

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 December 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  
(State or other jurisdiction of  
incorporation or organization)

98-0079697  
(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

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  No \_\_\_\_\_

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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 December 31, 2005.

Transitional Small Business Disclosure Format (Check one) Yes \_\_\_\_\_ No

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## **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, 2005.

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, 2005, the results of its operations for the three and six month periods ended December 31, 2005 and December 31, 2004, and the changes in its cash flows for the six month periods ended December 31, 2005 and December 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.

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

|   | <u>A\$000's</u>   |
|---|-------------------|
| <b>ASSETS</b>   |                   |
| Current Assets  |                   |
| Cash  | 5                 |
| Receivables   | 92                |
| Prepayments and Deposits                                  | <u>79</u>         |
| Total Current Assets                                      | <u>176</u>        |
| Non Current Assets  |                   |
| Property and Equipment, net                               | <u>15</u>         |
| Total Non Current Assets                                  | <u>15</u>         |
| Total Assets  | <u><u>191</u></u> |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b> |                   |
| Current Liabilities                                       |                   |
| Accounts Payable and Accrued Expenses                     | <u>622</u>        |
| Total Current Liabilities                                 | <u>622</u>        |
| Non Current Liabilities                                   |                   |
| Long-term Advance – Affiliate                             | <u>1,489</u>      |
| Total Non Current Liabilities                             | <u>1,489</u>      |
| Total Liabilities   | <u>2,111</u>      |
| Stockholders' Equity (Deficit):                           |                   |
| Common Stock: \$.0001 par value                           |                   |
| 50,000,000 shares authorized,                             |                   |
| 16,714,130 issued   | 2                 |
| Less Treasury Stock at Cost, 2,500 shares                 | (20)              |
| Additional Paid-in-Capital                                | 30,275            |
| Deferred Compensation                                     | (62)              |
| Other Comprehensive Loss                                  | (8)               |
| Retained Deficit during exploration stage                 | (5,705)           |
| Retained Deficit prior to exploration stage               | <u>(26,402)</u>   |
| Total Stockholders' Equity (Deficit)                      | <u>(1,920)</u>    |
| Total Liabilities and Stockholders' Equity (Deficit)      | <u><u>191</u></u> |

See Notes to Consolidated Financial Statements

BAY RESOURCES LTD. AND SUBSIDIARIES  
(An Exploration Stage Company)  
Consolidated Statements of Operations  
Three and Six Months Ended December 31 2005 and 2004 and for the cumulative period  
July 1, 2002 (inception of exploration activities) to December 31, 2005  
(Unaudited)

|  | Three<br>Months<br>Ended<br>December<br>31, 2005<br><u>A\$000's</u> | Three<br>Months<br>Ended<br>December<br>31, 2004<br><u>A\$000's</u> | Six<br>Months<br>Ended<br>December<br>31, 2005<br><u>A\$000's</u> | Six<br>Months<br>Ended<br>December<br>31, 2004<br><u>A\$000's</u> | July 1, 2002<br>to<br>December<br>31, 2005<br><u>A\$000's</u> |
|--|---|---|---|---|---|
| Revenues:  | \$-   | \$-   | \$-   | \$-   | \$-   |
| Costs and Expenses:  |   |   |   |   |   |
| Stock Based Compensation   | 58  | -   | 136   | -   | 513   |
| Exploration Expenditure  | 87  | 132   | 125   | 1,188   | 2,551   |
| Interest Expense, net-related entity                               | 29  | 2   | 55  | 5   | 354   |
| Interest Expense, other  | 8   | -   | 8   | -   | 8   |
| Legal, Accounting and Professional<br>Administrative               | 24  | 47  | 39  | 86  | 402   |
|  | <u>164</u>  | <u>196</u>  | <u>315</u>  | <u>416</u>  | <u>1,856</u>  |
|  | <u>370</u>  | <u>377</u>  | <u>678</u>  | <u>1,695</u>  | <u>5,684</u>  |
| (Loss) from Operations   | (370)   | (377)   | (678)   | (1,695)   | (5,684)   |
| Foreign Currency Exchange (Loss)                                   | (16)  | -   | (23)  | -   | (21)  |
| (Loss) before Income Tax   | (386)   | (377)   | (701)   | (1,695)   | (5,705)   |
| Provision for Income Tax   | -   | -   | -   | -   | -   |
| Net (Loss)   | <u>(386)</u>  | <u>(377)</u>  | <u>(701)</u>  | <u>(1,695)</u>  | <u>(5,705)</u>  |
| Basic net (Loss) Per Common Equivalent Shares                      | <u>(0.02)</u>   | <u>(0.02)</u>   | <u>(0.04)</u>   | <u>(0.10)</u>   | <u>(0.49)</u>   |
| Weighted Number of Common<br>Equivalent Shares Outstanding (000's) | <u>16,714</u>   | <u>16,714</u>   | <u>16,714</u>   | <u>16,714</u>   | <u>11,671</u>   |

See Notes to Consolidated Financial Statements

BAY RESOURCES LTD. AND SUBSIDIARIES  
(An Exploration Stage Company)  
Consolidated Statements of Cash Flows  
Six Months Ended December 31 2005 and 2004 and for the cumulative period  
July 1, 2002 (inception of exploration activities) to December 31, 2005  
(Unaudited)

|   | 2005<br><u>A\$000's</u> | 2004<br><u>A\$000's</u> | July 1, 2002<br>to December<br>31, 2005<br><u>A\$000's</u> |
|---|-------------------------|-------------------------|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |                         |                         |  |
| Net (Loss)  | \$(701)                 | \$(1,695)               | \$(5,705)  |
| Adjustments to reconcile net (loss) to net cash used<br>in Operating Activities |                         |                         |  |
| Foreign Currency Exchange Loss/(Gain)   | 23                      | 9                       | 20   |
| Depreciation of Plant and Equipment   | 4                       | 5                       | 14   |
| Stock based compensation  | 136                     | -                       | 513  |
| Accrued interest added to principal   | 40                      | 7                       | 224  |
| Net Change in:  |                         |                         |  |
| Receivables   | 33                      | (49)                    | (93)   |
| Staking Deposit   | -                       | -                       | 23   |
| Prepayments and Deposits  | -                       | 130                     | (82)   |
| Accounts Payable and Accrued Expenses   | 21                      | 16                      | 177  |
| Short Term Advance - Affiliates   | -                       | -                       | (36)   |
| Net Cash Provided (Used) in Operating Activities                                | <u>(444)</u>            | <u>(1,577)</u>          | <u>(4,945)</u>   |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                                      |                         |                         |  |
| Purchase of Plant and Equipment   | <u>-</u>                | <u>(6)</u>              | <u>(27)</u>  |
| Net Cash (Used) in Investing Activities   | <u>-</u>                | <u>(6)</u>              | <u>(27)</u>  |
| <b>CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>                               |                         |                         |  |
| Net Borrowings from Affiliates  | 447                     | 466                     | 450  |
| Sale of Shares of Common Stock  | -                       | -                       | 2,253  |
| Proceeds from Loan Payable  | <u>-</u>                | <u>-</u>                | <u>2,273</u>   |
| Net Cash Provided by Financing Activities                                       | <u>447</u>              | <u>466</u>              | <u>4,976</u>   |
| Net Increase (decrease) in Cash   | 3                       | (1,117)                 | 4  |
| Cash at Beginning of Period   | <u>2</u>                | <u>1,118</u>            | <u>1</u>   |
| Cash at End of Period   | <u>5</u>                | <u>1</u>                | <u>5</u>   |
| Supplemental Disclosures  |                         |                         |  |
| Interest Paid   | 15                      | -                       | 270  |
| <b>NON CASH FINANCING ACTIVITY</b>  |                         |                         |  |
| Debt repaid through issuance of shares  | -                       | -                       | 2,273  |
| Stock Options recorded as Deferred Compensation                                 | -                       | -                       | 575  |

See Notes to Consolidated Financial Statements

BAY RESOURCES LTD AND SUBSIDIARIES  
(An Exploration Stage Company)  
Consolidated Statements of Stockholders' Equity (Deficit)  
December 31, 2005  
and for the cumulative period July 1, 2002  
(inception of exploration activities) to December 31, 2005  
(Unaudited)

|   | <u>Shares</u> | <u>Common<br/>Stock<br/>Amount</u> | <u>Treasury<br/>Stock, at<br/>Cost</u> | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Retained<br/>Earnings<br/>(Deficit)<br/>(during the<br/>Exploration<br/>stage)</u> | <u>Retained<br/>Earnings<br/>(Deficit)<br/>(prior to<br/>Exploration<br/>stage)</u> | <u>Deferred<br/>Compen-<br/>sation</u> | <u>Other<br/>Compre-<br/>hensive<br/>Loss</u> | <u>Total</u> |
|---|---------------|------------------------------------|--|---|---|---|--|---|--------------|
|   | 000's         | A\$000's                           | A\$000's                               | A\$000's                                  | A\$000's  | A\$000's  | A\$000's                               | A\$000's                                      | A\$000's     |
| Balance June 30, 2002   | 6,347         | \$1                                | \$(20)                                 | \$25,175                                  | -   | \$(26,402)  | -                                      | -   | \$(1,246)    |
| Net loss  | -             | -                                  | -                                      | -   | (681)   | -   | -                                      | -   | (681)        |
| Balance June 30, 2003   | 6,347         | \$1                                | \$(20)                                 | \$25,175                                  | \$(681)   | \$(26,402)  | -                                      | -   | \$(1,927)    |
| Issuance of 1,753,984 shares and warrants in lieu of debt repayment | 1,754         | -                                  | -                                      | 2,273                                     | -   | -   | -                                      | -   | 2,273        |
| Sale of 1,670,000 shares and warrants                               | 1,670         | -                                  | -                                      | 2,253                                     | -   | -   | -                                      | -   | 2,253        |
| Issuance of 6,943,057 shares on cashless exercise of options        | 6,943         | 1                                  | -                                      | (1)                                       | -   | -   | -                                      | -   | -            |
| Net unrealised loss on foreign exchange                             | -             | -                                  | -                                      | -   | -   | -   | -                                      | (9)   | (9)          |
| Net (loss)  | -             | -                                  | -                                      | -   | (1,723)   | -   | -                                      | -   | (1,723)      |
| Balance June 30, 2004   | 16,714        | \$2                                | \$(20)                                 | \$29,700                                  | \$(2,404)   | \$(26,402)  | -                                      | \$(9)   | \$867        |
| Issuance of 1,400,000 options under 2004 stock option plan          | -             | -                                  | -                                      | 575                                       | -   | -   | (575)                                  | -   | -            |
| Amortisation of 1,400,000 options under 2004 stock option plan      | -             | -                                  | -                                      | -   | -   | -   | 377                                    | -   | 377          |
| Net unrealised gain on foreign exchange                             | -             | -                                  | -                                      | -   | -   | -   | -                                      | 6   | 6            |
| Net/(loss)  | -             | -                                  | -                                      | -   | (2,600)   | -   | -                                      | -   | (2,600)      |
| Balance June 30, 2005   | 16,714        | \$2                                | \$(20)                                 | 30,275                                    | \$(5,004)   | \$(26,402)  | \$(198)                                | \$(3)   | \$(1,350)    |
| Amortisation of 1,400,000 options under 2004 stock option plan      | -             | -                                  | -                                      | -   | -   | -   | 136                                    | -   | 136          |
| Net unrealised gain on foreign exchange                             | -             | -                                  | -                                      | -   | -   | -   | -                                      | (5)   | (5)          |
| Net/(loss)  | -             | -                                  | -                                      | -   | (701)   | -   | -                                      | -   | (701)        |
| Balance December 31, 2005   | 16,714        | \$2                                | \$(20)                                 | \$30,275                                  | \$(5,705)   | \$(26,402)  | \$(62)                                 | \$(8)   | \$(1,920)    |

See Notes to Consolidated Financial Statements

**BAY RESOURCES LTD. AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**December 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 32.3% of Bay Resources as of December 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 six months ending December 31, 2005 and 2004 AXIS Consultants Pty Ltd ("AXIS") an affiliated management company advanced Bay Resources A\$77,500 and A\$137,000 respectively including services provided in accordance with the service agreement of A\$187,192 and A\$226,357 respectively and reimbursed AXIS A\$545,819 and A\$473,092 respectively for outstanding amounts including carried forward outstanding amounts. During the six months ending December 31, 2005 and 2004 AXIS charged interest of A\$18,366 and A\$4,613, respectively, on outstanding balances. The interest rate charged by AXIS for the six months ended December 31, 2005 was 9.35% compared to between 10.10% and 10.60% for the six months ended December 31, 2004. At December 31, 2005 the Company owed AXIS A\$34,003. These entities are 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 six months ending December 31, 2005, Wilzed loaned the Company A\$742,899 and charged interest of A\$36,873. The interest rate charged by Wilzed for the six months was 9.35%. At December 31, 2005, the Company owed Wilzed A\$1,455,244. During the six months to December 31, 2005 the Company granted Wilzed security over its interest in one of its properties as security for the amount owing to Wilzed.

Interest expense incurred on loans and advances due to affiliated entities approximated A\$55,239 and A\$5,469 in the six months ended December 31, 2005 and 2004, respectively.

A\$000's  
2005

**(3) Long-Term Advance - Affiliate**

|   |    |
|---|----|
| Loan from AXIS, a corporation affiliated with the President of Bay Resources. Interest accrued at 9.35% being the ANZ Banking Group Limited rate for overdrafts over \$100,000. | 34 |
|---|----|

|  |       |
|--|-------|
| Loan from Wilzed Pty Ltd, a corporation affiliated with the President of Bay Resources. Interest accrued at 9.35% per annum. | 1,455 |
|--|-------|

|  |  |
|--|--|
|  | <hr style="border: 0.5px solid black;"/> 1,489 |
|--|--|



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

**(3) Long-Term Advance – Affiliate (Cont'd)**

The Company has granted Wilzed security over its interest in one of its properties as security for the amount owing to Wilzed

**(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 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 December 31, 2005 amounted to A\$32,107,000 of which A\$5,705,000 has been accumulated from July 2002, the date the Company entered the Exploration Stage, through December 31, 2005.

**(5) Income Taxes**

Bay Resources should have carry forward losses of approximately US\$19.4 million as of June 30, 2005 which will expire in the various years through 2024. 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) 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 7). 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.

**(7) 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 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, 250,000 will vest immediately 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. The options expire on October 15, 2014.

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

**(7) Issue of Options under Stock Option Plan (Cont'd)**

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 in 2004.

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 ½ months, risk free interest rate of 5.15% and volatility of 20%. This equates to a value of US31.85 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 Section of the Balance Sheet. The gross fair value is amortised into operations over the vesting period. For the three and six months ended December 31, 2005, the amortization amounted to A\$57,586 and A\$135,598 respectively.

During the six months ended December 31, 2005, 50,000 options lapsed when Mr P. Ehrlich resigned as a Director.

A summary of the options outstanding and exercisable at December 31, 2005 are as follows:

|                   | <b>Outstanding</b> | <b>Exercisable</b> |
|-------------------|--------------------|--------------------|
| Number of options | 1,350,000          | 716,666            |
| Exercise price    | US\$1.00           | US\$1.00           |
| Expiration date   | October 15, 2014   | October 15, 2014   |

## 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:

|                                  |                       |
|----------------------------------|-----------------------|
| 6 months ended December 31, 2004 | A\$1.00 = US\$0.78    |
| 6 months ended December 31, 2005 | A\$1.00 = US\$0.7301  |
| 6 months ended December 31, 2004 | A\$1.00 = CDN\$0.94   |
| 6 months ended December 31, 2005 | A\$1.00 = CDN\$0.8513 |

### RESULTS OF OPERATION

#### Three Months Ended December 31, 2005 vs. Three Months Ended December 31 2004.

Costs and expenses decreased from A\$377,000 in the three months December 31, 2004 to A\$370,000 in the three months ended December 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 three months December 31 2005 to the three months December 31,2004 does not always present a true comparison. The decrease in expenses is a net result of:

- a) an increase in interest expense (net) from A\$2,000 for the three months ended December 31, 2004 to A\$37,000 for the three months ended December 31, 2005. AXIS provides management and geological services to the Company pursuant to a Service Deed dated November 25, 1988. AXIS charged A\$10,460 in interest on outstanding amounts at a rate of 9.35% for the three months to December 31, 2005 compared to 10.10% and 10.60% for fiscal 2004. Wilzed loaned further funds to the Company during the quarter and charged A\$20,039 in interest. A\$8,000 general interest was charged on outstanding accounts payable liabilities.
- b) a decrease in legal, accounting and professional expense from A\$47,000 for the three months ended December 31, 2004 to A\$24,000 for the three months ended December 31, 2005. In December 31, 2004 quarter, legal fees were incurred in relation to discussions with external financiers and preparation of a listing of the Company's securities on the Toronto Venture Exchange. No such costs were incurred in the December 31, 2005 quarter.
- c) a decrease in administrative costs including salaries from A\$196,000 in the three months ended December 31, 2004 to A\$164,000 in the three months ended December 31, 2005, primarily as a result of a reduced exploration activity. Insurance costs decreased by A\$16,000 and administration salaries charged to the Company by AXIS decreased by A\$12,000.
- d) a decrease in the exploration expenditure expense from A\$132,000 for the three months ended December 31, 2004 to A\$87,000 for the three months ended December 31, 2005. No field exploration has been undertaken during the 2005 field season due to the high level of field exploration in the 2004 field season and limited funding.
- e) an increase in stock based compensation from A\$nil for the three months ended December 31, 2004 to A\$58,000 for the three months ended December 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, 250,000 will vest immediately 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.

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 ½ 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\$57,586 has been amortised and charged to operations in the December 2005 quarter.

As a result of the foregoing, the loss from operations decreased from A\$377,000 for the three months ended December 31, 2004 to A\$370,000 for the three months ended December 31, 2005.

The net loss was A\$386,000 for the three months ended December 31, 2005 compared to a net loss of A\$377,000 for the three months ended December 31, 2004.

#### **Six Months Ended December 31, 2005 vs. Six Months Ended December 31, 2004.**

Costs and expenses decreased from A\$1,695,000 in the six months December 31, 2004 to A\$678,000 in the six months ended December 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 three months December 31 2005 to the three months December 31, 2004 does not always present a true comparison. The decrease in expenses is a net result of:

- a) an increase in interest expense (net) from A\$5,000 for the six months ended December 31, 2004 to A\$63,000 for the six months ended December 31, 2005. AXIS provides management and geological services to the Company pursuant to a Service Deed dated November 25, 1988. AXIS charged A\$18,366 in interest on outstanding amounts at a rate of 9.35% for the six months to December 31, 2005 compared to 10.60% for the six months to December 31, 2004. Wilzed loaned further funds to the Company during the six months and charged A\$36,873 in interest. A\$8,000 general interest was charged on outstanding accounts payable liabilities.
- b) a decrease in legal, accounting and professional expense from A\$86,000 for the six months ended December 31, 2004 to A\$39,000 for the six months ended December 31, 2005. In the six months period to December 31, 2004, legal fees were incurred in relation to discussions with external financiers and preparation of a listing of the Company's securities on the Toronto Venture Exchange. No such costs were incurred in the six months to December 31, 2005. A decrease in share register activity reduced the fee for maintenance of the records by the external share registrar.
- c) a decrease in administrative costs including salaries from A\$416,000 in the six months ended December 31, 2004 to A\$315,000 in the six months ended December 31, 2005. In the six month period to December 31, 2004 external consultants were used to undertake work in respect to the Company's listing on the Toronto Venture Exchange in Canada. No such costs were incurred in six months ended December 31, 2005. Salaries charged to the Company by AXIS decreased by A\$35,000 and insurance costs incurred by the Company reduced by A\$16,000.
- d) a decrease in the exploration expenditure expense from \$1,188,000 for the six months ended December 31, 2004 to \$125,000 for the six months ended December 31, 2005. No field exploration has been undertaken during the 2005 field season due to the high level of field exploration in the 2004 field season and limited funding.
- e) an increase in stock based compensation from A\$nil for the six months ended December 31, 2004 to A\$136,000 for the six months ended December 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, 250,000 will vest immediately 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.

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 ½ months, risk free interest rate of 5.15% and volatility of 20%. This equates to a value of US31.85 cents per option or a total of A\$575,100. Of this amount, A\$135,598 has been amortised and charged to operations for the six month period to December 31, 2005.

As a result of the foregoing, the loss from operations decreased from A\$1,695,000 for the six months ended December 31, 2004 to A\$701,000 for the six months ended December 31, 2005.

The net loss was A\$701,000 for the six months ended December 31, 2005 compared to a net loss of A\$1,695,000 for the six months ended December 31, 2004.

### **Liquidity and Capital Resources**

For the six months ended December 31, 2005, net cash used in operating activities was A\$444,000 primarily consisting of the net loss of A\$701,000 partially offset by increases in accounts payable and accrued expenses of A\$21,000; a decrease in receivables of A\$33,000; stock based compensation of A\$136,000; and accrued interest added to principal of A\$40,000.

As of December 31, 2005 the Company had short-term obligations of A\$622,000 comprising accounts payable and accrued expenses.

We have A\$5,000 in cash at December 31, 2005. During the six months to December 31, 2005, a company associated with our President and Chief Executive Officer provided \$447,000 in loan funds to allow us to meet our financial obligations. The Company anticipates that it needs to spend \$500,000 on legal, professional, accounting and administration expenses over the next 12 months. We are investigating the possibility of raising "flow through financing" in Canada for exploration purposes and/or other finance for exploration and working capital purposes. If this financing is not successful, we anticipate that a company associated with our President and Chief Executive Officer will provide sufficient funds to allow us to meet our obligations, however there can be no assurance that this funding will eventuate.

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 questions raised by TSX-V. 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.

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 foreign countries, risks associated with environmental and other regulatory matters, mining risks and competition and the volatility of gold and copper prices, movements in the foreign exchange rate and the availability of additional financing for the Company. 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.

### **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-15 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 required to be disclosed by the Company in this report is recorded, processed, summarized and reported 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.

**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**

| (a) | <u>Exhibit No.</u> | <u>Description</u>  |
|-----|--------------------|---|
|     | 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 |

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:



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

By:



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

Dated February 8, 2006



## EXHIBIT INDEX

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**CERTIFICATION PURSUANT TO  
SECURITIES EXCHANGE ACT RULE 13A-14(a)**

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

1. I have reviewed this quarterly report on Form 10-QSB of Bay Resources Ltd. (“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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including their 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) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
  - (c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - (d) disclosed in this quarterly report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors:

- (a) all significant deficiencies and material weaknesses the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information and;
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 8, 2006



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

**CERTIFICATION PURSUANT TO  
SECURITIES EXCHANGE ACT RULE 13A-14(a)**

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

1. I have reviewed this quarterly report on Form 10-QSB of Bay Resources Ltd. ("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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including their 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) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
  - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - (c) disclosed in this annual report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:

- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 8, 2006



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

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-QSB of Bay Resources Ltd. (the "Company") for the three months ended December 31, 2005 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 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 8, 2006



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

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-QSB of Bay Resources Ltd. (the "Company") for the three months ended December 31, 2005 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.

Dated: February 8, 2006



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Peter Lee  
Director, Secretary and  
Chief Financial Officer