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NEWGOLD INC
Form 10QSB
December 30, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT FOR THE TRANSITION PERIOD FROM
_____ to _____

Commission File Number 0-20722

NEWGOLD, INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE

16-1400479

(State of other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

P.O. Box 1626 Shingle Springs, California

95682

(Address of Principal Executive Offices)

Zip Code

Issuer's telephone number: (530) 672-1116

Check whether the issuer (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 issuer was required to file such
reports), and (2) has been subject to such filing requirements for the past 90
days:

YES X NO

Common stock, \$0.001 par value, 47,606,174 issued and outstanding as of November
30, 2004.

Transitional Small Business Disclosure Format: YES NO X

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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NEWGOLD, INC.
CONDENSED BALANCE SHEET
OCTOBER 31, 2004
(UNAUDITED)

ASSETS	
CURRENT ASSETS	
Cash	\$ 5,424

Total current assets	5,424
OTHER ASSETS	
Deferred reclamation costs	513,946
Deposits	12,000

Total other assets	525,946

TOTAL ASSETS	\$ 531,370
	=====

The accompanying notes are an integral part of these financial statements

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CONDENSED BALANCE SHEET
 OCTOBER 31, 2004
 (UNAUDITED)

LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable	\$ 538,276
Accrued expenses	1,713,643
Accrued reclamation costs	513,946
Notes payable due to individuals and officer	663,641

Total current liabilities	3,429,506

DEFERRED REVENUE	800,000

Total liabilities	4,229,506
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' DEFICIT	
Common stock, \$0.001 par value	
50,000,000 shares authorized	
47,606,174 shares issued and outstanding	47,606
Additional paid in capital	12,145,244
Accumulated deficit	(15,890,986)

Total shareholders' deficit	(3,698,136)

TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$ 531,370
	=====

The accompanying notes are an integral part of these financial statements

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FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 31,
(UNAUDITED)

	For the Three Months Ended October 31,		For the Nine Mo October
	2004	2003	2004
NET SALES	\$ -	\$ -	\$ -
COST OF GOODS SOLD	5,000	9,430	15,000
GROSS LOSS	(5,000)	(9,430)	(15,000)
OPERATING EXPENSES	(78,561)	(89,283)	(231,343)
LOSS FROM OPERATIONS	(83,561)	(98,713)	(246,343)
OTHER INCOME (EXPENSE)			
Dividend income	-	-	-
Interest expense	(157,011)	(31,982)	(256,417)
Loss on sale of marketable securities	(281,063)	-	(281,063)
Total other income (expense)	(438,074)	(31,982)	(537,480)
NET LOSS	\$ (521,635)	\$ (130,695)	\$ (783,823)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.01)	\$ (0.01)	\$ (0.02)
BASIC AND DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	47,606,174	47,592,255	47,606,174

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The accompanying notes are an integral part of these financial statements

NEWGOLD, INC.
CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 31,

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(UNAUDITED)

	For the Three Months Ended October 31,		For the Nine Mo October
	2004 -----	2003 -----	2004 -----
NET LOSS	\$ (521,635)	\$ (130,695)	\$ (783,823)
OTHER COMPREHENSIVE LOSS			
Unrealized loss from marketable securities	-	(247,543)	(49,843)
LESS: Reclassification			
Adjustment for losses included in net loss	254,663	-	254,663
COMPREHENSIVE LOSS	\$ (266,972) =====	\$ (378,238) =====	\$ (579,003) =====

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The accompanying notes are an integral part of these financial statements

NEWGOLD, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED OCTOBER 31,
(UNAUDITED)

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	2004
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (783,823)
Adjustments to reconcile net loss to net cash used in operating activities	
Accretion of warrants issued as a debt discount	158,249
Decrease (Increase) in	
Deposits	33,000
Deferred reclamation costs	-
Increase (Decrease) in	
Accounts payable	(1,917)
Accrued salaries and benefits	(94,334)
Accrued expenses	142,613
	(546,212)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Marketable securities	315,187
	315,187
 CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from the issuance of common stock	-
Proceeds from notes payable	230,832
Repayments of note payable	(350)
	230,482
 Net decrease in cash	(543)
 CASH, BEGINNING OF PERIOD	5,967
 CASH, END OF PERIOD	\$ 5,424

The accompanying notes are an integral part of these financial statements

NOTE 1 - ORGANIZATION AND LINE OF BUSINESS

NEWGOLD, Inc. (the "Company") has been in the business of acquiring, exploring, developing, and producing gold properties. The Company had rights to mine properties in Nevada and Montana. Its primary focus was on

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the Relief Canyon Mine located near Lovelock, Nevada, where it has performed development and exploratory drilling and was in the process of obtaining permits to allow operation of the Relief Canyon Mine. In December 1997, the Company placed the Relief Canyon Mine on care and maintenance status. The Company also conducted exploration at its Washington Gulch Mine property in Montana.

In February 2000 the Company began to implement an entirely new business model of investing in Internet companies. Due to the deterioration of the investment market for these types of companies later in 2000, the Company abandoned this investment strategy. From mid-2001 until the beginning of 2003 Newgold was essentially inactive, only continuing with some of the care and maintenance at Relief Canyon, as provided for by a non-affiliate company owned by the Chairman and CEO of Newgold.

Merger

In November 1996, Newgold, Inc. of Nevada ("Old Newgold") was merged into Warehouse Auto Centers, Inc. ("WAC"), a public company, which had previously filed an involuntary petition under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Western District of New York. Pursuant to the plan of reorganization and merger (the "Plan"), (i) WAC which was the surviving corporation for legal purposes, changed its name to Newgold Inc., (ii) the outstanding shares of Old Newgold were converted into the right to receive an aggregate of 12,000,000 shares or approximately 69% of the post merger outstanding common stock of the Company, (iii) each outstanding share of WAC was converted into the right to receive 1/65 share of the common stock of the Company, for an aggregate of 51,034 shares or less than 1% of the post merger outstanding common stock, (iv) unsecured trade debts and other unsecured pre-petition liabilities were paid in full via the issuance of one share of the Company's stock, for each \$42 of debt, for an aggregate of 63,374 shares or less than 1% of the post merger outstanding common stock, and (v) post petition creditors received 1 share of stock for each \$1 of debt, for an aggregate of 191,301 shares or approximately 1% of the post merger outstanding common stock. The Plan also required an amendment to the Company's capital structure to increase the number of shares authorized to 50,000,000 and to reduce the corresponding par value to \$.001.

In connection with the Plan, the Company raised \$4,707,000 of cash through the issuance of convertible debtor certificates. Shortly after confirmation of the Plan, the debtor certificates were exchanged for 5,135,130 shares of common stock (including 428,130 shares issued in lieu of paying cash for underwriter's fees) representing approximately 29% of the post merger outstanding common stock. An additional bonus of 513,514 shares was issued to investors and underwriters during the year ended January 31, 1998 for delay in the effective date of the Company's stock trading.

For accounting purposes, Old Newgold has been treated as the acquirer (reverse acquisition). Accordingly, the historical financial statements prior to November 21, 1996 are those of Old Newgold. There were no assets or liabilities acquired in this transaction and there is no impact on the statement of operations.

NOTE 2 - GOING CONCERN

These financial statements have been prepared on a going concern basis. However, during the year ended January 31, 2004, the Company incurred a net loss of \$470,823 and had negative cash flows from operations of \$176,583. In addition, the Company had an accumulated shareholders' deficit of

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\$4,425,944 at January 31, 2004. The Company's ability to continue as a going concern is dependent upon its ability to generate profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The outcome of these matters cannot be predicted with any certainty at this time. Since inception, the Company has satisfied its capital needs by issuing equity securities.

Management plans to continue to provide for its capital needs during the year ended January 31, 2005 by issuing equity securities or incurring additional debt financing, with the proceeds to be used to re-establish mining operations at Relief Canyon as well as improve its working capital position. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Marketable Securities Available for Sale

Investments in equity securities are classified as available-for-sale. Securities classified as available for sale are marked to market at each period end. Changes in value on such securities are recorded as a component of Other comprehensive income (loss). If declines in value are deemed other than temporary, losses are reflected in Net income (loss).

Deferred Reclamation Costs

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," which established a uniform methodology for accounting for estimated reclamation and abandonment costs. The statement was adopted February 1, 2003. The reclamation costs will be allocated to expense over the life of the related assets and will be adjusted for changes resulting from the passage of time and revisions to either the timing or amount of the original present value estimate.

Prior to adoption of SFAS No. 143, estimated future reclamation costs were based principally on legal and regulatory requirements. Such costs related to active mines were accrued and charged over the expected operating lives of the mines using the UOP method based on proven and probable reserves. Future remediation costs for inactive mines were accrued based on management's best estimate at the end of each period of the undiscounted costs expected to be incurred at a site. Such cost estimates included, where applicable, ongoing care, maintenance and monitoring costs. Changes in estimates at inactive mines were reflected in earnings in the period an estimate was revised.

Risks Associated with Gold Mining

The business of gold mining is subject to certain types of risks, including environmental hazards, industrial accidents, and theft. Prior to suspending operations, the Company carried insurance against certain property damage loss (including business interruption) and comprehensive general liability insurance. While the Company maintained insurance consistent with industry practice, it is not possible to insure against all risks associated with the mining business, or prudent to assume that insurance will continue to be available at a reasonable cost. The Company has not obtained environmental liability insurance because such coverage is not considered by management to be cost

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effective. The Company currently carries no insurance on any of its properties due to the current status of the mine and the Company's current financial condition.

Reclamation Costs

Reclamation costs and related accrued liabilities, which are based on the Company's interpretation of current environmental and regulatory requirements, are accrued and expensed, upon determination.

Based on current environmental regulations and known reclamation requirements, management has included its best estimates of these obligations in its reclamation accruals. However, it is reasonably possible that the Company's best estimates of its ultimate reclamation liabilities could change as a result of changes in regulations or cost estimates.

Comprehensive Income

The Company utilizes SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on available-for-sale marketable securities. Comprehensive income is presented in the Company's financial statements since the Company did have unrealized gain (loss) of from changes in equity from available-for-sale marketable securities.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Loss Per Share

The Company utilizes SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive.

The following common stock equivalents were excluded from the calculation of diluted loss per share since their effect would have been anti-dilutive:

	2004	2003
Warrants	11,052,916	3,715,076

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At April 30, 2004, the Company held 71,205 common shares of NutraCea, which were accounted for as an investment in marketable securities. Unrealized holding losses of \$0 and \$49,843 for the three and nine months ended October 31, 2004, respectively, and \$0 and \$0 for the three months and nine months ended October 31, 2003, respectively, were recorded in Other comprehensive loss to reflect the market value decrease during the respective periods. In October 2004, the Company sold all of its investment in marketable securities through open market transactions with net proceeds aggregating approximately \$34,100. The Company recorded a loss on sale of securities on the Statements of Operations of \$281,063 and \$281,063 for the three and nine months ended October 31, 2004, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at October 31, 2004 was recorded at no value. The Company had previously determined that the value of its fixed assets at the Relief Canyon Mine were permanently impaired and wrote off assets with a basis of \$800,000. If the Company can reestablish mining operations at Relief Canyon it is possible that some of these assets could be utilized in such operations.

A summary of property and equipment was as follows:

	Buildings	Machinery & Equipment	Development Costs	Capitalized Interest	Total
Relief Canyon Mine	\$ 215,510	\$ 277,307	\$ 261,742	\$ 45,441	\$ 800,000

All office furniture and equipment has been fully depreciated as of October 31, 2004.

In October 2004, the Company re-staked the Relief Canyon mill site and lode claims, which now include a total of 78 claims. The annual payment to maintain these claims is \$15,600.

NOTE 6 - NOTES PAYABLE TO RELATED PARTIES AND INDIVIDUALS

Unsecured notes payable to individuals and related parties consist of the following at October 31, 2004:

Convertible loans from officers. The notes bear interest at 8% per year and are due September 30, 2005. The notes and any interest accrued on the new notes are convertible into common shares of the Company at a conversion price of \$0.15 per share. In connection with the loans, warrants to purchase 5,798,140 and 1,395,007 shares of common stock have been issued to the Chief Executive Officer and the Chief Financial Officer, respectively. \$ 1,611,993

Loans from officer. The notes bear interest at 8% per year. The notes are current. In connection with the loans, warrants to purchase 141,540 shares of common stock have been issued. The warrants have been valued using the Black-Scholes option pricing model (see Note 8). The warrants were issued at \$0.15

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per share and expire in five years from the date of issuance.	\$ 21,231
Loan from individual. The note bears interest at 8% per year. The note is currently due. The Company is in default with respect to this loan.	\$ 176,500
Other non-interest bearing advances	\$ 47,038
Unamortized warrant expense	\$ (1,193,120)

Total notes payable to individuals and related parties	\$ 663,641
	=====

The Company recorded interest expense of \$157,011 and \$256,417 for the three months and nine months ended October 31, 2004.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Except for the advance royalty and rent payments noted below, the Company is not obligated under any capital leases or non-cancelable operating lease with initial or remaining lease terms in excess of one year as of October 31, 2004. However, minimum annual royalty payments are required to retain the lease rights to the Company's properties.

Relief Canyon Mine

 The Company purchased the Relief Canyon Mine from J.D. Welsh Associates ("Welsh") in January 1995. The mine consisted of 39 claims and a lease for access to an additional 800 acres contiguous to the claims. During 1997, the Company staked an additional 402 claims. Subsequent to January 31, 1998, the Company reduced the total claims to 50 (approximately 1,000 acres). The annual payment to maintain these claims is \$5,000. As part of the original purchase of Relief Canyon Mine, Welsh assigned the lease from Santa Fe Gold Corporation (Santa Fe) to the Company. The lease granted Santa Fe the sole right of approval of transfer to any subsequent owner of the Relief Canyon Mine. Santa Fe had accepted lease and minimum royalty payments from the Company, but has declined to approve the transfer. Due to Welsh's inability to transfer the Santa Fe lease, the original purchase price of \$500,000 for Relief Canyon Mine was reduced by \$50,000 in 1996 to \$450,000.

Subsequent to January 31, 1998, the lease was terminated by Santa Fe. Management believes loss of the Santa Fe lease will have no material adverse affect on the remaining operations of the mine operation or the financial position of the Company.

During 1996, Repadre Capital Corporation ("Repadre") purchased for \$500,000 a net smelter return royalty (Repadre Royalty). Repadre was to receive a 1.5% royalty from production at each of the Relief Canyon Mine and Mission Mines. In October 1997, an additional \$300,000 was paid by Repadre for an additional 1% royalty from the Relief Canyon Mine. In October, 1997, when the Mission Mine lease was terminated, Repadre exercised its option to transfer the Repadre Royalty solely to the Relief Canyon Mine resulting in a total 4% royalty. The total amount received of \$800,000 has been recorded as deferred revenue in the accompanying financial statements.

Litigation

 On December 3, 1996, plaintiff Roy Christiansen filed a breach of contract

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action against the Company in the Second Judicial District, Reno, Washoe County, Nevada. Plaintiff alleged that he was owed \$250,000 relating to recovery of his investment in a property subsequently acquired by the Company. It was discovered during the pendency of this action that a former Secretary-Treasurer of Newgold, Inc., (prior to the Company going public through its merger with Warehouse Auto) signed a

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contract in 1994 which obligated the Company, Newgold, Inc. (the "Delaware Corporation") to pay \$250,000 to Christiansen, a former developer of the Golden Asset project which Newgold purchased and is located in Helena Montana. This obligation was unknown to the current principals of the Company. During the course of litigation, Plaintiff moved the court for summary judgment based on this signed agreement; this motion was granted and a judgment for \$250,000 was entered against the Company. On May 11, 2000, the Company satisfied this judgment through the issuance of 350,000 shares of Common Stock to a shareholder who subsequently settled this judgment.

On May 7, 1997 a judgment was entered against the Company on behalf of the plaintiff, Roger Primm, in the Second Judicial District, Reno, Washoe County, Nevada. The underlying lawsuit sought repayment of a loan made by the plaintiff to the Company; loan proceeds were used for development purposes at the Company's mining properties. On May 11, 2000, the Company satisfied this judgment through the issuance of 300,000 shares of Common Stock to a shareholder who subsequently settled this judgment.

On March 11, 1998, one of the Company's former consulting firms, JBR Consultants, instituted a suit against the Company for sums due under a consultant engineering contract. On August 19, 1998 the court for the Second Judicial District, Washoe County, Reno, Nevada, entered a default judgment against the Company for \$28,815. On September 25, 1999, the outstanding balance of the judgment was paid in full.

On February 4, 2000, a complaint was filed against the Company by Sun G. Wong in the Superior Court of Sacramento County, California (Case No. 00AS00690). In the complaint, Mr. Wong claims that he was held liable as a guarantor of Newgold in a claim brought by Don Christianson in a breach of contract action against Newgold. Despite the fact that Newgold settled the action with Mr. Christianson through the issuance of 350,000 shares of Newgold common stock, Mr. Wong, nevertheless, paid \$60,000 to a third party claiming to hold Mr. Christianson's judgment pursuant to Mr. Wong's guaranty agreement. Similarly, Mr. Wong alleges that he was held liable as a guarantor for a debt of \$200,000 owed by Newgold to Roger Primm with regard to money borrowed by Newgold. Mr. Primm filed suit against the Company which was settled through the issuance of 300,000 shares of Newgold common stock. Nevertheless, Mr. Wong alleges that he remains liable to a third party claiming to hold Mr. Primm's judgment for up to \$200,000 pursuant to his guaranty of such debt of Mr. Primm.

On December 29, 2000, the superior court entered a default judgment against Newgold in the amount of \$400,553 with regard to the Christianson judgment and an additional \$212,500 in regard to the Primm judgment against Mr. Wong. The Company believes that Mr. Wong was not obligated to pay any sums pursuant to his guarantees with regard to the Christianson and Primm judgments against Newgold and, as a result, Mr. Wong should not have any recourse against the Company for reimbursement. Should Mr. Wong seek to assert these judgments against the Company, the Company cannot predict the outcome of any such action or the amount of expenses that would be ultimately incurred in defending any such claims. The Company is currently negotiating a settlement with Mr. Wong, however there is no assurance that

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an acceptable settlement will be consummated.

On May 18, 2004 Paul Ngoyi filed a petition for involuntary bankruptcy against Newgold (Case No. BK-N-0451511). Mr. Ngoyi claims to be the holder of both the Christiansen and Primm judgments against Newgold and is claiming that Newgold cannot pay such judgments because it is insolvent. Newgold intends to file for Summary Judgment alleging that Mr. Ngoyi's claims are invalid as the two judgments were previously satisfied and that Newgold is not insolvent. A preliminary hearing on the Summary Judgment motion has not yet been scheduled. The Company intends to vigorously oppose

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the bankruptcy petition.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate dispositions of these matters will not have a material adverse effect on the Company's financial position, results or operations or liquidity.

NOTE 8 - SHAREHOLDERS' DEFICIT

Common Stock

On February 20, 2003 warrants to purchase 200,000 shares of common stock were exercised at a price of \$0.10 per share. The original exercise price was \$1.00 however the investor and the Company renegotiated the exercise price to \$0.10 per share.

Warrants

The Company has issued common stock warrants to officers of the Company as part of certain financing transactions (see Note 6).

The fair market value of these warrants issued during the quarter ended October 31, 2004 was determined to be \$1,176,767 and was calculated under the Black-Scholes option pricing model with the following assumptions used:

Expected life	5 years
Risk free interest rate	3.30%
Volatility	349%
Expected dividend yield	None

The fair value of these warrants is being amortized to interest expense over one year, the original life of the loans. Total amortization expense was \$122,912 and \$158,249 for the three and nine months ended October 31, 2004, respectively, and \$3,577 and \$6,970 for the three months and nine months ended October 31, 2003, respectively.

The following table presents warrant activity from January 31, 2004 through October 31, 2004:

	Number of Shares	Weighted- Average Exercise Price
	-----	-----
Outstanding, January 31, 2004	3,718,229	\$ 0.15
Granted	7,334,687	\$ 0.15
	-----	-----

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Outstanding, October 31, 2004	11,052,916	\$	0.15
	=====		=====
Exercisable, October 31, 2004	11,052,916	\$	0.15
	=====		=====

NOTE 9 - RELATED PARTY TRANSACTIONS

Loans from officers

 During the nine months ended October 31, 2004, the Chief Executive Officer and Chairman of the

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Company, loaned the Company \$21,581 and was repaid \$350. As of October 31, 2004 the net principal balance owing to him was \$1,423,973 and accrued interest payable was \$417,080 (See Note 6).

During the quarter ended October 31, 2004 the Chief Financial Officer of the Company loaned the Company \$209,251. As of October 31, 2004 the net principal balance owing to him was \$209,251 and accrued interest payable was \$1,442 (See Note 6).

Accrued Payroll and Expenses Owed to Officers

 As of October 31, 2004 the Company owed the Chief Executive Officer and Chairman of the Company \$88,500 for back wages. As of October 31, 2004 the Company owed the Chief Financial Officer and Secretary of the Company \$236,667 for back wages and \$19,500 for accrued expenses.

NOTE 10 - SUBSEQUENT EVENTS

In October 2004, the Company re-staked the Relief Canyon mill site and lode claims, which now include a total of 78 claims. On December 16, 2004 the Company paid a total of \$15,600 to the Pershing County Records Office and the Bureau of Land Management which amount represents the annual payment to maintain these claims.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

This Form 10-QSB includes "forward-looking" statements about future financial results, future business changes and other events that haven't yet occurred. For example, statements like the Company "expects," "anticipates" or "believes" are forward-looking statements. Investors should be aware that actual results may differ materially from the Company's expressed expectations because of risks and uncertainties about the future. The Company does not undertake to update the information in this Form 10-QSB if any forward-looking statement later turns out to be inaccurate. Details about risks affecting various aspects of the Company's business are discussed throughout this Form 10-QSB and should be considered carefully.

PLAN OF OPERATION FOR THE NEXT TWELVE MONTHS

Certain key factors that have affected the Company's financial and operating results in the past will affect its future financial and operating results. These include, but are not limited to the following:

- o Gold prices, and to a lesser extent, silver prices;
- o Current gold deposits under Company control at the Relief Canyon Mine are estimated by the Company (based on past exploration by the Company and work done by others).

In October 2004, the Company re-staked the Relief Canyon properties which now includes 57 mill site and 21 lode claims. These 78 claims are unpatented mining claims contained in about 1,000 acres.

The Company's operating plan is to place its mining claims into profitable production by the end of calendar 2005, and use the net proceeds from these operations to fund ongoing exploration and development of its property holdings. Through the use of joint ventures, royalties and partnerships, the Company intends to progressively enlarge the scope and scale of the mining and processing operations, thereby increasing both the Company's annual revenues and its net profits. The Company's objective is to achieve quarterly growth rates in revenue and net profits for the foreseeable future;

- o The Company expects to make capital expenditures in fiscal year 2006 of between \$2.5 million and \$4 million, including costs related to the resumption of mine operations and production at the Relief Canyon mine.
- o Due to the strengthening of the gold market, and consistent with the Company's exploration growth strategy, it expects exploration, research and development expenditures in 2005 will total between \$500,000 and \$1

million.

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- o Additional funding or the utilization of other venture partners will be required for mining operations, exploration, research, development and operating expenses. In the past the Company has been dependent on the funding from the private placement of its securities as well as loans from related parties as the sole sources of capital to fund its operations.

RESULTS OF OPERATIONS

The Company has only recently resumed business operations after having been inactive from July 2001 until February 2003. Consequently, comparisons between the operating results of the Company for the fiscal years 2004 and 2005 are not as relevant as they otherwise would be if the Company had been engaged in business operations during both fiscal years. In addition, because the Company is in the process of reinstating its business and mining operations, the results of operations for the last two fiscal years will likely not be indicative of the Company's current and future operations. The current management discussion and analysis should be read from the context of the Company's recent resumption of its mining business.

Operating Results for the Fiscal Quarters Ended October 31, 2004 and 2003

Although the Company commenced efforts to re-establish its mining business early in fiscal year 2004, no mining operations have commenced and no revenues have been recognized during the quarter ended October 31, 2004. The Company was inactive during the quarter ended October 31, 2003 and, as a result, generated no revenues from operations. The Company hopes to be able to commence generating revenues from mining operations during the 2006 fiscal year. The Company has granted a 4% net smelting return royalty to a third party which has been recorded as an \$800,000 deferred option income.

During the quarter ended October 31, 2004 the Company spent \$5,000 on exploration expenses related to the Relief Canyon mining property compared to \$9,430 on exploration expenses expended during the same quarter ended October 31, 2003. These expenses relate primarily to estimated maintenance and retention costs required to maintain the Company's mining claims. The Company incurred operating expenses of \$78,561 during the quarter ended October 31, 2004. Of this amount, \$55,000 reflects officer compensation and related payroll taxes during the quarter, \$8,440 reflect payroll tax penalties and \$13,500 reflect fees for outside professional services. During the same quarter ended October 31, 2003 the Company incurred operating expenses of \$89,283 of which \$55,000 represents officer compensation, \$8,065 reflecting payroll tax penalties and \$19,217 reflect fees for outside professional services. It is anticipated that both exploration costs and operating expenses will increase significantly as the Company resumes its mining operations and exploration program.

The Company incurred interest expense of \$157,011 during the quarter ended October 31, 2004 which compares to interest expenses of \$31,982 incurred during

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the same quarter ended October 31, 2003. The increase in additional interest expense was a direct result of the increase in accretion of warrants issued as a debt discount which increased by \$122,912 in the quarter ended October 31, 2004 compared to the quarter ended October 31, 2003.

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In October 2004, the Company liquidated its investment in marketable securities through open market transactions. Net proceeds totaled approximately \$34,100. This resulted in a loss on sale of \$281,063. There were no sales of marketable securities for the comparable period in fiscal 2004.

The Company's total net loss for the quarter ended October 31, 2004 increased to \$521,635 compared to a net loss of \$130,695 incurred for the same quarter ended October 31, 2003. The larger net loss in the current fiscal year reflects the increase in interest expense as well as the loss on sale of marketable securities.

Operating Results for the Nine Months Ended October 31, 2004 and 2003

During the nine months ended October 31, 2004 the Company spent \$15,000 on exploration expenses related to the Relief Canyon mining property. This compares to exploration expenses of \$10,930 expended during the same period ended October 31, 2003. These expenses relate primarily to estimated maintenance and retention costs required to maintain the Company's mining claims. The Company incurred operating expenses of \$231,343 during the nine months ended October 31, 2004. Of this amount, \$165,000 reflects officer compensation and related payroll taxes during the period, \$24,945 reflect payroll tax penalties and \$36,632 reflect fees for outside professional services. During the same period ended October 31, 2003 the Company incurred operating expenses of \$232,566 of which \$165,000 represents officer compensation and \$24,194 reflecting payroll tax penalties. It is anticipated that both exploration costs and operating expenses will increase significantly as the Company resumes its mining operations and exploration program.

The Company incurred interest expense of \$256,417 during the nine months ended October 31, 2004 which compares to interest expenses of \$91,428 incurred during the same period ended October 31, 2003. Although the amount of loans outstanding during the first nine months of fiscal 2005 increased slightly, the increase in additional interest expense was a direct result of the increase in accretion of warrants issued as a debt discount.

The Company's total net loss for the nine months ended October 31, 2004 increased to \$783,823 compared to a net loss of \$324,861 incurred for the same period ended October 31, 2003. The larger net loss in the current fiscal year reflects the substantial increase in operating expenses and interest expense as well as a continuing lack of revenues recognized during the first nine months of fiscal year 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred significant operating losses during the last two fiscal years and during the quarter ended October 31, 2004 which has resulted in an accumulated deficit of \$15,890,986 as of the end of the third quarter of fiscal year 2005. At October 31, 2004, the Company had cash of \$5,424 and a net working capital deficit of \$3,424,082. Since the resumption of its business in February

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2003, the Company has been dependent on borrowed or invested funds in order to finance its ongoing operations. As of October 31, 2004, the Company had \$1,856,762 of outstanding notes payable (before unamortized debt discount of \$1,193,120)

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which reflects an increase compared to notes payable of \$1,626,280 (before unamortized debt discount of \$44,560) outstanding as of January 31, 2004.

In October 2004, the Company consolidated the amounts owed to the Chief Executive Officer and the Chief Financial Officer as of January 31, 2004 (excluding accrued interest payable) into new convertible notes payable bearing interest at 8% and due September 30, 2005. The notes and any interest accrued on the new notes are convertible into common shares of the Company at a conversion price of \$0.15 per share. In connection with the loans, warrants to purchase 5,798,140 and 1,395,007 shares of common stock have been issued to the Chief Executive Officer and the Chief Financial Officer, respectively.

During the quarter ended October 31, 2004 the Company borrowed an additional \$3,081 from its President and Chief Executive Officer at an interest rate of 8% per year. This amount increased the Company's total indebtedness to its President to \$1,423,973. Notes representing principal and interest due to the President as well as notes payable to five other individuals have one year terms. As of October 31, 2004, \$176,500 of loans due to other individuals were in default.

The Company received approximately \$34,100 during the quarter ended October 31, 2004 from the sale of its marketable securities.

By attempting to resume mining operations, the Company will require approximately \$3 million to \$5 million in additional working capital above the current working capital deficiency to bring the mine into full production. It is the Company's intention to pursue several possible funding opportunities including the sale of additional securities or the incurring of additional debt.

Due to the Company's continuing losses from its business operations, the independent auditor's report dated November 7, 2004, includes a "going concern" explanation relating to the fact that the Company's continuation is dependent upon obtaining additional working capital either through significantly increasing revenues or through outside financing. As of October 31, 2004, Newgold's principal commitments included its obligation to pay ongoing maintenance fees on its 78 unpatented mining claims.

Due to the Company's limited cash flow, operating losses and limited assets, it is unlikely that the Company could obtain financing through commercial or banking sources. Consequently, the Company is dependent on continuous cash infusions from its major stockholders or other outside sources in order to fund its current operations. If these investors were unwilling or unable to provide necessary working capital to the Company, the Company would probably not be able to commence or sustain its operations. There is no written agreement or contractual obligation which would require the Company's investors to fund Company operations up to a certain amount or indeed continue to finance the Company's operations at all.

Management of the Company believes that it will need to raise additional capital to continue to develop, promote and conduct its mining operations. Such additional capital may be raised through public or private financing as well as

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borrowing from other sources. To date, the Company's President has paid substantially all of the Company's expenses since restarting its

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business in February 2003. Although the Company believes that these creditors and investors will continue to fund the Company's expenses based upon their significant debt or equity interest in Newgold, there is no assurance that such investors will continue to pay the Company's expenses. If adequate funds are not otherwise available, the Company would not be able to establish or sustain mining operations.

Off-Balance Sheet Arrangements

During the fiscal quarter ended October 31, 2004, the Company did not engage in any off-balance sheet arrangements as defined in Item 303(c) of the SEC's Regulation S-B.

FACTORS AFFECTING FUTURE OPERATING RESULTS

The Company has been relatively inactive since April 2001. Consequently, it is only recently reactivating its business operations and has generated no revenues, other than dividend income, since its inception. As a result, Newgold has only a limited operating history upon which to evaluate its future potential performance. The Company's prospects must be considered in light of the risks and difficulties encountered by new companies which have not yet established their business operations.

The Company will need additional funds to finance its mining and exploration activities as well as fund its current operations. It currently has no cash reserves and a working capital deficit and is unable to fund its operations from revenues. Consequently, its ability to meet its obligations in the ordinary course of business is dependent upon its ability to raise additional financing through public or private equity financings, establish increasing cash flow from operations, enter into joint ventures or other arrangements with corporate sources, or secure other sources of financing to fund operations.

The audit report of the Company's independent auditors includes a "going concern" qualification. In the auditor's opinion, the Company's limited operating history and the accumulated net deficit as of January 31, 2004, raise substantial doubt about its ability to continue as a going concern. See Note 2 to the Unaudited Financial Statements.

The price of gold has experienced an increase in value over the past three years, generally reflecting among other things declining interest rates in the United States; worldwide instability due to terrorism; and a global economic slump. Any significant drop in the price of gold may have a materially adverse affect on the results of the Company's operations unless the Company is able to offset such a price drop by substantially increased production.

The Company prepares estimates of future gold production for its various operations. The Company's production estimates are dependent on, among other things, the accuracy of mineral reserve estimates, the accuracy of assumptions regarding ore grades and recovery rates, assumptions pertaining to ground conditions and physical characteristics of ores, such as hardness and the presence or absence of particular metallurgical characteristics and the accuracy of estimated rates and costs of mining and processing. The failure of the

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Company to achieve its production estimates could have a material and adverse effect on any or all of the Company's

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future cash flows, profitability, results of operations and financial condition.

The Company's published figures for mineral resources are only estimates. The Company has no proven or probable reserves and has no ability to currently measure or prove its reserves other than relying on information produced in the 1990's and thus may be unable to actually recover the quantity of gold anticipated. The Company can only estimate potential mineral resources which is a subjective process which depends in part on the quality of available data and the assumptions used and judgments made in interpreting such data. There is significant uncertainty in any resource estimate such that the actual deposits encountered or reserves validated and the economic viability of mining the deposits may differ materially from the Company's estimates.

Gold exploration is highly speculative in nature. Success in exploration is dependent upon a number of factors including, but not limited to, quality of management, quality and availability of geological expertise and availability of exploration capital. Due to these and other factors, no assurance can be given that the Company's exploration programs will result in the discovery of new mineral reserves or resources.

The Company's mining property rights consist of 78 unpatented mining claims. The validity of unpatented mining claims is often uncertain and is always subject to contest. Unpatented mining claims are generally considered subject to greater title risk than patented mining claims, or real property interests that are owned in fee simple. If title to a particular property is successfully challenged, the Company may not be able to retain its royalty interests on that property, which could reduce its future revenues.

Mining is generally subject to regulation by state and federal regulatory authorities. State and federal statutes regulate environmental quality, safety, exploration procedures, reclamation, employees' health and safety, use of explosives, air quality standards, pollution of stream and fresh water sources, noxious odors, noise, dust, and other environmental protection controls as well as the rights of adjoining property owners. The Company believes that, it is currently operating in compliance with all known safety and environmental standards and regulations applicable to its Nevada property. However, there can be no assurance that its compliance could be challenged or that future changes in federal or Nevada laws, regulations or interpretations thereof will not have a material adverse affect on the Company's ability to resume and sustain mining operations.

The business of gold mining is subject to certain types of risks, including environmental hazards, industrial accidents, and theft. Prior to suspending operations, the Company carried insurance against certain property damage loss (including business interruption) and comprehensive general liability insurance. While the Company maintained insurance consistent with industry practice, it is not possible to insure against all risks associated with the mining business, or prudent to assume that insurance will continue to be available at a reasonable cost. The Company has not obtained environmental liability insurance because such coverage is not considered by management to be cost effective. The Company currently carries no insurance on any of its properties due to the current status of the mine and the Company's current financial condition.

The Company is substantially dependent upon the continued services of A. Scott Dockter, its President. The Company has no employment agreement with Mr. Dockter, nor is there either key person life insurance or disability insurance on Mr. Dockter. While Mr. Dockter expects to spend the majority of his time assisting the Company, there can be no assurance that Mr. Dockter's services will remain available to the Company. If Mr. Dockter's services are not available to the Company, the Company will be materially and adversely affected. However, Mr. Dockter has been a significant shareholder of the Company since its inception and considers his investment of time and money in the Company of significant personal value.

CRITICAL ACCOUNTING POLICIES

Newgold's discussion and analysis of its financial conditions and results of operations are based upon its financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of financial statements require managers to make estimates and disclosures on the date of the financial statements. On an on-going basis, Newgold evaluates its estimates, including, but not limited to, those related to revenue recognition. The Company uses authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates. Newgold believes that the following critical accounting policies affect its more significant judgments and estimates in the preparation of its consolidated financial statements.

Valuation of long-lived assets

Long-lived assets, consisting primarily of property and equipment, patents and trademarks, and goodwill, comprise a significant portion of the Company's total assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Recoverability of assets is measured by a comparison of the carrying value of an asset to the future net cash flows expected to be generated by those assets. The cash flow projections are based on historical experience, management's view of growth rates within the industry, and the anticipated future economic environment.

Factors Newgold considers important that could trigger a review for impairment include the following:

- (a) significant underperformance relative to expected historical or projected future operating results,
- (b) significant changes in the manner of its use of the acquired assets or the strategy of its overall business, and
- (c) significant negative industry or economic trends.

When the Company determines that the carrying value of long-lived assets and related goodwill and enterprise-level goodwill may not be recoverable based upon the existence of one or more of

the above indicators of impairment, it measures any impairment based on a projected discounted cash flow method using a discount rate determined by its management to be commensurate with the risk inherent in its current business model.

Deferred Reclamation Costs

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," which established a uniform methodology for accounting for estimated reclamation and abandonment costs. The statement was adopted February 1, 2003. The reclamation costs will be allocated to expense over the life of the related assets and will be adjusted for changes resulting from the passage of time and revisions to either the timing or amount of the original present value estimate.

Prior to adoption of SFAS No. 143, estimated future reclamation costs were based principally on legal and regulatory requirements. Such costs related to active mines were accrued and charged over the expected operating lives of the mines using the UOP method based on proven and probable reserves. Future remediation costs for inactive mines were accrued based on management's best estimate at the end of each period of the undiscounted costs expected to be incurred at a site. Such cost estimates included, where applicable, ongoing care, maintenance and monitoring costs. Changes in estimates at inactive mines were reflected in earnings in the period an estimate was revised.

Exploration Costs

Exploration costs are expensed as incurred. All costs related to property acquisitions are capitalized.

Mine Development Costs

Mine development costs consist of all costs associated with bringing mines into production, to develop new ore bodies and to develop mine areas substantially in advance of current production. The decision to develop a mine is based on assessment of the commercial viability of the property and the availability of financing. Once the decision to proceed to development is made, development and other expenditures relating to the project will be deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation will be charged against the property until commercial production commences. After a mine has been brought into commercial production, any additional work on that property will be expensed as incurred, except for large development programs, which will be deferred and depleted.

Reclamation Costs

Reclamation costs and related accrued liabilities, which are based on the Company's interpretation of current environmental and regulatory requirements, are accrued and expensed, upon determination.

Based on current environmental regulations and known reclamation requirements, management has included its best estimates of these obligations in its reclamation accruals. However, it is reasonably possible that the Company's best estimates of its ultimate reclamation liabilities could change as a result of changes in regulations or cost estimates.

ITEM 3. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 as of the end of the period covered by this report. Based upon that evaluation, the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure the information required to be disclosed by the Company in reports filed or submitted under the Exchange Act were timely recorded, processed and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

There have been no significant changes in the Company's internal controls over financial reporting or in other factors which occurred during the last quarter covered by this report, which could materially affect or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

SALES OF UNREGISTERED SECURITIES DURING THE QUARTER

In October 2004, the Company borrowed \$3,081 from its President, Scott Dockter. The promissory note is not convertible into stock, is due on in one year and bears interest at 8% per year. In conjunction with this loan, the President was issued warrants to purchase 20,540 shares of the Company's common stock of \$0.15 per share. In addition, new convertible promissory notes were issued to Scott Dockter, the Company's CEO and James Kluber, the Company's CFO in the principal amounts of \$1,402,742 and \$209,251, respectively. The notes bear interest at 8% per annum and are due September 30, 2005. In connection with the issuance of these notes, the Company issued warrants to purchase 5,798,140 and 1,395,007 shares of common stock to its Chief Executive Officer and Chief Financial Officer, respectively. The issuance of the notes and warrants were made in reliance upon the exemption from registration set forth in Section 4(2) of the 1933 Act as a transaction not involving a public offering and made to two affiliates of the Company. The notes and warrants are deemed to be "restricted securities" as defined in Rule 144 under the Securities Act of 1933 (the "1933 Act").

Prior issuances of the Company's common stock during fiscal years 2003 and 2004 have been reported in the Company's Form 10-KSB for the year ended January 31, 2004.

ITEM 5. OTHER INFORMATION

In October 2004, the Company re-staked the Relief Canyon properties which now includes 57 mill site and 21 lode claims. These 78 claims are unpatented mining claims contained in about 1,000 acres. The annual payment to maintain these claims is \$15,600. The Company paid a total of \$15,600 to the Pershing County Records Office and Bureau of Land Management on December 16, 2004.

ITEM 6. EXHIBITS

- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32. Certification by CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

Dated: December 29, 2004

NEWGOLD, INC.

/s/ SCOTT DOCKTER

Scott Dockter, President and Chief Executive
Officer

/s/ JAMES KLUBER

James Kluber, Principal Accounting Officer and
Chief Financial Officer

