

Edgar Filing: BAY RESOURCES LTD - Form 10-Q

BAY RESOURCES LTD  
Form 10-Q  
March 11, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

(Mark one)

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

For the quarterly period ended December 31, 2002 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  
incorporation or organisation)

-----  
(IRS Employer  
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

Securities registered pursuant to Section 12(b) of the Act :

Title of each class

Name of each exchange  
on which registered

N/A

N/A

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.0001 per share

(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 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 the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act).

Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

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## 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 Securities Exchange Act of 1934 subsequent to 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 6,347,089 outstanding shares of Common Stock as of December 31, 2002.

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## PART 1

### FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### INTRODUCTION TO INTERIM FINANCIAL STATEMENTS.

The interim financial statements included herein have been prepared by Bay Resources Ltd. (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-K for the year ended June 30, 2002.

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 December 31, 2002 and December 31, 2001, the results of its operations for the three and six month periods ended December 31, 2002 and December 31, 2001, and the changes in its cash flows for the three month periods ended December 31, 2002 and December 31, 2001, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

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

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BAY RESOURCES LTD. AND SUBSIDIARIES  
Consolidated Balance Sheets  
December 31, 2002 and June 30, 2002  
and December 31, 2001  
(Unaudited)  
ASSETS

Dec 31

June 30

Dec 31

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|                                  | 2002<br>A \$000's<br>----- | 2002<br>A \$000's<br>----- | 2001<br>A \$000's<br>----- |
|----------------------------------|----------------------------|----------------------------|----------------------------|
| Current Assets:                  |                            |                            |                            |
| Cash                             | \$ 1                       | \$ -                       | \$ 3                       |
| Staking Deposit                  | 23                         | 23                         | -                          |
|                                  | -----                      |                            |                            |
| Total Current Assets             | 23                         | 23                         | 3                          |
|                                  | -----                      |                            |                            |
| Other Assets:                    |                            |                            |                            |
| Capitalised Mining & Exploration | -                          | -                          | -                          |
| Investment securities            | -                          | -                          | -                          |
|                                  | -----                      |                            |                            |
| Total Other Assets               | -                          | -                          | -                          |
|                                  | -----                      |                            |                            |
| Total Assets                     | \$ 24                      | \$ 23                      | \$ 3                       |
|                                  | =====                      |                            |                            |

LIABILITIES AND STOCKHOLDERS' EQUITY

|                                                                                                      |          |          |          |
|------------------------------------------------------------------------------------------------------|----------|----------|----------|
| Current Liabilities:                                                                                 |          |          |          |
| Accounts Payable and Accrued Expenses                                                                | \$ 548   | \$ 449   | \$ 399   |
| Short- Term Loan - Affiliate                                                                         | 20       | 36       | -        |
|                                                                                                      | -----    |          |          |
| Total Current Liabilities                                                                            | 568      | 485      | 399      |
|                                                                                                      | -----    |          |          |
| Long-Term Debt                                                                                       | 1,029    | 784      | 731      |
|                                                                                                      | -----    |          |          |
| Total Liabilities                                                                                    | 1,597    | 1,269    | 1,130    |
|                                                                                                      | -----    |          |          |
| Stockholders' Equity (Deficit):                                                                      |          |          |          |
| Common Stock: \$.0001 par value<br>25,000,000 shares authorised,<br>6,347,089 issued and outstanding | 1        | 1        | 1        |
| Less Treasury Stock at Cost, 2,500 shares                                                            | (20)     | (20)     | (20)     |
| Additional Paid-in-Capital                                                                           | 25,175   | 25,175   | 25,175   |
| Accumulated other Comprehensive Loss                                                                 | -        | -        | (1,989)  |
| Retained Deficits                                                                                    | (26,729) | (26,402) | (24,294) |
|                                                                                                      | -----    |          |          |
| Total Stockholders' Deficit                                                                          | (1,573)  | (1,246)  | (1,127)  |
|                                                                                                      | -----    |          |          |
| Total Liabilities and<br>Stockholders' Equity                                                        | \$ 24    | \$ 23    | \$ 3     |
|                                                                                                      | =====    |          |          |

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

BAY RESOURCES LTD. AND SUBSIDIARIES  
Consolidated Statements of Operations  
Three Months Ended December 31, 2002 and 2001  
and six months ended December 31, 2002 and 2001  
(Unaudited)

|                                                            | Three<br>Months<br>Ended<br>Dec 31<br>2002<br>A \$000's<br>----- | Three<br>Months<br>Ended<br>Dec 31<br>2001<br>A \$000's<br>----- | Six<br>Months<br>Ended<br>Dec 31<br>2002<br>A \$000's<br>----- | A    |
|------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------|------|
| Revenues:                                                  |                                                                  |                                                                  |                                                                |      |
| Other Income                                               | \$ -                                                             | \$ -                                                             | \$ -                                                           | \$ - |
| <hr/>                                                      |                                                                  |                                                                  |                                                                |      |
| Costs and Expenses:                                        |                                                                  |                                                                  |                                                                |      |
| Exploration Expenditure                                    | 94                                                               | -                                                                | 111                                                            |      |
| Interest Expense                                           | 32                                                               | 21                                                               | 62                                                             |      |
| Legal, Accounting & Professional                           | 22                                                               | 3                                                                | 28                                                             |      |
| Administrative                                             | 69                                                               | 99                                                               | 126                                                            |      |
|                                                            | 217                                                              | 123                                                              | 327                                                            |      |
| <hr/>                                                      |                                                                  |                                                                  |                                                                |      |
| Loss from Operations                                       | (217)                                                            | (123)                                                            | (327)                                                          |      |
| <hr/>                                                      |                                                                  |                                                                  |                                                                |      |
| Income (Loss) before Income Tax                            | (217)                                                            | (123)                                                            | (327)                                                          |      |
| Provision for Income Tax                                   | -                                                                | -                                                                | -                                                              |      |
| <hr/>                                                      |                                                                  |                                                                  |                                                                |      |
| Net Income (Loss)                                          | \$ (217)                                                         | \$ (123)                                                         | \$ (327)                                                       | \$ - |
| <hr/>                                                      |                                                                  |                                                                  |                                                                |      |
| Earnings Per Common Equivalent Share                       | \$ (.03)                                                         | \$ (.02)                                                         | \$ (.05)                                                       | \$ - |
| <hr/>                                                      |                                                                  |                                                                  |                                                                |      |
| Weighted Number of Common<br>Equivalent Shares Outstanding | 6,347                                                            | 6,347                                                            | 6,347                                                          |      |
| <hr/>                                                      |                                                                  |                                                                  |                                                                |      |

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

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December 31, 2002 and June 30, 2002  
and December 31, 2001  
(Unaudited)

|                                                                      | Shares<br>000's | Common<br>Stock<br>Amount<br>A\$000's | Treasury<br>Stock at<br>Cost<br>A\$000's | Paid in<br>Capital<br>A\$000's | Retained<br>Earnings<br>Deficit<br>A\$000's | Accumulated<br>Other<br>Comprehensive<br>Loss<br>A\$000's |    |
|----------------------------------------------------------------------|-----------------|---------------------------------------|------------------------------------------|--------------------------------|---------------------------------------------|-----------------------------------------------------------|----|
| Balance June 30, 2001                                                | 6,347           | \$ 1                                  | \$ (20)                                  | \$ 25,175                      | \$ (24,071)                                 | \$ (1,989)                                                | \$ |
| Comprehensive Income                                                 |                 |                                       |                                          |                                |                                             |                                                           |    |
| Net loss six months ending<br>12-31-01                               | -               | -                                     | -                                        | -                              | (223)                                       | -                                                         | -  |
| Total Comprehensive Income                                           | -               | -                                     | -                                        | -                              | -                                           | -                                                         | -  |
| -----                                                                |                 |                                       |                                          |                                |                                             |                                                           |    |
| Balance September 30, 2001                                           | 6,347           | \$ 1                                  | \$ (20)                                  | \$ 25,175                      | \$ (24,294)                                 | \$ (1,989)                                                | \$ |
| Comprehensive Income                                                 |                 |                                       |                                          |                                |                                             |                                                           |    |
| Net loss six months ending<br>6-30-02                                | -               | -                                     | -                                        | -                              | (119)                                       | -                                                         | -  |
| Reclassification of Permanent<br>Decline in Investment<br>Securities | -               | -                                     | -                                        | -                              | (1,989)                                     | 1,989                                                     | -  |
| Total Comprehensive Income                                           | -               | -                                     | -                                        | -                              | (2,231)                                     | 1,989                                                     | -  |
| -----                                                                |                 |                                       |                                          |                                |                                             |                                                           |    |
| Balance June 30, 2002                                                | 6,347           | \$ 1                                  | \$ (20)                                  | \$ 25,175                      | \$ (26,402)                                 | \$ -                                                      | \$ |
| Comprehensive Income                                                 |                 |                                       |                                          |                                |                                             |                                                           |    |
| Net loss six months ending<br>12-31-02                               | -               | -                                     | -                                        | -                              | (327)                                       | -                                                         | -  |
| Total Comprehensive Income                                           | -               | -                                     | -                                        | -                              | -                                           | -                                                         | -  |
| -----                                                                |                 |                                       |                                          |                                |                                             |                                                           |    |
| Balance September 30, 2002                                           | 6,347           | \$ 1                                  | \$ (20)                                  | \$ 25,175                      | \$ (26,729)                                 | \$ -                                                      | \$ |
| =====                                                                |                 |                                       |                                          |                                |                                             |                                                           |    |

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

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(Unaudited)

|                                                  | Six<br>Months<br>Ended<br>Dec 31<br>2002<br>A\$000's<br>----- | Year<br>Ended<br>June 30<br>2002<br>A\$000's<br>----- | Six<br>Months<br>Ended<br>Dec 31<br>2001<br>A\$000's<br>----- |
|--------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>     |                                                               |                                                       |                                                               |
| Net Income (Loss)                                | \$ (327)                                                      | \$ (342)                                              | \$ (223)                                                      |
| Adjustments:                                     |                                                               |                                                       |                                                               |
| Staking Deposit                                  | -                                                             | (23)                                                  | -                                                             |
| Accounts Payable and Accrued Liabilities         | 99                                                            | 185                                                   | 135                                                           |
| Short - Term Loan - Affiliate                    | (16)                                                          | 36                                                    | -                                                             |
|                                                  | -----                                                         |                                                       |                                                               |
| Net Cash Provided (Used) in Operating Activities | (244)                                                         | (144)                                                 | (88)                                                          |
|                                                  | -----                                                         |                                                       |                                                               |
| <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>      |                                                               |                                                       |                                                               |
| Net Cash Provided (Used) in Investing Activities | -                                                             | -                                                     | -                                                             |
|                                                  | -----                                                         |                                                       |                                                               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>     |                                                               |                                                       |                                                               |
| Net Borrowing from Affiliate                     | 245                                                           | 143                                                   | 90                                                            |
|                                                  | -----                                                         |                                                       |                                                               |
| Net Cash Provided by Financing Activities        | 245                                                           | 143                                                   | 90                                                            |
|                                                  | -----                                                         |                                                       |                                                               |
| Net Increase (Decrease) in Cash                  | 1                                                             | (1)                                                   | 2                                                             |
| Cash at Beginning of Year                        | -                                                             | 1                                                     | 1                                                             |
|                                                  | -----                                                         |                                                       |                                                               |
| Cash at End of Year                              | \$ 1                                                          | \$ -                                                  | \$ 3                                                          |
|                                                  | =====                                                         |                                                       |                                                               |
| <b>Supplemental Disclosures:</b>                 |                                                               |                                                       |                                                               |
| Interest Paid (Net Capitalised)                  | 62                                                            | 90                                                    | 41                                                            |
| Income Tax Paid \$                               | -                                                             | -                                                     | 1                                                             |

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

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BAY RESOURCES LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
December 31, 2002, June 30, 2002 and  
December 31, 2001

(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 78.8% of Bay Resources as of December 31, 2002. Bay Resources acquired a controlling interest on September 3,

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1987 in former subsidiary, Solmeccs Corporation N.V. ("Solmeccs") and 100% ownership on January 2, 1992. Bayou sold its interest in Solmeccs effective June 5, 1998. During fiscal 1998, Bay Resources incorporated a further subsidiary, Baynex.com Pty Ltd, under the laws of Australia. Baynex.com Pty Ltd has not traded at September 30, 1998. On August 21, 2000, Bay Resources incorporated a new wholly owned subsidiary, Bay International Pty Ltd, a corporation incorporated under the laws of Australia. In June 2002, the Company incorporated a new wholly owned subsidiary, 4075251 Canada Inc, a corporation incorporated under the laws of Canada. 4075251 Canada Inc is the vehicle that will be used by the Company to undertake exploration activities for gold in Canada. In December 2002, the name of its 100% owned subsidiary was changed from Baynet International Pty Ltd to Bay Resources (Asia) Pty Ltd.

### (2) INVESTMENT SECURITIES

The following is a summary of Investment Securities at December 31, 2002, June 30, 2002 and December 31, 2001:

|                                                | Dec 31<br>2002<br>A\$000's<br>----- | June 30<br>2002<br>A\$000's<br>----- | Dec 31<br>2001<br>A\$000's<br>----- |
|------------------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| Investment Cost Method                         |                                     |                                      |                                     |
| Available for Sale Securities                  | \$ 4,516                            | \$ 4,516                             | \$ 4,516                            |
| Gross Realised Loss or impairment              | (4,516)                             | (4,516)                              | (4,516)                             |
|                                                | -----                               |                                      |                                     |
| Marketable Equity Securities,<br>at fair value | \$ -                                | \$ -                                 | \$ -                                |
|                                                | =====                               |                                      |                                     |

The investment using this cost method is carried at cost. Dividends received from the investment carried at cost are included in other income. Dividends received in excess of the Company's proportionate share of accumulated earnings ("return of capital dividends") are applied as a reduction of the cost of the investment. No securities were sold during 2002 and 2001 and all securities were treated as available for sale for 2002 and 2001.

### (3) SHORT TERM AND LONG TERM DEBT

The following is a summary of Bay Resources borrowing arrangements as of December 31, 2002, June 30, 2002 and December 31, 2001.

|                                                                                                                                                                                                                        | Dec 31<br>2002<br>A\$000's<br>----- | June 30<br>2002<br>A\$000's<br>----- | Dec 31<br>2001<br>A\$000's<br>----- |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| Long-Term                                                                                                                                                                                                              |                                     |                                      |                                     |
| Loan from corporations affiliated with the President of Bay Resources. Interest accrues at the ANZ Banking Group Limited rate + 1% for overdrafts over \$100,000. Repayment of loan not required before June 30, 2003. | \$ 1,029                            | \$ 784                               | \$ 731                              |
| Total Long-Term                                                                                                                                                                                                        | \$ 1,029                            | \$ 784                               | \$ 731                              |

=====

(4) AFFILIATE TRANSACTIONS

Bay Resources advances to and receives advances from various affiliates. All advances between consolidated affiliates are eliminated on consolidation. At December 31, 2002, Bay Resources had no outstanding advances to or from unconsolidated affiliated companies. \$455,000, \$389,000 and \$368,000 of accounts payable for the years shown is due to an affiliated management company.

Bay Resources paid management fees to this affiliated management company in the amounts of \$60,000, \$150,000 and \$75,000 respectively. These entities are affiliated through common management and ownership.

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BAY RESOURCES LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
December 31, 2002, June 30, 2002 and  
December 31, 2001

(5) 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. However, Bay Resources has sustained recurring losses. In addition, Bay Resources has a net working capital deficiency which raises substantial doubts as to its ability to continue as going concerns. Bay Resources 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 or other arrangements to be put in place. In addition Bay Resources has historically relied on loans and advances from corporations affiliated with 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.

(6) SALE OF SOLMECS

Pursuant to a stock purchase agreement dated as of June 5, 1998, the Company acquired 499,701 shares in SCNV Acquisition Corp ("SCNV"), representing approximately 24% of the issued and outstanding share capital of SCNV, in return for the whole of the share capital of Solmecs Corporation N.V., a Netherlands Antilles company which prior to the exchange was formerly a wholly owned subsidiary of the Company. The 499,701 shares has been valued at US\$2,800,000 or A\$4,516,000 and will be accounted for using the cost method because the Company does not exercise significant influences over SCNV's operating and financial activities (see note 4). The sale resulted in a gain of \$5,899,000.

SCNV is a Delaware corporation established May 1997 to select, develop and commercially exploit proprietary technologies, in various stages of development, invented primary by scientists who immigrated to Israel from and by scientists and institutions in Russia and other countries that formerly comprised the Soviet Union. Simultaneously with the SCNV stock acquisition by the Company, SCNV completed an initial public offering of common stock and warrants which resulted in gross proceeds of approximately US\$5,900,000.



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The Company has been granted certain demand and "piggyback" registration rights with respect to the SCNV shares. Notwithstanding the foregoing, the Company has agreed not to sell, grant options for sale or assign or transfer any of the SCNV shares, for a period of 24 months from the closing of the ("Lock-up") agreement, which expired in June 2000. Bay Resources has requested SCNV to take the necessary steps to register Bay Resources' shareholding in SCNV. The Company does not currently have any plans to distribute the shares.

### (7) INCOME TAXES

Bay Resources files its income tax returns on an accrual basis. Bayou has carry forward losses of approximately US\$19 million as of June 30, 2002 which expire in the years 2003 through 2022. Bay Resources will need to file tax returns for those years of the NOL carryforwards. Due to the uncertainty as to realisation of these losses, a valuation allowance of US\$6.0 million has been recorded to off set the tax benefit of the carry forward losses. During the year ended June 30, 2002, Bay Resources provided for a net change in its valuation allowance of US\$10,000.

### (8) CANADIAN AGREEMENT

During the 2002 fiscal year, Bay continued to expand its gold exploration business by entering into an agreement to explore for gold on extensive property interests in northern Canada held by Tahera Corporation; and making application via a new 100% owned subsidiary, 407521 Canada Inc, for properties in the highly prospective Committee Bay Greenstone Belt in Nunavut, Canada.

### (9) NEW BUSINESS OPPORTUNITY

On November 25, 2002, the Company announced that it had signed a joint venture contract with the Tibet Bureau of Geology and Minerals Exploration Development, China to earn a 51% interest ( with the right to earn up to a 70% interest in two drilled porphyry zones and the surrounding higher risk exploration areas) in the Xigaze copper belt running in a 200km east-west trend either side of Lhasa. The exploration block of about 40,000km<sup>2</sup> contains eight known porphyry deposits. To date, only two have been drill tested - in west Chong Jiang and east of Lhasa Qu Long.

Qu Long is the main area with a huge central ore zone fully exposed with no soil or vegetation cover. Whilst only one hole has been completed, it intersected 500 meters of approximately 1% copper with several thick higher-grade intervals of 4% copper. Gold grades are known from surface sampling, but core assays are not yet available. Based on the surface grades, it is suspected that there will be 0.3 grams per tonne ("gt") gold credits along with silver and molybdenum. The central ore zone at Qu Long measures over 1 kilometer, it stands over 500 meters above the valley floor and has been drilled to 500 meters depth - a block of mineralized rock over 1 kilometer in each dimension, potentially a significantly large ore zone. Clearly much more drilling is required to define the ore deposit and the average grade, this has the potential to be a world class deposit containing over 5 million tones of copper metal as well as substantial credits of silver, gold and molybdenum.

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### (9) NEW BUSINESS OPPORTUNITY (CONTINUED)

Chong Jiang is more thoroughly tested with four drill holes and over 700 meters of adit development. On the eastern side (closer to the main porphyry intrusion) drill hole No. 2 and an adit both intersected 1% copper ore and 0.2 g/t gold. From an exploration point of view this warrants further exploration.

Other porphyry deposits have been recognized and explored by rock chip sampling and shallow trenching. Both copper and gold grades are encouraging but as yet no drilling has been completed. It is significant that these deposits were only discovered late in 1999 - the first drill holes were only completed last year at Chong Jian, and Qu Long was first drilled in August 2002.

The Xigaze porphyry deposits also show evidence of elevated gold credits similar to Grasberg and Batu Hijau deposits in Indonesia. Even more significant are the large discrete gold geochemical anomalies extending east from Qu Long. At this stage further exploration is required to know what these represent, they could be gold rich phases of the copper porphyry, and they may prove to be gold systems in their own right. Grasberg was expressed as a 2km(2) 2gt gold target. These are much weaker surface expressions but also up to 2km(2) in area. Without drilling it is not known how much leaching has occurred.

The Company believes the Xigaze porphyry belt is an outstanding exploration and development opportunity. The BGMR geologists and the Minister believe the resource potential already exceeds 10 million tones of contained copper metal, perhaps even twice this amount, and it also has significant credits of silver, gold and molybdenum. The Company's exploration commitment is a minimum 3 years, and US\$7 million, and in total, seven years for exploration and feasibility totalling US\$35 million. The Heads of Agreement covers a period of 30 years (including the 7 years for exploration and feasibility and 23 years for mining) and can be extended if the economics of the project justify an extension.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### FUND COSTS CONVERSION

The consolidated statements of income 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 during the periods indicated:

|                                  |                        |
|----------------------------------|------------------------|
| 6 months ended December 31, 2001 | A\$1.00 = U.S. \$.5128 |
| 6 months ended December 31, 2002 | A\$1.00 = U.S. \$.5650 |

#### RESULTS OF OPERATION

THREE MONTHS ENDED DECEMBER 31, 2002 VS. THREE MONTHS ENDED DECEMBER 31, 2001.

The Company is primarily engaged in mineral exploration activities and to date has not generated revenues from such activities.

Costs and expenses increased from A\$123,000 in the three months ended December 31, 2001 to A\$217,000 in the three months ended December 31, 2002. The Company's financial statements are prepared in Australian dollars (A\$). Since December 31, 2001 the A\$ compared to the United States dollar (US\$) has appreciated by 10.2%.

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A number of the costs and expenses of the Company are incurred in US\$ and the conversion of these costs to A\$ means that the comparison of December 2002 to 2001 does not always present a true comparison. The increase is a net result of:

- a) an increase in interest expense from A\$21,000 for the three months ended December 31, 2001 to A\$32,000 for the three months ended December 31, 2002 as a result of the increase in long term debt of the Company required to fund the Company's operations and an increase in interest rates in Australia over that period.
- b) an increase in legal accounting and professional expense from A\$3,000 for the three months ended December 31, 2001 to A\$22,000 for the three months ended December 31, 2002.
- c) a decrease in administrative costs including salaries from A\$99,000 in the three months ended December 31, 2001 to A\$69,000 in the three months ended December 31, 2002 as the charge from AXIS Consultants Pty Ltd for management services was less than in the comparable period of the prior year.
- d) an increase in the exploration expenditure expense from \$nil for the three months ended 31 December 2001 to \$83,000 for the three months ended 30 September 2002. In mid 2002, the Company commenced exploration activities in Canada for the first time and introduced an accounting policy of expensing all exploration expenditure as incurred.

As a result of the foregoing, the loss from operations increased from A\$123,000 for the three months ended December 31, 2001 to A\$217,000 for the three months ended December 31, 2002.

The net loss was A\$217,000 for the three months ended December 31, 2002 compared to a net loss of A\$123,000 for the three months ended December 31, 2001.

SIX MONTHS ENDED DECEMBER 31, 2002 VS. SIX MONTHS ENDED DECEMBER 31, 2001.

Costs and expenses increased from A\$223,000 in the six months ended December 31, 2001 to A\$327,000 in the six months ended December 31, 2002. The Company's financial statements are prepared in Australian dollars (A\$). Since December 31, 2001 the A\$ compared to the United States dollar (US\$) has appreciated by 10.2%. A number of the costs and expenses of the Company are incurred in US\$ and the conversion of these costs to A\$ means that the comparison of December 2002 to 2001 does not always present a true comparison. The increase is a net result of:

- a) an increase in interest expense from A\$41,000 for the six months ended December 31, 2001 to A\$62,000 for the six months ended December 31, 2002 as a result of the increase in long term debt of the Company required to fund the Company's operations and an increase in interest rates in Australia over that period.
- b) an increase in legal accounting and professional expense from A\$4,000 for the six months ended December 31, 2001 to A\$28,000 for the six months ended December 31, 2002 as a result of the work involved in regards the new exploration activities in Canada and Tibet.
- c) a decrease in administrative costs including salaries from A\$178,000 in the six months ended December 31, 2001 to A\$126,000 in the six months ended December 31, 2002 as the charge from AXIS Consultants Pty Ltd for management services was less than in the comparable period of the prior year.
- d) an increase in the exploration expenditure expense from \$nil for the six months ended 31 December 2001 to \$111,000 for the six months ended

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30 September 2002. In mid 2002, the Company commenced exploration activities in Canada for the first time and introduced an accounting policy of expensing all exploration expenditure as incurred.

As a result of the foregoing, the loss from operations increased from A\$223,000 for the six months ended December 31, 2001 to A\$327,000 for the six months ended December 31, 2002.

The net loss was A\$327,000 for the six months ended December 31, 2002 compared to a net loss of A\$223,000 for the six months ended December 31, 2001.

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### LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2002 the Company had short-term obligations of A\$568,000 comprising accounts payable and accrued expenses and long term debt of A\$1,029,000.

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 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 2003.

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 and to fund its contribution to the proposed Tibetan joint venture.

### CAUTIONARY SAFE HARBOR STATEMENT UNDER THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

Certain information contained in this Form 10-Q is 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-Q 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 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-K on file with the Securities and Exchange Commission.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Bay Resources is exposed to interest rate risk primarily through its loan facilities. The Company utilizes these borrowings to meet its working capital needs.

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At September 30, 2002, the Company had outstanding borrowings of approximately \$1,029,000 under its Loan Facilities. In the event that interest rates associated with these facilities were to increase 100 basis points, the impact on future cash flows would be a decrease of approximately \$10,290 annually.

### ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the date of the filing of this report, 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. Based upon that evaluation, such officers concluded that our disclosure controls and procedures are effective to ensure that information gathered, analysed and disclosed on a timely basis.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to above.

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## PART 2 - OTHER INFORMATION

### ITEM 5. OTHER INFORMATION

#### NEW BUSINESS OPPORTUNITY

On December 4, 2002, the Company announced that it had signed the contract for a co-operative joint venture with the Tibet Bureau of Geology and Minerals Exploration and Development ("Tibet BGMR"), China, previously announced on October 31, 2002. Bay Resources can earn a minimum 51% interest, with the right to earn up to 70% interest by a further capital investment, in two drill tested porphyry copper-gold deposits (Chong Jiang and Qu Long). Bay Resources can earn a 70% interest in the surrounding exploration area of approximately 15,000 square kilometres, where previous exploration by the Tibet BGMR has defined a further six porphyry targets, which have not yet been drill tested. These additional six porphyry targets were defined by regional geochemical surveys, with anomalous areas being further refined with ground geophysics, and finally trenching of mineralized areas.

Drilling of the Chong Jiang porphyry copper-gold deposit about 120 kilometres west of Lhasa has recovered 1% copper and 0.2 grams per tonne ("g/t") gold over 300 metres in one hole, with similar grades over 93 metres in an adjacent adit.

Only one hole has been completed at the Qu Long porphyry copper-gold deposit, 80 kilometres east of Lhasa. The mineralizations in this hole are highly variable from 0.2% to 1.8% copper and higher gold values of 0.2 - 0.3 g/t generally associated with the higher-grade interval. A 45-metre interval graded 1% copper and 0.2 g/t gold, similar to the Chong Jian porphyry copper-gold deposit. A recent geophysical survey has indicated a strong anomaly over a kilometre in length on the northern contact zone of the Qu Long porphyry. Drilling of this target will only be possible in March 2003 when the snow cover melts. The project is located at an elevation of 5,000 - 5,400 metres. High-grade skarn mineralization, discovered by the Tibet BGMR on the southern contact of the Qu Long porphyry copper-gold deposit, is being mined on a small scale by a local company from Lhasa. Ore grades from this operation vary from 10% to 15% copper.

There are also a number of discrete gold anomalies detected in the Tibet BGMR regional geochemical survey. Pitting in one area, northeast of Qu Long, has shown gold values of 5 g/t over several metres on the contact of a small

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porphyry intrusion. Many of the gold targets remain unexplored and provide an encouraging target for testing in 2003.

Importantly, the Tibet BGMR has agreed to include the Jia Ma Skarn deposit within the scope of the joint venture. This deposit, located 10 kilometres north-east of Qu Long, was discovered by the Tibet BGMR ten years ago and has been drilled to a depth of 300 metres and tested by a number of adits over a 3 kilometre strike length. The approved reserves (by the Ore Reserve Evaluation Committee of the PRC) are 20 million tonnes at a grade of 1.16% copper, 0.5 g/t gold, 0.25% molybdenum and variable but significant silver credits. The in-situ contained metal values are 500,000 tonnes copper, 500,000 ounces ("ozs") gold, 700 tonnes silver (20 million ozs) and 100,000 tonnes of molybdenum. There is considerable upside in increasing the tonnage beyond the 300 metres depth drilled to date. In addition, both copper and gold grades tend to increase in depth. Bay Resources can earn between a 60% and 70% interest in the Jia Ma mining lease through deeper drilling and feasibility-study. The area surrounding this deposit and mine lease is already within our regional exploration area where Bay Resources can earn 70% interest. Several gold targets have been recently discovered associated with small porphyry intrusions that warrant immediate follow up exploration.

The porphyry copper-gold belt east and west of Lhasa was only discovered in 1999 during the Frontier Exploration Program funded by the Ministry of Lands and Resources in Beijing. The first drill holes were completed at Chong Jiang in 2001 and at Qu Long in September 2002.

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### PART II

Item 1. LEGAL

Not Applicable

Item 5. OTHER INFORMATION

Not Applicable

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports

The Company did not file any Report on Form 8-K during the three months ended December 31, 2002.

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(FORM 10-Q)

### 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 thereto duly authorised.

BAY RESOURCES LTD.

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By: /s/ Joseph I. Gutnick

Joseph I. Gutnick  
Chairman of the Board, President and  
Chief Executive Officer  
(Principal Executive Officer)

Dated: February 13, 2003

By: /s/ Peter Lee

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

14

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Bay Resources Ltd. (the "Company") for the three months ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "report"), the undersigned, Peter Lee, Chief Financial Officer of the Company, certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The report fully complies with the requirements of Section 13(a) or 15(d) of the securities Exchange Act of 1934; and
- (2) The information contained in the report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 13, 2003

/s/ Peter Lee

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

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Bay Resources Ltd. (the "Company") for the three months ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "report"), the undersigned, Joseph Gutnick, Chief Executive Officer of the Company, certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The report fully complies with the requirements of Section

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13(a) or 15(d) of the securities Exchange Act of 1934; and

(2) The information contained in the report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 13, 2003

/s/ Joseph I. Gutnick

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Joseph I. Gutnick  
Chairman of the Board, President and  
Chief Executive Officer  
(Principal Executive Officer)

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter Lee, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bay Resources Ltd. (the "registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):



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a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 13, 2003

/s/ Peter Lee

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Name: Peter Lee  
Title: Director, Secretary and  
Chief Financial Officer  
(Principal Financial Officer)

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph I. Gutnick, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bay Resources Ltd. (the "registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 13, 2003

/s/ Joseph I. Gutnick

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Name: Joseph I. Gutnick  
Title: Chairman of the Board,  
President and Chief Executive  
Officer  
(Principal Executive Officer)