

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
(State or other jurisdiction of
incorporation or organisation)

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

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
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the restraint 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.

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.

BAY RESOURCES LTD. AND SUBSIDIARIESConsolidated Balance Sheets
December 31, 2002 and June 30, 2002
and December 31, 2001

(Unaudited)

ASSETS

	Dec 31 2002 <u>A \$000's</u>	June 30 2002 <u>A \$000's</u>	Dec 31 2001 <u>A \$000's</u>
Current Assets:			
Cash	\$1	\$-	\$3
Staking Deposit	23	23	-
Total Current Assets	<u>23</u>	<u>23</u>	<u>3</u>
Other Assets:			
Capitalised Mining & Exploration	-	-	-
Investment securities	-	-	-
Total Other Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$24</u>	<u>\$23</u>	<u>\$3</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:			
Accounts Payable and Accrued Expenses	\$548	\$449	\$399
Short- Term Loan – Affiliate	20	36	-
Total Current Liabilities	<u>568</u>	<u>485</u>	<u>399</u>
Long-Term Debt	<u>1,029</u>	<u>784</u>	<u>731</u>
Total Liabilities	<u>1,597</u>	<u>1,269</u>	<u>1,130</u>
Stockholders' Equity (Deficit):			
Common Stock: \$.0001 par value 25,000,000 shares authorised, 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	<u>(26,729)</u>	<u>(26,402)</u>	<u>(24,294)</u>
Total Stockholders' Deficit	<u>(1,573)</u>	<u>(1,246)</u>	<u>(1,127)</u>
Total Liabilities and Stockholders' Equity	<u>\$24</u>	<u>\$23</u>	<u>\$3</u>

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 Months Ended Dec 31 2002 <u>A \$000's</u>	Three Months Ended Dec 31 2001 <u>A \$000's</u>	Six Months Ended Dec 31 2002 <u>A \$000's</u>	Six Months Ended Dec 31 2001 <u>A \$000's</u>
Revenues:				
Other Income	\$-	\$-	\$-	\$-
Costs and Expenses:				
Exploration Expenditure	94	-	111	-
Interest Expense	32	21	62	41
Legal, Accounting & Professional	22	3	28	4
Administrative	69	99	126	178
	<u>217</u>	<u>123</u>	<u>327</u>	<u>223</u>
Loss from Operations	<u>(217)</u>	<u>(123)</u>	<u>(327)</u>	<u>(223)</u>
Income (Loss) before Income Tax	(217)	(123)	(327)	(223)
Provision for Income Tax	-	-	-	-
Net Income (Loss)	<u>\$(217)</u>	<u>\$(123)</u>	<u>\$(327)</u>	<u>\$(223)</u>
Earnings Per Common Equivalent Share	<u>\$(.03)</u>	<u>\$(.02)</u>	<u>\$(.05)</u>	<u>\$(0.03)</u>
Weighted Number of Common Equivalent Shares Outstanding	<u>6,347</u>	<u>6,347</u>	<u>6,347</u>	<u>6,347</u>

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

BAY RESOURCES LTD. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
December 31, 2002 and June 30, 2002
and December 31, 2001
(Unaudited)

	<u>Shares</u> <u>000's</u>	<u>Common</u> <u>Stock</u> <u>Amount</u> <u>A\$000's</u>	<u>Treasury</u> <u>Stock at</u> <u>Cost</u> <u>A\$000's</u>	<u>Paid in</u> <u>Capital</u> <u>A\$000's</u>	<u>Retained</u> <u>Earnings</u> <u>Deficit</u> <u>A\$000's</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Loss</u> <u>A\$000's</u>	<u>Total</u> <u>A\$000's</u>
Balance June 30, 2001	6,347	\$1	\$(20)	\$25,175	\$(24,071)	\$(1,989)	\$(904)
Comprehensive Income							
Net loss six months ending 12-31-01	-	-	-	-	(223)	-	(223)
Total Comprehensive Income	-	-	-	-	-	-	(223)
Balance September 30, 2001	6,347	\$1	\$(20)	\$25,175	\$(24,294)	\$(1,989)	\$(1,127)
Comprehensive Income							
Net loss six months ending 6-30-02	-	-	-	-	(119)	-	(119)
Reclassification of Permanent Decline in Investment Securities	-	-	-	-	(1,989)	1,989	-
Total Comprehensive Income	-	-	-	-	(2,231)	1,989	(242)
Balance June 30, 2002	6,347	\$1	\$(20)	\$25,175	\$(26,402)	\$-	\$(1,246)
Comprehensive Income							
Net loss six months ending 12-31-02	-	-	-	-	(327)	-	(327)
Total Comprehensive Income	-	-	-	-	-	-	(327)
Balance September 30, 2002	6,347	\$1	\$(20)	\$25,175	\$(26,729)	\$-	\$1,573

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

BAY RESOURCES LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Six Months Ended December 31, 2002 and 2001
and Year Ended June 30, 2002
(Unaudited)

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

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

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, 1987 in former subsidiary, Solmecs Corporation N.V. ("Solmecs") and 100% ownership on January 2, 1992. Bayou sold its interest in Solmecs 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 2002 A\$000's	June 30 2002 A\$000's	Dec 31 2001 A\$000's
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, 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 2002 A\$000's	June 30 2002 A\$000's	Dec 31 2001 A\$000's
<u>Long-Term</u>			
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.

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 primarily 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.

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 40,000km² 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.

BAY RESOURCES LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2002, June 30, 2002 and

December 31, 2001

(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 2km² 2gt gold target. These are much weaker surface expressions but also up to 2km² 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.

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%. 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 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.

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.

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.

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 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.

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.

(b) Exhibits

Co-Operative Joint Venture Contract with Tibet Bureau of Geology and Minerals exploration and Development.

(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 thereinto duly authorised.

BAY RESOURCES LTD.

By:

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

Dated: February , 2003

By:

Peter Lee
Peter Lee, Director, Secretary and
Chief Financial Officer
(Principal 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-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 , 2003

Peter Lee
Director, Secretary and
Chief Financial Officer
(Principal 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-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 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 , 2003

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

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):
 - 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 , 2003

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

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
 - 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 , 2003

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

COOPERATIVE JOINT VENTURE CONTRACT

Between

Tibet Bureau of Geology and Minerals Exploration and Development, China

and

Bay Resources Limited, Australia

for the establishment of

Tibet Copper Company Limited

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COOPERATIVE JOINT VENTURE CONTRACT

THIS CONTRACT is made in Lhasa, the People's Republic of China (hereinafter referred to as the "**PRC**") on this day of 21st November, 2002 by and between Tibet Bureau of Geology and Minerals Exploration and Development, China (hereinafter referred to as "**Party A**") and Bay Resources Limited (hereinafter referred to as "**Party B**"). Each of Party A and Party B shall hereinafter individually be referred to as a "**Party**" and collectively as the "**Parties**".

After friendly consultations conducted in accordance with the principles of equality and mutual benefit, the Parties hereby agree to jointly invest in and form Tibet Copper Company Limited (hereinafter referred to as the "**Company**") in accordance with the Law of the People's Republic of China on Chinese-Foreign Cooperative Joint Ventures (hereinafter referred to as the "**Cooperative Joint Venture Law**"), other relevant laws and regulations, and the provisions of this Contract.

THE PARTIES HEREBY AGREE AS FOLLOWS:

ARTICLE 1 DEFINITION

For the purpose of the Contract, unless the context otherwise requires, the following expressions shall have the following meanings:

1.1	"The Articles of Association"	the Articles of Association of the Company
1.2	"Co-operation Region"	the areas as set forth in Article 4.3
1.3	"Risk Exploration Blocks"	the mining areas as set forth in Article 4.3.1
1.4	"Co-operative Exploration Blocks"	the mining areas as set forth in Article 4.3.2
1.5	"Co-operative Mining Block"	the mining area as set forth in Article 4.3.3
1.6	"Pre-mining Period"	the stage to undertake mineral resources exploration, feasibility study, assessment and design in Co-operation Region
1.7	"Exploration Period"	the stage to undertake mineral resources exploration in Co-operation Region
1.8	"Detailed Exploration and Feasibility Study Period"	the stage to undertake mineral resources feasibility study, assessment and design in Co-operation Region
1.9	"Development Period"	the stage to undertake mineral resources exploitation and utilization in Co-operation Region
1.10	"Technical Reason"	all prospects on the Company are proven to be sub economic and no justification for further exploration
1.11	"the Board"	the Board of Directors

ARTICLE 2 PARTIES TO THE CONTRACT

2.1 The Parties

The Parties to this Contract are:

2.1.1 Party A

Tibet Bureau of Geology and Minerals Exploration and Development, China, a Chinese institution registered as a legal person under the laws of the PRC, with its legal address at 21 Beijing Zhong Road, Lhasa City, Tibet Autonomous Region, the People's Republic of China.

Legal Representative of Party A:

Name: Wang Bao-Sheng
Position: Director General
Nationality: China

2.1.2 Party B

Bay Resources Limited, a company registered in Australia with its principal address at Level 8, 580 St. Kilda Road Melbourne, Victoria 3004, Australia.

Legal Representative of Party B:

Name: Joseph Gutnick
Position: Chairman
Nationality: Australia

ARTICLE 3 ESTABLISHMENT OF THE COMPANY

3.1 Establishment of the Company

The Parties hereby agree to organize the Company in accordance with the Cooperative Joint Venture Law, other relevant laws and regulations, and the provisions of this Contract.

3.2 Name and Address of the Company

3.2.1 The name of the Company shall be ??????? in Chinese, and “Tibet Copper Company Limited” in English.

3.2.2 The legal address of the Company shall be at Lhasa, Tibet Autonomous Region, PRC.

3.3 Limited Liability Company

The form of organization of the Company shall be a limited liability company. The Company shall use its entire assets to pay its debts and assume obligations to its creditors. The Parties shall have no liability whatsoever, severally or jointly, for the debts and obligations of the Company, and except as otherwise provided herein and unless otherwise approved by the Board of Directors of the Company for increase of registered capital, once a Party has paid in full its contribution to the registered capital of the Company, it shall not be required to provide any further funds to or on behalf of the Company by way of capital contribution, loan, advance, guarantee or otherwise. The Company shall be responsible for all risks, losses and liabilities arising out of the operation on the Company. The Company shall indemnify the Parties against any and all losses, damages, or liabilities suffered by the Parties in respect of any third party's claims arising out of the operation of the Company.

3.4 Laws and Decrees

The Company shall be a Chinese legal person established under the laws of the PRC. All the legal business activities and legal rights of the Company shall be governed and protected by the laws, decrees and relevant regulations of the PRC.

ARTICLE 4 PURPOSE AND BUSINESS SCOPE OF THE COMPANY

4.1 Purpose of the Company

The purpose of the Company shall be:

In conformity with the wish to enhance the economic cooperation and joint prosperity and following the principle of equality and mutual benefit, and to make use of foreign capital, advanced and appropriate technology and scientific management method, to speed up exploitation and development of copper and gold deposit resources in Gang Di Si area in Tibet Autonomous Region, to improve total recovery rate of copper and gold deposit resources so as to ensure satisfactory economic benefit for each Party.

4.2 Business Scope of the Company

The business scope of the Company shall be:

To explore, mine, process, refine and to sell copper concentrate or copper products, gold concentrate or gold products, and other metals co-existing or as by-products in accordance with the published laws of the PRC.

4.3 Co-operation Region

The Co-operation Region shall be in the eastern section of Gang Di Si copper polymetallic metallogenic belt (the geographical coordinates of such areas are listed in detail in Appendix I attached hereto). Details of the fields are as follows:

4.3.1 Risk Exploration Blocks:

- (a) La Kang E porphyry copper region, Da Zi County;

- (b) Ba Ga Xue porphyry copper-moly region, Da Zi County;
 - (c) Cui Bai Zi porphyry copper region, Gong Bu Jiang Da County;
 - (d) The surrounding areas of Jia Ma mining area, Mou Zhu Gong Ka County.
- 4.3.2 Co-operative Exploration Blocks:
- (a) Qu Long porphyry copper-moly region, Mou Zhu Gong Ka County;
 - (b) Chong Jiang porphyry copper region, Ni Mu County.
- 4.3.3 Co-operative Mining Block:
- Jia Ma copper mining area, Mou Zhu Gong Ka County, where there are proven reserves.

ARTICLE 5 COOPERATION TERMS, TOTAL AMOUNT OF INVESTMENT AND REGISTERED CAPITAL

5.1 Cooperation Terms

- 5.1.1 In accordance with this Contract, the Parties agree to be in co-operation on copper exploration and development within the defined Co-operation Region stated in Article 4.3 hereof. Party A possesses the exploration right over the Co-operation Region, and any new exploration right within the Co-operation Region shall be jointly applied and held by the Parties.
- 5.1.2 The Parties agree that the co-operation period is thirty (30) years, which shall be divided into Pre-mining Period and Development Period. The Pre-mining Period shall involve Exploration Period for five (5) years and Detailed Exploration and Feasibility Study Period for two (2) years. The Development Period shall be twenty three (23) years and can be extended depending on the conditions of mineral resources.
- 5.1.3 The Parties agree to arrange their respective equity in the Company as follows:
- (a) In Risk Exploration Blocks, Party A shall hold thirty percent (30%) of the equity interest in the Company, and Party B shall hold seventy percent (70%) of the equity interest in the Company. Notwithstanding the foregoing, during Development Period, Party A has the right of injecting further capital, at an amount agreed by both Parties, to acquire forty percent (40%) of the equity interest in the Company, but Party B's equity interest in the Company shall not be less than sixty percent (60%);
 - (b) In Co-operative Exploration Blocks, Party A shall hold forty nine percent (49%) of the equity interest in the Company, and Party B shall hold fifty one percent (51%) of the equity interest in the Company. Notwithstanding the foregoing, during Development Period, Party B has the right of injecting further investment, at an amount agreed by both Parties, to achieve maximum seventy percent (70%) of the equity interest in the Company;
 - (c) In Co-operative Mining Block, through investment prior to mining development, Party A shall earn the equity interest in the Company in the proportion from thirty percent (30%) to forty percent (40%), and Party B shall earn the equity interest in the Company in the proportion from sixty percent (60%) to seventy percent (70%). Party B will conduct an evaluation on the orebody with proven reserve in the Jia Ma copper mining area by mid January 2003 and consult with Party A to gain a jointly agreed value which shall be approximately ten million United States Dollars (US\$10,000,000).
- 5.1.4 The Parties agree to inject their contributions to the Company as follows:
- (a) In Pre-mining Period, all investment to the Company shall be contributed by Party B. Party B's contribution to the Company in this time period shall not be less than thirty five million United States Dollars (US\$35,000,000);
 - (b) In Development Period, the investment to the Company shall be contributed by the Parties in accordance with their respective equity interest in the Company.
- 5.1.5 Party B shall have the right to assign its equity in the Company to members of the Gutnick Network companies. Should Party B wish to assign its equity to a third party, the contracted investment funding must not be affected and Party A's interest in the Company will be protected. Party A has the same right on its equity interest in the Company.
- 5.1.6 In accordance with this Contract, the Parties agree that, within the first three-year Exploration Period, i.e., before 1st January 2006, this Contract cannot be unilaterally terminated by Party B. After the first three-year Exploration Period, i.e., after 1st January 2006, Party B may terminate this Contract for Technical Reasons upon a three (3) month prior notice to Party A. Party A shall, upon termination of this Contract, possess all

technical data and information achieved during the co-operation period and Party B shall no longer enjoy any equity interest in the Company.

5.1.7 In accordance with this Contract, Party A agrees to provide its possessed exploration rights, information, data as listed in Appendix II attached hereto as its contributions to the Company. Accordingly, Party A shall:

- (a) obtain legal documents for the Company to have the exploration rights for mines confirmed to be taken by the Company;
- (b) obtain legal documents for the Company to have exclusive mining rights for mining areas which have been confirmed to be taken by the Company in this Contract;
- (c) assist the Company with building and upgrading roads, water and electricity, communication facilities in all mining areas;
- (d) assist the Company to acquire the right to the use of land required for production, operation and living accommodation; and
- (e) provide all already available geological information, drilling information and exploration achievements in primary stage.

5.2 Total Investment

The preliminary estimated total investment of the Company is twenty nine million and nine hundred thousand United States Dollars (US\$ 29,900,000).

5.3 Registered Capital

The registered capital of the Company shall be eleven million and nine hundred and sixty thousand United States Dollars (US\$ 11,960,000).

5.4 Contributions to Registered Capital

5.4.1 Party A shall make its contribution to the registered capital of the Company with various specific rights, information, data and intangible assets listed in detail in Appendix II attached hereto.

5.4.2 Party A's contributed rights and intangible assets to the registered capital shall be valued in accordance with the equities established in Article 5.1.3 of this Contract.

5.4.3 Party B shall make its contribution to the registered capital of the Company in cash for a total amount of seven million United States Dollars (US\$7,000,000), which may be distributed:

- (a) by December 15th, 2002 to fund the cost and expense of Party A's data and information compilation and preparatory work in 2002 with a total amount of fifty thousand United States Dollars (US\$50,000);
- (b) during the first three-year of Exploration Period, to fund the cost and expense of the exploration under this Contract with a total amount of seven million United States Dollars (US\$7,000,000), which shall be contributed as follows:
 - (i) an amount of two million United States Dollars (US\$2,000,000), including fifty thousand United States Dollars (US\$50,000) as identified in Article 5.4.3 (a), commencing in March 2003, but subject to the incorporation of the Company and ending in December of the same year in a monthly payment of two hundred thousand United States Dollars (US\$200,000);
 - (ii) an amount of two million United States Dollars (US\$2,000,000) commencing in March 2004 and ending in December of the same year in a monthly payment of two hundred thousand United States Dollars (US\$200,000);
 - (iii) an amount of three million United States Dollars (US\$3,000,000) commencing in March 2005 and ending in December of the same year in a monthly payment of three hundred thousand United States Dollars (US\$300,000).

5.4.4 Party A shall inject into the Company all of its contributions set forth in the cooperation terms of this Contract within three (3) months after the issuance of the business license for the Company. In addition, Party A shall complete the transfer of the ownership and titles of concerning assets, properties and rights when it makes such injection.

5.5 Investment Certificate

After each contribution to the registered capital has been made in full, a certified accountant registered in the PRC shall verify the contributions by the Parties and issue a contribution verification report. Thereupon, the Company shall issue an investment certificate to the Party having made the contribution, which shall be signed by the Chairman and the Vice-Chairman of the Board.

5.6 Assignment of Registered Capital

- 5.6.1 After the first three-year Exploration Period, any Party to this Contract may assign, sell or otherwise transfer all or part of its interest in the Company (the “**Transferring Party**”) to any third party, however, the other Party shall have a right of first refusal to purchase the capital contribution being transferred under the same terms and conditions agreed to by a third party and the Transferring Party. The Transferring Party shall notify the other Party in writing of the terms and conditions of the transfer. If the other Party does not exercise its preemptive right of purchase within thirty (30) days after receipt of such notice, the Transferring Party may assign its interest in the Company, and the other Party shall be deemed to have consented to the transfer provided the third party shall execute a document by which it becomes a party to this Contract under the same terms and conditions as the Transferring Party. The right of first refusal shall not apply if a Transferring Party is assigning its rights, title and interest in the Company as security for loans to the Transferring Party, or its affiliates, or if a Transferring Party is assigning, selling or transferring all or any part of its rights, title and interest in the Company to other members of its group.
- 5.6.2 Each Party shall cause each member of the Board appointed by it to approve any sale or assignment pursuant to the above which shall then be unanimously agreed at a meeting of the Board and shall, if required by applicable law, be submitted to the approval authority for examination and approval. Upon receipt of the approval of the approval authority, the Company shall register the change in ownership with the local branch of the State Administration for Industry and Commerce of the PRC as required by law.

5.7 Increase of Registered Capital

- 5.7.1 During the term of this Contract, with the approval of the Board, the Company may increase its registered capital. Any increase in the registered capital shall be submitted to the original approval authority for approval as required under PRC laws. Upon approval by the original approval authority, the Company shall register the increase in registered capital with the local branch of the State Administration of Industry and Commerce of the PRC. The Parties shall, as agreed upon, contribute their respective contributions to the increase in registered capital.
- 5.7.2 The Parties agree that, after the first three-year Exploration Period, unless Party B otherwise terminates this Contract for Technical Reasons, Party B shall increase its investment to the Company in accordance with this Contract to meet the exploration or development requirements of the Company. Such investment shall be contributed as follows:
- (a) an amount of four million United States Dollars (US\$4,000,000) in 2006 by quarterly cash calls;
 - (b) an amount of four million United States Dollars (US\$4,000,000) in 2007 by quarterly cash calls;
 - (c) an annual amount of ten million United States Dollars (US\$10,000,000) during Detailed Exploration and Feasibility Study Period between 2008 and 2009, among of which ten million United States Dollars (US\$10,000,000) shall be used for detailed explorations.
- 5.7.3 Prior to the Development Period, where the Company successfully finds one or more valuable mineral areas, should further capital be required for exploration, detailed exploration and feasibility study in the aforesaid mineral areas, Party B shall be responsible to inject the increased expenditures. Such increased investment shall not affect the proportion of each Party’s equity interest in the Company as identified in this Contract.

ARTICLE 6 RESPONSIBILITIES OF THE PARTIES

6.1 Responsibilities of Party A

In addition to its other obligations under this Contract, Party A shall have the following responsibilities:

- 6.1.1 To ensure that Party B is its sole cooperative partner for the exploration and mining of copper and gold deposit in the Co-operation Region. Should Party A’s other copper projects require cooperation in Tibet, Party B has the right of first refusal;
- 6.1.2 To meet its undertaking in accordance with the provision in Article 5.4 and Article 5.7 of this Contract;
- 6.1.3 To ensure that it has the lawful ownership and titles for its contributions under this Contract, including but without limitation to, the assets, the existing exploration rights of the respective mining areas;
- 6.1.4 To complete the transfer of the ownership and titles of contributed assets, the existing exploration rights as well as the concerning licenses within the time limit as specified herein and to complete the concerning registrations of the transfer in a timely manner so as not to

delay the various operations of the Company and to ensure that the Company obtains and owns the rights lawfully;

- 6.1.5 To assist the Company in obtaining all necessary applications, approvals, permits, registrations and licenses for the establishment of the Company;
- 6.1.6 To facilitate the Company to acquire in accordance with PRC laws, regulations and provisions of this Contract, all permits and license of exploration and mining (including processing, refining and selling rights) for each of the Company's mining areas in Co-operation Region;
- 6.1.7 To assist the Company obtain land use rights in full vacant possession for the Company for sites for a term of sufficient length for its production and operation in a timely manner so as not to delay the projects;
- 6.1.8 To assist the Company in accordance with the provisions of this Contract in the building and upgrading of roads, water, power and communication facilities;
- 6.1.9 To provide the Company with a safe and suitable external environment;
- 6.1.10 To assist in obtaining all papers for such foreign staff to enter, stay and work in the PRC;
- 6.1.11 To provide topographic and geological and drilling information available to Party A and needed by the Company;
- 6.1.12 To supply various workers and technicians for the Company to select and employ;
- 6.1.13 To assist in handling formalities for transportation plans, application for building permits, power, water and gas supply, fire and environmental protections;
- 6.1.14 To assist the Company in applying for and obtaining the most preferential tax reductions and exemptions and other investment incentives available under applicable PRC laws and regulations;
- 6.1.15 To assist in processing import permits for equipment and office and living articles, and to arrange their transportation within the PRC;
- 6.1.16 To assist the Company in opening Renminbi and foreign currency bank accounts; and
- 6.1.17 To assist in handling other matters entrusted by the Company.

6.2 Responsibilities of Party B

In addition to its other obligations under this Contract, Party B shall have the following responsibilities:

- 6.2.1 To invest capital in accordance with the provision in Article 5.4 and Article 5.7 of this Contract;
- 6.2.2 To assist the Company in the purchase of equipment, supplies and materials manufactured outside the PRC to ensure that they are of the proper quantity and quality for the conduct of its business;
- 6.2.3 To assist in introducing to the Company modern scientific management techniques;
- 6.2.4 To provide the technical and administrative personnel to the Company, to organize technology exchange and foreign study tours, and to train Chinese technical and administrative personnel for the Company;
- 6.2.5 To assist the Company to recruit qualified expatriate personnel and international consultants, when required by the Company;
- 6.2.6 During the Development Period, to be responsible for assisting the Company to raise any foreign loans required by the Company; and
- 6.2.7 To handle other matters entrusted by the Company.

ARTICLE 7 REPRESENTATION, UNDERTAKING, WARRANTY AND INDEMNITY

7.1 Each of Party A and Party B represents and warrants that:

- 7.1.1 It possesses full power and authority to enter into this Contract and to perform its obligations hereunder;
- 7.1.2 The representative of each Party whose signature is affixed hereto has been fully authorized to sign this Contract and to bind the respective Party thereby; and

- 7.1.3 Upon the approval by the approval authority, the provisions of this Contract becomes legal, valid and binding.
- 7.2 Party A undertakes and warrants to Party B that all its cooperation terms as injected into the Company shall be free and clear from mortgage, pledge, lien, charge, collateral or any third party's interest and that Party A shall indemnify Party B against and free from, and hold Party B harmless in respect of, any loss, liability, damage and claims as a result of Party A's injection of its cooperation terms.

ARTICLE 8 TECHNOLOGY AND EQUIPMENT

8.1 Technology and Training

- 8.1.1 Party B shall, with the assistance of Party A, be leading and in charge of the production technology including exploration, mining, processing and refining for the Company. Technical personnel appointed by the Company shall be responsible for implementation of such production technology. The Company maintains a policy of training Chinese technical and management personnel. The leading technical and management personnel of the Company shall be appointed by Party B.
- 8.1.2 Party A shall provide appropriate candidates for Party B to select for technical training. If training abroad is necessary, the expenses shall be borne by the Company as cost of the Company. Those who are sent abroad for training shall execute a separate service contract with the Company.

8.2 Equipment

- 8.2.1 Party B is responsible for purchasing any imported production equipment and accessories verified by the Company who shall be responsible for handling all import formalities in China for the importation of such items.
- 8.2.2 The Company shall have the right to import equipment, in the qualities and quantities deemed necessary by the General Manager, which cannot be manufactured in the PRC at competitive world market prices as approved by the Board of Directors.
- 8.2.3 Equipment and accessories for the Company's utilization shall refer to the opinions of Party B's experts, to be purchased inside or outside the PRC.

ARTICLE 9 BOARD OF DIRECTORS

9.1 Formation of the Board of Directors

- 9.1.1 The Company shall establish a Board of Directors. The date of the issuance of the Company's business license shall be regarded as the establishment date of the Board of Directors.
- 9.1.2 The Board of Directors, including one (1) Chairman and one (1) Vice-Chairman and five (5) directors, shall consist of seven (7) directors, three (3) appointed by Party A, and four (4) by Party B. The Chairman of the Board shall be appointed by Party B, and the Vice-Chairman shall be appointed by Party A.
- 9.1.3 The term of office of a director and the Chairman and the Vice-Chairman shall be three (3) years and may be renewed with the consent of the appointing Party. The appointing Party, however, may remove or replace any of the directors that appointed during their term of office by giving prior written notice to the Board of Directors with a copy of such notice to the other Party.
- 9.1.4 The Chairman of the Board shall be the legal representative of the Company. Whenever the Chairman of the Board is unable to perform his responsibilities for any reason, he shall authorize the Vice-Chairman to represent the Company temporarily. The Chairman of the Board shall exercise his authority within the limits prescribed by the Board and may not under any circumstances contractually bind the Company or otherwise take any action on behalf of the Company without prior approval of the Board.
- 9.1.5 No director shall have any liability for any acts performed in his capacity as a director except for such acts in violation of criminal laws. The Company shall indemnify each director against any claims that are brought arising out of such director's action in his capacity as a director of the Company.

9.2 Powers of the Board

- 9.2.1 The Board of Directors shall be the highest authority of the Company and shall have the right to decide on all major issues concerning the Company.

9.2.2 Decisions involving the following matters may only be adopted at a duly constituted and convened meeting of the Board of Directors (hereinafter referred to as “**Meeting**”) upon the unanimous affirmative vote of each and every director of the Board present in person or by proxy at such Meeting:

- (a) The amendment of the Articles of Association;
- (b) The merger of the Company with another organization;
- (c) Early termination and dissolution of the Company;
- (d) Any increase or assignment of the registered capital of the Company and the conditions thereof; and
- (e) Additional capital requirements or financing amounts above total investment amounts as set forth in Article 5.1.4 and 5.7.3.

9.2.3 All other issues that require a resolution by the Board may be raised at a duly convened meeting of the Board and such resolution must be adopted by affirmative vote of at least half members of the Board directors present at such meeting in person or by proxy.

9.3 Meetings

9.3.1 The Board shall convene at least three (3) Meetings every year. In addition, there shall be a technical seminar at the end of each year. The Meetings shall be convened and presided over by the Chairman of the Board. If the Chairman of the Board is unable to preside over the Meetings, he shall authorize the Vice-Chairman to preside over the Meetings.

9.3.2 Notice of each Board of Directors meeting shall be given in writing and shall be delivered by the Chairman of the Board to each director no later than ten (10) days prior to the date set for such Meeting. Notice shall be given by telex or telefax to the directors residing outside the city of the legal address of the Company.

9.3.3 In principle, all Board meetings shall be held at the Company’s legal address or such other address in the PRC or abroad as is decided by the Board.

9.3.4 The Chairman of the Board shall set the agenda after consultation with the Vice-Chairman of the Board and be responsible for convening and presiding over such Meetings.

9.3.5 At a Board meeting, each director or proxy shall have one vote.

9.3.6 The presence of two thirds members of the Board directors shall constitute a quorum of meeting of the Board of Directors. If a quorum is not met at a Board meeting, the Chairman shall call a second meeting within fourteen (14) days. Notwithstanding the foregoing, any director absent from a Meeting without giving a reason therefor and without having appointed a proxy shall be considered to have abstained from voting. Excluding those director(s) who shall be considered to have abstained from voting, resolutions will be valid if passed by the required number of the directors, as set forth in Article 9.2 hereof, present in person or by proxy.

9.3.7 Should a director be unable to participate in a Board meeting, he may, in written form, appoint a proxy to represent him and vote on his behalf at that Meeting. The proxy so entrusted shall have the same rights and powers as the director.

9.3.8 Upon the written request of more than one third member of the Board of the Company specifying the matters to be discussed, the Chairman of the Board may call on and convene an extraordinary Meeting within thirty (30) days. The procedures and rules of an extraordinary Meeting will be the same as those of an ordinary Meeting.

9.3.9 The Board meeting may be convened with the use of conference call or other like communication equipment which enables all of the directors attending the Meeting to communicate each other. The presence at such meeting of the Board by such method shall constitute valid presence and the resolution passed at such Meetings shall be valid. On this case, the notice of an ordinary Meeting may be waived.

9.3.10 Board meetings shall be conducted in Chinese and English with an interpreter present to carry out interpretation, to the extent necessary. Minutes, duly signed by all the Directors presenting that Meeting, of all meetings of the Board and resolutions adopted in lieu of a Meeting, in Chinese and English, shall be kept in the minute book of the Company at the Company’s legal address.

9.3.11 Any matter to be decided by the Board may be decided without a Meeting if all directors consent in writing to decide such matter. Such written consent shall be filed with the minutes of the Board proceedings and shall have the same force and effect as a unanimous vote taken by the directors physically present.

9.3.12 Directors shall serve without any remuneration, but all reasonable costs incurred by the directors in the performance of their duties as members of the Board shall be borne by the Company.

ARTICLE 10 OPERATION AND MANAGEMENT

10.1 Management Organization

- 10.1.1 The Company shall adopt a management system for daily operations and management of the Company, under which the management organization shall be responsible to and under the leadership of the Board of the Directors. The management shall include one (1) General Manager, two (2) Deputy General Managers and a number of Department Managers. The General Manager shall be nominated by Party A. Two Deputy General Managers shall be each nominated by Party A and Party B respectively. Each Party's nomination shall be reasonably acceptable to the other Party. Both the General Manager and the Deputy General Managers shall be appointed by the Board.
- 10.1.2 The General Manager and the Deputy General Managers may serve consecutive terms upon reappointment by the Board. In the event it becomes necessary to replace the General Manager or the Deputy General Managers prior to the end of his current term of office, the Party which originally nominated such manager shall nominate a new candidate to fill the position for approval by the Board.
- 10.1.3 The Board shall have the power to dismiss either the General Manager or the Deputy General Managers at any time, for graft or serious dereliction of duties or other due causes permitted under PRC laws upon a resolution of the Board approved by at least two thirds members of the Board of Directors. If the General Manager or the Deputy General Managers is removed by the Board, a successor shall be recommended and confirmed in the same manner as the original appointee.
- 10.1.4 Subject to the engagement of management personnel as specified above, the member of the Board of Directors may concurrently serve as General Manager or Deputy General Manager.
- 10.1.5 The General Manager and the Deputy General Managers may not assume any other duties of or participate in other economic organizations in competition with the Company.

10.2 Responsibilities and Powers of the General Manager

The General Manager shall be responsible for implementing the decisions of the Board of Directors, and organizing and conducting the daily operation and management of the Company and, within the scope of empowered to him by the Board of Directors, to represent the Company in dealing with third parties. The General Manager shall be responsible to the Board and shall carry out all matters entrusted by the Board. The Deputy General Managers shall be of assistance to the General Manager.

10.3 Financial Control

Any checks and other fund transfers a threshold amount of ten thousand United States Dollars (US\$10,000) or its equivalent Renmibi must be approved by two senior officers of the Company, including a Deputy Manager nominated by Party B.

ARTICLE 11 LABOR MANAGEMENT

11.1 Governing Principle

Matters relating to the recruitment, employment, dismissal, resignation, wages, welfare, labor insurance, labor protection and labor discipline etc. shall be handled in accordance with the Labor Law of the People's Republic of China and the relevant legislation concerning labor management of Sino-Foreign enterprises industry.

11.2 Recruitment

- 11.2.1 The Company shall have the right to recruit its employees directly. Employees shall be selected from candidates for employment according to their professional qualifications and working experience. The succeeded candidates will be hired by the Company upon successfully complete a thorough medical examination. All employees must satisfactorily complete a three (3) month probationary period of employment before they will be formally employed by the Company.
- 11.2.2 Employees shall be employed by the Company in accordance with the terms of a collective labor contract or individual labor contracts entered into between the Company and the employees.

11.3 Number of Employees

The qualifications and number of employees employed by the Company shall be determined upon a discussion between the General Manager and the Chairman of the Board in accordance with the operating needs of the Company.

11.4 Labor Union

The Employees shall have the right to establish a labor union in accordance with the Law of the People's Republic of China on Labor Unions.

11.5 Labor Union Funds

By reference to regulations applicable to Sino-Foreign Co-operative Joint Ventures, the Company shall allot each month two percent (2%) of the total amount of the real wages received by Chinese employees for the payment into a labor union fund, such payment to be an expense of the Company. The labor union may use these funds in accordance with the relevant control measures for labor union funds formulated by the All China Federation of Labor Unions.

ARTICLE 12 FINANCIAL AFFAIRS AND ACCOUNTING

12.1 Accounting System

12.1.1 The bookkeeping and accounting systems of the Company shall be formulated in accordance with the relevant PRC laws and regulations on financial and accounting systems and internationally recognized accounting practices as any foreign lender to the Company may require. The Company's accounting system and procedures shall be submitted to the Board for approval. The debit and credit method, as well as the accrual basis of accounting, shall be adopted as the methods and principles for keeping accounts.

12.1.2 The Company shall adopt Renminbi as its bookkeeping base currency.

12.1.3 All accounting records, vouchers, books and statements of the Company shall be written in Chinese. In addition, the records, vouchers and books will be provided to Party B in English. All accounting statements of the Company shall also be made and kept in English.

12.1.4 For the purposes of preparing the Company's accounts and statements, calculation of declared dividends to be distributed to the Parties, and for any other purposes where it may be necessary to effect a currency conversion, except as permitted by applicable regulations and decided by the Company, such conversion shall be in accordance with the median rate for buying and selling announced by the Bank of China Head Office on the date of actual receipt or payment.

12.2 Fiscal Year

The Company shall adopt the Gregorian calendar year as its fiscal year, which shall start from 1st January and end on 31st December of the same year except that the first fiscal year of the Company shall commence on the date of issuance of the Company's business license and shall end on 31st December of that year, and the last fiscal year shall end on the date of the dissolution of the Company.

12.3 Auditing

12.3.1 An independent accountant registered in the PRC shall be engaged by the Company as its auditor to examine and verify the quarterly and annual financial report. The Parties agree that such accountant shall be of international standard and shall be appointed by the Board. The Company shall submit to the Parties an annual statement of final accounts (including the audited profit and loss statement and the balance sheet for the fiscal year) within two (2) months after the end of the fiscal year, together with the audit report of the Chinese registered accountant. The Company shall, on a calendar quarterly basis by the end of April, July, October and January of each year, submit to Party B a quarterly financial report of the Company which has been examined and verified by the auditor. The costs of all auditing should be borne by the Company.

12.3.2 Each Party may, at its own expense, appoint an accountant which may be either an accountant registered abroad or registered in the PRC, on behalf of such Party, to audit the accounts of the Company. Reasonable access to the Company's financial records shall be given to such auditor and such auditor shall keep confidential all documents under his auditing.

12.3.3 The General Manager and the financial manager shall present the Parties with balance sheets, profit and loss statements and other supplementary information requested by the Parties on a monthly basis.

12.4 Bank Accounts and Foreign Exchange Control

12.4.1 In the event the Company borrows foreign currency from lenders not located in China, the Company shall, in accordance with applicable foreign exchange regulations of the People's Republic of China, open special cash accounts for the repayment of principal of and the payment of interest on, foreign currency loans at an authorized bank approved by the relevant authorities.

- 12.4.2 Funds in the Company's foreign exchange account shall be used as determined by the Board of Directors to satisfy foreign exchange debt, expenses, remittances of profit and other remittances in accordance with the foreign exchange regulations of the PRC.
- 12.4.3 The Company shall balance its own foreign exchange income and expenditure through its own business operations or has the right to exchange Renminbi income into foreign currency at designated banks. All matters concerning the foreign exchange of the Company shall be handled in accordance with the provisions of the People's Republic of China regarding the foreign exchange control.
- 12.4.4 All remittances of profit and other remittances to Party B will be made to a foreign bank account designated by Party B in United States Dollars in accordance with the foreign exchange regulations of the PRC.
- 12.4.5 If profit or other amounts distributed to Party B are in Renminbi, then Party B may require the Company to open a separate Renminbi bank account for such amounts and hold the same, together with any interest accrued, on behalf of Party B, until such time as the Company shall have sufficient foreign exchange to convert the Renminbi into United States Dollars. Once converted, the Company shall remit the funds to a foreign bank account designated by Party B.

12.5 Reserve, Development and Welfare Funds

The Company shall make annual allocations to the reserve fund, development fund and welfare fund for the workers and staff members after paying the Company's income tax. The percentage of such allocations shall be decided by the Board of Directors upon the requirement of PRC laws.

ARTICLE 13 PROPERTY RIGHTS

13.1 Data and Information

Unless otherwise requires in this Contract, all data and information obtained during the cooperation period shall be commonly owned by both Party A and Party B.

13.2 Minerals

Unless otherwise required under this Contract, any reserve increase or new discovery through the exploration under this Contract shall be commonly owned by the Company.

ARTICLE 14 PROFIT AND LOSS SHARING

14.1 Profit Sharing and Other Allocation

The balance of moneys available after payment of all operating costs, principal, interest, and fees on any loans, payments to any funds, payments to cover any losses carried forward from any previous year, and payment of the Company's income taxes, shall become distributable profit (hereinafter referred to as "**Distributable Profit**"). The Distributable Profit shall be distributed in the proportion of: (i) thirty percent (30%) to Party A and seventy percent (70%) to Party B in the Risk Exploration Blocks, (ii) forty nine percent (49%) to Party A and fifty one percent (51%) to Party B in Co-operative Exploration Blocks, (iii) thirty to forty percent (30% to 40%) to Party A and sixty to seventy percent (60% to 70%) to Party B in the Co-operative Mining Block. Notwithstanding the forgoing, during the Development Period, where there is a change on the equity interest of the Parties' in the Company, the distribution proportion of the Distributable Profit shall be changed thereupon.

14.2 Losses Sharing

During the Development Period, each Party shall share the risks and losses incurred by the operation of the Company in accordance with the above-mentioned Distributable Profit distribution proportions.

ARTICLE 15 TAXATION AND INSURANCE

15.1 Taxes

- 15.1.1 The Company and its Chinese and expatriate employees shall pay tax under the relevant tax laws and regulations of the PRC.
- 15.1.2 The Company may, according to the relevant provisions of the PRC on encouraging foreign investment, apply for preferential tax treatment in the reduction of, or exemption from, taxes.

15.2 Insurance

- 15.2.1 The Company shall, on commercially acceptable terms, at its own cost and expense, at all times take out and maintain full and adequate insurance for the Company and its mines against loss or damage by fire and such other risks as are customarily insured against.
- 15.2.2 The property, transportation, consequential loss and other insurance of the Company shall be denominated in Chinese and foreign currencies, as appropriate. The types, amounts and duration of the insurance shall be determined by the Board of Directors.
- 15.2.3 The Company shall take out the appropriate insurance from the insurance companies approved by the relevant PRC authorities to conduct business in the PRC.

ARTICLE 16 CONFIDENTIALITY

- 16.1 Each of the Parties receiving confidential and proprietary information of the Company or the other Party shall, during the term of this Contract and for five (5) years thereafter:
 - 16.1.1 Maintain the confidentiality of such information; and
 - 16.1.2 Not disclose it to any person or entity except to their employees, advisors, and consultants and their lenders and their advisors and consultants, who need to know such information to perform their responsibilities or as part of any statutory reporting requirements by applicable laws and except that the Parties may make disclosure in accordance with the statutory requirements by applicable laws and the requirements by the relevant regulatory authority.
- 16.2 The obligations of confidentiality as set forth herein are applicable to and binding upon all the employees, agents, contractors and associated companies of both Party A and Party B after the signing of this Contract.
- 16.3 This Article 16 and the obligations and benefits thereunder shall survive for five (5) years after the expiration or termination of this Contract, notwithstanding the termination, dissolution or liquidation of the Company.

ARTICLE 17 TERM OF THE COMPANY

17.1 Term of the Company

The term of the Company so defined at present shall be thirty (30) years commencing on the date of the issuance of the Company's business license and shall include the Exploration Period for five (5) years, Detailed Exploration and Feasibility Study Period for two (2) years, and Development Period for twenty three (23) years.

17.2 Extension of the Term

If the Parties wish to extend the term, it shall cause the directors of the Company to make an unanimous resolution to submit an application for such extension to the original approval authorities of this Contract one hundred and eighty (180) days prior to the expiration of the registered term of the Company. The term may be extended after such approval is granted and the Company shall then register the changes with the original registration authority.

ARTICLE 18 DISPOSAL OF ASSETS AFTER THE EXPIRATION OF THE COMPANY

All the assets of the Company shall, upon the expiration of the Company, be used to repay the loans and expenses in accordance with Article 19 hereof and the remaining assets shall be distributed between the Parties in the proportion of: (i) thirty percent (30%) to Party A and seventy percent (70%) to Party B in the Risk Exploration Blocks, (ii) forty nine percent (49%) to Party A and fifty one percent (51%) to Party B in Co-operative Exploration Blocks, (iii) thirty to forty percent (30% to 40%) to Party A and sixty to seventy percent (60% to 70%) to Party B in the Co-operative Mining Block. Notwithstanding the forgoing, during Development Period, where there is a change on the Parties' equity interest in the Company, the distribution proportion of the remaining assets between the Parties shall be same as that of the Parties' equity interest in the Company on the date of the expiration of the Company.

ARTICLE 19 TERMINATION AND LIQUIDATION

19.1 Cause for Termination

No Party shall have the right, in its sole discretion and without cause, to terminate this Contract. However, the Parties may mutually agree in writing to terminate this Contract at any time. Also,

- 19.1.1 After the first three-year Exploration Period, i.e. after 1st January 2006, Party B may terminate this Contract for Technical Reasons upon a three (3) month prior notice to Party A.
- 19.1.2 A Party may submit written notice to the other Party of a desire to terminate this Contract for cause (subject to Article 19.2) at any time if:
- (a) The other Party materially breaches this Contract or violates the Articles of Association, and such breach or violation is not cured within three (3) months of written notice to the breaching party;
 - (b) The Company or either Party becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or is unable to carry on business or becomes unable to pay its debts as they come due;
 - (c) Any government authority having authority over the other Party requires any provision of this Contract to be revised in such a way as to cause significant adverse consequences to the Company or to the termination Party;
 - (d) The conditions or consequences of Force Majeure (as hereinafter defined) significantly interfere with the normal functioning of the Company for a period in excess of eighteen (18) months and the Parties have been unable to find an equitable solution pursuant to Article 21 hereof;
 - (e) Either Party fails to make its contributions to the registered capital in accordance with Article 5.4 and 5.7; or
 - (f) For other reasons specified in this Contract.

The mere submission by any Party of a notice indication a desire to terminate this Contract shall not by itself constitute a termination of this Contract.

19.2 Consequence of Termination

In the event that any Party gives notice pursuant to Article 19.1 hereof of a desire to terminate this Contract, the Parties shall within a two (2) month period after such notice is given, conduct negotiations and endeavor to resolve the situation which resulted in the giving of such notice. If no solution satisfactory to both parties is found, either Party can terminate this Contract in accordance with Article 19.1.2. Where this Contract is terminated in accordance with Article 19.1, the Company shall be dissolved and the assets liquidated in accordance with Article 19.3.

19.3 Liquidation

- 19.3.1 Upon expiration of the Company or in case of early termination under Article 48 of the Implementing Rules of the Cooperative Joint Venture of China, that incurs an ordinary liquidation, the Board of Directors shall appoint a Liquidation Committee, composed of three (3) members appointed by the Party A and four (4) members appointed by Party B. The Liquidation Committee shall have the power to represent the Company in all legal matters during the liquidation. The Liquidation Committee shall value and liquidate the Company's assets in accordance with applicable PRC laws and regulations and the principles set forth in this Contract so as to realize, upon the sale of all of the assets of the Company, the going concern value of the Company based upon the actual circumstances of the Company, taking into account the market value of companies in similar industries and internationally accepted principles relevant to the determination of going concern value.
- 19.3.2 The Liquidation Committee shall conduct a thorough examination of the Company's going concern value and its assets and liabilities, on the basis of which it shall develop a liquidation plan, under the supervision of the department-in-charge, for the liquidation of the Company. The liquidation plan shall be approved by the Board and executed under the supervision of the Liquidation Committee.
- 19.3.3 Upon liquidation, the Company's assets shall be dealt with according to the following principles and order:
- (a) Payment of a Liquidation Fee to the Liquidation Committee;
 - (b) To payments of wages, insurance premiums, welfare payments and administrative and operation expenses then due;
 - (c) To payments of taxes of the Company then due;
 - (d) To payments of amounts then due in respect of third party loans;
 - (e) To payments then due under any project contracts and any other contracts to which the Company may be a party;
 - (f) To payments of amounts then due in respect to loans made by the Parties to the Company; provided, however, that in the event the Company shall have been dissolved as the result of a termination for breach of this Contract and the breaching

Party shall owe an amount to the not-breaching Party on account of its indemnity obligations referred to in Article 20 hereof, then the Company shall withhold and pay over to the non-breaching Party amounts sufficient to pay such indemnity obligations;

- (g) To each Party according to the percentage of: (i) thirty percent (30%) to Party A and seventy percent (70%) to Party B in the Risk Exploration Blocks, (ii) forty nine percent (49%) to Party A and fifty one percent (51%) to Party B in Co-operative Exploration Blocks, (iii) thirty to forty percent (30% to 40%) to Party A and sixty to seventy percent (60% to 70%) to Party B in the Co-operative Mining Block. Notwithstanding the forgoing, during Development Period, where there is a change on the Parties' equity interest in the Company, the above proportion shall be the same as that of the Parties' equity interest in the Company on the commence of the liquidation.

- 19.3.4 Upon completion of all liquidation procedures, the Liquidation Committee shall submit its final report, after unanimous approval by the Board, to the original approval authority and registration and administration authority, and shall process the nullification of the registration of the Company and return and cancel the Company's business license. The Parties shall have the right to obtain copies of the Company's accounting books and other documents, but the originals thereof shall be left in the care of Party A.

ARTICLE 20 LIABILITY FOR BREACH OF CONTRACT

- 20.1 Should all or part of this Contract or its appendices be unable to be fulfilled owing to the fault of one Party, the Party in breach shall bear the liability therefor to the Company or the relevant Party, for the amount of cost, expense, payment, obligation, or loss which it has incurred, including any interest paid, payable or foregone as a result thereof. Should it be the fault of both Parties, each Party shall bear its own liabilities according to the actual situations.
- 20.2 Should one Party fails to fulfill the obligations prescribed by the Contract and Articles of Association, or seriously violates the provisions of the Contract and Articles of Association, then consequently the Company is unable to continue its operation or achieve its prospecting purpose, the Party in default shall be liable for the losses thus caused to the other Party. The other Party has the right to apply to the original approval authority for approval of the early termination of the Contract. If both Parties to the Company agree to continue their cooperation, the Party in default shall compensate the other Party's economic losses first.

ARTICLE 21 FORCE MAJEURE

- 21.1 "**Force Majeure**" shall mean all events which are beyond the control of the Parties to this Contract, which are reasonably unforeseen, unavoidable or insurmountable, and arise after the signing of this Contract and prevent total or partial performance by any Party. Such events shall include earthquakes, typhoons, flood, fire, strikes, war, or any other instances which cannot be reasonably foreseen, prevented or controlled, and are accepted as Force Majeure in general international commercial practice.
- 21.2 If an event of Force Majeure occurs, Party's contractual obligations affected by such an event under this Contract, except for any obligation to make payments hereunder, shall be suspended during the period of delay caused by the Force Majeure and shall be automatically extended, without penalty, for a period equal to such suspension. Neither Party shall have any right to claim damages for any losses caused by the Force Majeure.
- 21.3 The Party claiming Force Majeure shall promptly notify the other Party of the situation in writing without any delay, and shall within fifteen (15) days thereafter provide detailed information of the event and a valid document for evidence issued by the relevant public notary organization for explanation of its failure to implement the Contract or postponement of the implementation of the Contract. Both Parties shall use all reasonable endeavors to minimize the consequences of such Force Majeure.
- 21.4 According to the impact of the events on the implementation of the Contract, the Parties shall through consultations, decide whether to terminate the Contract, or to exempt from implementing part of the obligations stipulated in the Contract, or to postpone implementation of the Contract.

ARTICLE 22 SETTLEMENT OF DISPUTES

22.1 Friendly Consultations

Any dispute, controversy or claim (hereinafter collectively by referred to as "**Disputes**") arising out of the implementation of the Contract or relating to this Contract, the Parties shall attempt in the first instance to settle such disputes through friendly consultations.

22.2 Arbitration

- 22.2.1 In case no settlement can be reached through friendly consultation within sixty (60) days after the commencement of such consultations, either Party may submit the dispute to the China International Economic and Trade Arbitration Commission in the City of Beijing, PRC for arbitration in accordance with its rules of procedure. The site of the arbitration

shall be Beijing, PRC.

22.2.2 The arbitration award shall be final and binding on the Parties, and the Parties agree to be bound thereby and to act accordingly.

22.2.3 The costs of arbitration shall be borne by each Party as designated in the arbitration award.

22.3 Continuing Performance

During friendly consultations or arbitration, the Contract shall be performed continually by both Parties, except in respect of those matters under dispute.

22.4 Each Party consents generally to the issue or conduct of any legal process and the giving of any relief (including the rendering of any judgment or order, or enforcement or execution against any property or assets) in respect of any claim or dispute arising out of or in connection with this Contract. Each Party irrevocably waives and agrees not to claim immunity in any jurisdiction for itself or its property or assets from legal process, service, suit, judgment, execution and enforcement, and agrees that the entry by each of them into this Contract constitutes a private commercial act.

ARTICLE 23 APPLICABLE LAW

23.1 Applicable Law

The validity, interpretation, implementation and settlement of any disputes of this Contract shall be governed by the laws of the PRC which are published and publicly available, but in the event that there is no published and publicly available law in the PRC governing a particular matter relating to this Contract, reference shall be made to general international commercial practices.

23.2 Economic Adjustment

If any Party's economic benefits are adversely and materially affected by the promulgation of any new laws, rules or regulations of the PRC or the amendment or interpretation of any existing laws, rules or regulations of the PRC after the date of signing of this Contract, the Parties shall promptly consult with each other and use their best endeavors to implement any adjustments necessary to maintain each Party's economic benefits derived from this Contract on a basis no less favorable than the economic benefits it would have derived if such laws, rules or regulations had not been promulgated or amended or so interpreted.

23.3 Preferential Treatment

The Company and the Parties shall make a best efforts attempt to obtain any tax, investment or other benefits or preferences that become available or publicly known after the signing of this Contract and which are more favorable than those set forth in this Contract.

ARTICLE 24 MISCELLANEOUS PROVISIONS

24.1 Modification and Amendment of the Contract

Any modification and the amendment of this Contract and its appendices shall be agreed in consensus and signed by Party A and Party B in writing, and shall be valid upon the approval of the original approval authority.

24.2 Environmental

The Company shall undertake environmental protection measures in accordance with the Law of the PRC on Environmental Protection and other relevant laws and regulations.

24.3 Waiver

To the extent permitted by PRC laws, failure or delay on the part of any Party hereto to exercise a right, power or privilege under this Contract and the appendices hereto shall not operate as a waiver thereof; nor shall any single or partial exercise of a right, power or privilege preclude any other future exercise thereof.

24.4 Binding Effect

This Contract is made for the benefit of the Parties and their respective lawful successors and assignees and is legally binding on them.

24.5 Language

This Contract is executed both in Chinese and English. Both language versions shall be equally authentic and effective.

24.6 Entire Agreement

This Contract and the appendices hereto attached to this Contract constitute the entire agreement between the Parties with respect to the subject matter of this Contract and supersede all prior discussions, negotiations

and agreements between them. In the event of any conflict between the terms and provisions of this Contract and the Articles of Association, the terms and provisions of this Contract shall prevail.

24.7 Titles

All article and section titles in this Contract are for convenience only. They shall not be deemed part of this Contract and in no way define, limit, extend, or describe the scope or intent of any of its provisions.

24.8 Invalidity

If any provision or provisions of this Contract shall be held to be invalid, illegal or unenforceable, such provision shall be enforced to the fullest extent permitted by applicable law and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

24.9 Unmentioned matters

The matters as not included herein may be settled through further consultations between the Parties.

24.10 Notices

Any notice or written communication provided for in this Contract by any Party to the others, including but not limited to any and all offers, writings, or notices to be given thereunder, shall be made in Chinese and English by email or facsimile promptly transmitted to the appropriate party, and a copy of such documents shall be delivered by courier service to the appropriate party. Delivering shall be deemed made upon signature of the receiver. All notices and communications shall be sent to the appropriate address set forth below, until the same is changed by notice given in writing to the other Party.

For PARTY A:

Address: 21 Beijing Zhong Road, Lhasa City, Tibet Autonomous Region, PRC.
Telephone No.: 0086 891 6324114
Facsimile No.: 0086 891 6323098
Attention: Director General

For PARTY B:

Address: Level 8, 580 St. Kilda Rd, Melbourne, Victoria 3004, Australia.
Telephone No.: 0061 3 8532 2860
Facsimile No.: 0061 3 8532 2805
Attention: Director & Secretary

24.11 Appendices

Any appendices of this Contract are made an integral part of this Contract and are equally binding with the provisions of the Contract herein.

24.12 Signing

This Contract is signed and executed by the duly authorized representatives of both Parties with equal legal status on 21st November, 2002 in Lhasa, PRC. At the time of the execution of this Contract, each Party shall provide the other Party with a certified copy of its business license (or certificate of incorporation) and power of attorney (or board minutes), as appropriate.

IN WITNESS WHEREOF, each of the Parties hereto have caused this Contract to be executed by their duly authorized representatives on the date first set forth above.

Party A:

Tibet Bureau of Geology and Minerals Exploration and Development, China

By:

Date:

Name:

Title:

Nationality:

Party B:

Bay Resources Limited, Australia

By:

Date:

Name:

Title:

Nationality: