasonal weather conditions.

- e) an increase in stock based compensation from A\$nil for the three months ended March 31, 2004 to A\$251,000 for the three months ended March 31, 2005. Following shareholder approval on January 27, 2005 the Company issued 1,400,000 options pursuant to the 2004 Stock Option Plan. Of the total 1,400,000 options issued, 350,000 vest immediately following shareholder approval, 50,000 vest on March 31, 2005, 333,331 vest on July 27, 2005, 333,334 vest on January 27, 2006 and the balance of 333,335 vest on July 27, 2006. If the additional 500,000 options are granted, they will vest 250,000 on September 1, 2005 and 250,000 on December 31, 2006. The exercise price of US\$1.00 was derived from the issue price of common stock from the placement of shares on March 31, 2004 and is considered by the Company's Directors to be the fair value of the common stock.

In December 2004, the Financial Accounting Standards Board issued Statement Number 123 (revised 2004) ("SAS 123 (R)"), Share-Based Payments. SFAS 123 (R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, such as stock options granted to employees. The Company is required to apply SFAS 123 (R) on a modified prospective method. Under this method, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In addition, the Company may elect to adopt SFAS 123 (R) by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in their pro forma disclosures that had been required by SFAS 123. SFAS 123 (R) is effective as of the beginning of the Company's next fiscal year.. The Company has calculated the fair value of the 1,400,000 options issued in January 2005 using the Black Scholes valuation method using a share price of US\$1.00, strike price of US\$1.00, maturity period of 5 years 7 1/2 months, risk free interest rate of 5.15% and volatility of 20%. This equates to a value of US\$31.85 cents per option or a total of A\$575,100. Of this amount, A\$251,408 has been amortised and charged to operations in the March 2005 quarter.

As a result of the foregoing, the loss from operations increased from A\$289,000 for the three months ended March 31, 2004 to A\$480,000 for the three months ended March 31, 2005.

The net loss was A\$289,000 for the three months ended March 31, 2004 compared to a net loss of A\$480,000 for the three months ended March 31, 2005.

Nine Months Ended March 31, 2005 vs. Nine Months Ended March 31, 2004.

Costs and expenses increased from A\$549,000 in the nine months March 31, 2004 to A\$2,180,000 in the nine months ended March 31, 2005. The Company's financial statements are prepared in Australian dollars (A\$). A number of the costs and expenses of the Company are incurred in US\$ and CDN\$ and the conversion of these costs to A\$ means that the comparison of the nine months ended March 2005 to the nine months ended March 2004 does not always present a true comparison. The increase in expenses is a net result of:

- a) an decrease in interest expense (net) from A\$125,000 for the nine months ended March 31, 2004 to A\$24,000 for the nine months ended March 31, 2005 as all long term debt was converted into equity in March 2004 and the Company raised funds through the issue of shares and warrants in March 2004 to fund the Company's operations. During

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

the 2004 period, the interest rate of 8.60% was charged on

12

outstanding amounts by Chevas. Chevas is a company associated with Mr. J.I. Gutnick, our President, which provided funding for the Company's operations during the prior year. AXIS provides management and geological services to the Company pursuant to a Service Deed dated November 25, 1988. AXIS charged interest at a rate of 10.60% to 10.85% for fiscal 2005 compared to 9.60% and 10.10% for fiscal 2004

- b) an increase in legal, accounting and professional expense from A\$40,000 for the nine months ended March 31, 2004 to A\$117,000 for the nine months ended March 31, 2005 as a result of an increase in legal fees in relation to discussions with external financiers and the preparation of a listing of the Company's securities on the Toronto Venture Exchange .
- c) an increase in administrative costs including salaries from A\$297,000 in the nine months ended March 31, 2004 to A\$555,000 in the nine months ended March 31, 2005 as a result of the increase in the direct costs billed by AXIS Consultants from A\$169,986 for the nine months ended March 31, 2004 compared to A\$318,285 for the nine months ended March 31, 2005 as a result of the salary of the President being charged for the nine months (A\$82,500) which was not billed until the June 2004 quarter in the prior period and the increase in salaries and management fee charged by AXIS as a result of the increase in work undertaken on behalf of the Company as a result of the increase in the level of activity, the costs of our Chief Operating Officer who undertakes business development, capital raising and investor relations work for the Company and associated business expenses of A\$112,961 (2004: \$76,932 as he was employed as a consultant from November 2003); the costs of preparation, lodgement with the SEC and printing of documentation forwarded to shareholders for the 2004 annual general meeting of A\$14,000 and the nine month allocation of the insurance costs for Canada to cover the exploration programme of A\$47,830. There was no comparable cost in the prior comparable period for the annual general meeting and insurance as the Company has only taken out insurance since it commenced its exploration activities and the prior annual shareholders approval occurred in June 2003.
- d) an increase in the exploration expenditure expense from A\$87,000 for the nine months ended March 31, 2004 to A\$1,233,000 for the nine months ended March 31, 2005. In March 2004, we appointed a Vice President Exploration in Canada and commenced the exploration program on the Committee Bay Properties and Slave Properties. These properties are in Nunavet in an isolated area and exploration can only be undertaken between June and September each year due to ground conditions. Exploration is costly as we were required to hire and construct a temporary camp which also had to be transported by charter flight. All supplies and temporary employees also needed to be transported to the temporary camp by charter flights and/or helicopter. The properties are located approximately 100 kilometers from the camp and employees are transported by helicopter daily from camp to the exploration site. For the nine months ended March 31, 2004, exploration in Canada related to monitoring the staking of claims in the Committee Bay Greenstone Belt. In the nine months ended March 31, 2005, we completed field programs at both properties

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

at a cost during the nine month period of A\$1,233,000.

- e) an increase in stock based compensation from A\$nil for the three months ended March 31, 2004 to A\$251,000 for the three months ended March 31, 2005. Following shareholder approval on January 27, 2005 the Company issued 1,400,000 options pursuant to the 2004 Stock Option Plan. Of the total 1,400,000 options issued, 350,000 vest immediately following shareholder approval, 50,000 vest on March 31, 2005, 333,331 vest on July 27, 2005, 333,334 vest on January 27, 2006 and the balance of 333,335 vest on July 27, 2006. If the additional 500,000 options are granted, they will vest 250,000 on October 31, 2005 and 250,000 on December 31, 2006. The exercise price of US\$1.00 was derived from the issue price of common stock from the placement of shares on March 31, 2004 and is considered by the Company's Directors to be the fair value of the common stock.

As a result of the foregoing, the loss from operations increased from A\$549,000 for the nine months ended March 31, 2004 to A\$2,175,000 for the nine months ended March 31, 2005.

13

The net loss was A\$549,000 for the nine months ended March 31, 2004 compared to a net loss of A\$2,175,000 for the nine months ended March 31, 2005.

Liquidity and Capital Resources

For the nine months ended March 31, 2005, net cash used in operating activities was A\$1,800,000 primarily consisting of the net loss for the nine months ended March 31, 2005 of A\$2,175,000; decreases in accounts payable and accrued expenses of A\$5,000; a reduction of prepayments and deposits of A\$148,000; an increase in receivables of A\$45,000. Net cash used in investing activities consisted of a A\$6,000 purchase of plant and equipment. Net cash from financing activities was A\$689,000 being an increase in borrowing from affiliates to fund activities.

As of March 31, 2005 the Company had short-term obligations of A\$1,297,000 comprising accounts payable, accrued expenses and a short term loan from an affiliate.

We have A\$1,000 in cash at March 31, 2005. We are investigating the possibility of raising cash flow through money in Canada for exploration purposes as well as other sources of equity or debt financing.

The Company has prepared a base case exploration budget for the 2005 exploration season which totals A\$464,000. We have been preparing a listing application for the dual listing of our shares of common stock on TSX-V. The listing application was lodged with TSX-V in June 2004 and we are currently in the process of responding to recent questions raised by TSX-V. Canaccord Capital Corporation has agreed, subject to satisfactory completion of its due diligence, to act as sponsor for the listing. Following such listing, the Company may seek to raise up to CDN\$3 million in flow through financing to assist with funding the Company's operations (of which there can be no assurance). We believe that a dual listing of our shares of common stock will provide liquidity in our shares. There can be no assurance that the dual listing on TSX-V will eventuate or that such listing will create an increase in the volume of trading of our shares of common stock.

The Company anticipates that it will be able to defer repayment of certain of its short-term loan commitments, until it has sufficient liquidity to enable these loans to be repaid, of which there can be no assurance. In addition the Company has historically relied upon loans and advances from affiliates to meet

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

a significant portion of the Company's cash flow requirements which the Company believes, based on discussions with such affiliates, will continue to be available during fiscal 2005.

Other than the arrangements above, the Company has not confirmed any further arrangements for ongoing funding. As a result, the Company will be required to raise funds from additional debt or equity offerings in order to meet its cash flow requirements during the forthcoming year.

The Company will require substantial additional capital over the next year in order to satisfy existing liabilities and to provide funding to achieve its current business plan. Failure to obtain such capital could adversely impact the Company's operations and prospects.

Cautionary Safe Harbor Statement under the United States Private Securities Litigation Reform Act of 1995.

Certain information contained in this Form 10-QSB's forward looking information within the meaning of the Private Securities Litigation Act of 1995 (the "Act") which became law in December 1995. In order to obtain the benefits of the "safe harbor" provisions of the act for any such forwarding looking statements, the Company wishes to caution investors and prospective investors about significant factors which among others have affected the Company's actual results and are in the future likely to affect the Company's actual results and cause them to differ materially from those expressed in any such forward looking statements. This Form 10-QSB report contains forward looking statements relating to future financial results. Actual results may differ as a result of factors over which the Company has no control including, without limitation, the risks of exploration and development stage projects, political risks of development in

14

foreign countries, risks associated with environmental and other regulatory matters, mining risks and competition and the volatility of gold and copper prices, and movements in the foreign exchange rate. Additional information which could affect the Company's financial results is included in the Company's Form 10-KSB on file with the Securities and Exchange Commission.

15

Item 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 as of the end of the period covered by this report. Based upon that evaluation, such officers concluded that our disclosure controls and procedures are effective to ensure that information is gathered, analyzed and disclosed on a timely basis.

Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

16

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

PART II

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Not Applicable

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not Applicable

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

Item 5. OTHER INFORMATION

Not Applicable

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

| (a) Exhibit No. | Description |
|-----------------|---|
| ----- | ----- |
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley act of 2002 |

17

(FORM 10-QSB)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BAY RESOURCES LTD.

By: /s/ Joseph I. Gutnick

Joseph I. Gutnick
Chairman of the Board, President and

Edgar Filing: BAY RESOURCES LTD - Form 10QSB

Chief Executive Officer
(Principal Executive Officer)

By: /s/ Peter Lee

Peter Lee
Peter Lee, Secretary and
Chief Financial Officer
(Principal Financial Officer)

Dated May 11, 2005

18

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| ----- | ----- |
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley act of 2002 |

19