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NEWGOLD INC
Form 10QSB
June 13, 2005

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 APRIL 30, 2005

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)

400 Capitol Mall, Suite 900
Sacramento, California

95814

(Address of Principal Executive Offices)

Zip Code

Issuer's telephone number:

(916) 449-3913

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, 50,777,841 issued and outstanding as of June 1,
2005.

Transitional Small Business Disclosure Format:

Yes ___ No X

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEWGOLD, INC.
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NEWGOLD, INC.
CONDENSED BALANCE SHEET
April 30, 2005
(Unaudited)

ASSETS	
Current assets	
Cash	\$ 243,192
Travel advance	2,657

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Total current assets	245,849
Other Assets	
Deferred reclamation costs	513,946

Total other assets	513,946

Total assets	\$ 759,795
	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities	
Accounts payable	\$ 538,276
Accrued expenses	1,708,409
Accrued reclamation costs	513,946
Notes payable due to individuals and officers	1,327,147

Total current liabilities	4,087,778
Deferred revenue	800,000

Total liabilities	4,887,778
Commitments and contingencies	
Shareholders' deficit	
Common stock, \$0.001 par value	
250,000,000 shares authorized	
50,777,841 shares issued and outstanding	50,778
Additional paid in capital	12,795,245
Accumulated deficit	(16,974,006)

Total shareholders' deficit	(4,127,983)

Total liabilities and shareholders' deficit	\$ 759,795
	=====

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The accompanying notes are an integral part of these financial statements

NEWGOLD, INC.
CONDENSED STATEMENTS OF OPERATIONS
For the Three Months Ended April 30,
(Unaudited)

	2005	2004
	-----	-----
Net sales	\$ -	\$ -

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Cost of goods sold	29,000	5,000
	-----	-----
Gross loss	(29,000)	(5,000)
Operating expenses	(202,880)	(75,375)
	-----	-----
Loss from operations	(231,880)	(80,375)
	-----	-----
Other income (expense)		
Interest expense	(356,824)	(47,565)
	-----	-----
Total other income (expense)	(356,824)	(47,565)
	-----	-----
Net loss	\$ (588,704)	\$ (127,940)
	=====	=====
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
	=====	=====
Basic and diluted weighted-average shares outstanding	49,446,380	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 Ended April 30,
(Unaudited)

	2005	2004
	-----	-----
Net loss	\$ (588,704)	\$ (127,940)
Other comprehensive loss		
Unrealized loss from marketable securities	-	(30,618)
	-----	-----

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Comprehensive loss	\$ (588,704)	\$ (158,558)
	=====	=====

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NEWGOLD, INC
 CONDENSED STATEMENTS OF CASH FLOW
 For the Three Months Ended April 30
 (Unaudited)

	2005	2004
	-----	-----
Cash flows from operating activities		
Net loss	\$ (588,704)	\$ (127,940)
Adjustments to reconcile net loss to net cash used in operating activities		
Accretion of warrants issued as a debt discount	294,192	15,980

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Accretion of beneficial conversion of warrants	26,868	-
(Increase) Decrease in		
Deposits	-	11,000
Travel advance	(657)	-
Increase (Decrease) in		
Accounts payable	(30,000)	-
Accrued salaries and benefits	(50,237)	40,000
Accrued expenses	-	51,275
	-----	-----
Net cash (used) provided by operating activities	(348,538)	(9,685)
	-----	-----
Cash flows from investing activities	-	-
Cash flows from financing activities		
Proceeds from the issuance of common stock	575,000	-
Proceeds from note payable	-	10,000
Repayments of note payable	-	(350)
	-----	-----
Net cash provided (used) by financing activities	575,000	9,650
Net increase (decrease) in cash	226,462	(35)
Cash, beginning of period	16,730	5,967
	-----	-----
Cash, end of period	\$ 243,192	\$ 5,932
	=====	=====

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The accompanying notes are an integral part of these financial statements

NEWGOLD, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended April 30, 2005
(Unaudited)

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 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.

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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.

The Company has embarked on a business strategy whereby it will invest in and/or manage gold mining and other mineral producing properties. Currently, the Company's principal assets include various mineral leases associated with the Relief Canyon mine located near Lovelock, Nevada along with various items of mining equipment located at that site. The Company's business will be to acquire, explore and, if warranted, develop various mining properties located in the state of Nevada. The Company plans to carryout comprehensive exploration and development programs on its properties. While the Company may fund and conduct these activities itself, the Company's current plan is to outsource most of these activities through the use of various joint venture, royalty or partnership arrangements pursuant to which other companies would agree to finance and carryout the exploration and development programs on Newgold's mining properties. Consequently, the Company's current plan will not require the hiring of significant amounts of mining employees but will require a smaller group of employees to monitor and/or supervise the mining and exploration activities of other entities in exchange for royalties or other revenue sharing arrangements.

NOTE 2 - GOING CONCERN

These financial statements have been prepared on a going concern basis. However, during the year ended January 31, 2005, the Company incurred a net loss of \$1,278,140 and had negative cash flows from operations of \$353,201. In addition, the Company had an accumulated shareholders' deficit of \$4,114,280 at January 31, 2005. 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

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needs by issuing equity securities.

Management plans to continue to provide for its capital needs during the year ended January 31, 2006 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

Cash and Cash Equivalents

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For the purpose of the statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

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 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.

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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.

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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.

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," defines a fair value based method of accounting for stock-based compensation. However, SFAS No. 123 allows an entity to continue to measure compensation cost related to stock and stock options issued to employees using the intrinsic method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting method of APB No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value method of accounting defined in SFAS No. 123 had been applied. The Company has elected to account for its stock-based compensation to employees using the intrinsic value method under APB No. 25. There were no stock options granted or outstanding for the three months ended April 30, 2005 and 2004.

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.

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

	2005	2004
Warrants	13,324,583	3,782,562

Recent Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations". FIN No. 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005 for calendar-year companies). Retrospective application of interim financial information is permitted but is not required. Management does not expect adoption of FIN No. 47 to have a material impact on the Company's financial statements.

NOTE 4 - MARKETABLE SECURITIES AVAILABLE FOR SALE

At April 30, 2005 the Company held no marketable securities available for sale. At April 30, 2004 the Company held 71,205 common shares of NutraCea which was accounted for as an investment in marketable securities. During the quarter ended April 30, 2004, unrealized holding losses of \$30,618 were recorded in Other comprehensive loss to reflect the market value decrease during the period. In October 2004 the Company sold all of its investment in marketable securities.

NOTE 5 - PROPERTY AND EQUIPMENT

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

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All office furniture and equipment has been fully depreciated as of April 30, 2005.

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NOTE 6 - NOTES PAYABLE TO RELATED PARTIES AND INDIVIDUALS

Unsecured notes payable to individuals and related parties consist of the following at April 30, 2005:

Loans from officers:

Convertible notes payable \$1,611,993

The notes bear interest at 8% per year.

In October 2004, the Company consolidated the amounts owed to the Chief Executive Officer and the Chief Financial Officer referred to in Note 9 (excluding accrued interest payable) into new convertible notes payable 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.

Term notes payable \$19,844

The notes bear interest at 8% per year.

The notes are due January 31, 2006. The Company is not in default with respect to these loans. 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 per share and expire in five years from the date of issuance.

Loan from individual \$176,500

The note bears interest at 8% per year.

The note is currently due. The Company is in default with respect to this loan.

Other non-interest bearing advances 47,038

Unamortized warrant expense (528,228)

Total notes payable to individuals

and related parties \$1,327,147

Interest expense was \$356,824 and \$47,565 for the quarters ended April 30, 2005 and 2004, respectively.

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 April 30, 2005. 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

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(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

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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 July 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 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

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settlement with Mr. Wong, however there is no assurance that an acceptable settlement will be consummated.

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.

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NOTE 8 - SHAREHOLDERS' DEFICIT

Common Stock

In March 2005 a Special Meeting of Shareholders of the Company was held for the purpose of amending the Articles of Incorporation to affect an increase in the authorized shares of common stock issuable to 250,000,000 shares. At the meeting the proposal was approved by the shareholders, with a total of 31,392,611 shares voting in favor of the amendment, 411,711 voting against the amendment and 10,207 shares abstained from voting.

In February 2005 the Company issued 500,000 shares of common stock at a price of \$0.15 per share to an investor for total proceeds of \$75,000. Additionally, 500,000 warrants to purchase common stock at a price of \$0.30 per share were issued to the investor. The warrants expire three years from the date of issuance.

In April 2005 the Company issued 2,000,000 shares of common stock at a price of \$0.25 per share to investors for total proceeds of \$500,000. Additionally, 1,000,000 warrants to purchase common stock at a price of \$0.50 per share were issued to the investors. The warrants expire three years from the date of issuance.

Warrants

The Company has issued common stock warrants to officers of the Company as part of certain financing transactions (see Note 6). The Company has also issued warrants as part of the issuance of common stock (see this Note 8).

The fair market value of warrants issued during the quarter ended April 30, 2005 in conjunction with the issuance of common stock was determined to be \$312,122 and was calculated under the Black-Scholes option pricing model with the following assumptions used:

Expected life	3 years
Risk free interest rate	4.01%
Volatility	199.8%
Expected dividend yield	None

The fair value of these warrants has been recorded as both a debit and credit to additional paid in capital.

The following table presents warrant activity from January 31, 2005 through April 30, 2005:

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	Number of Shares	Weighted- Average Exercise Price
Outstanding, January 31, 2005	11,724,583	\$ 0.16
Granted	1,500,000	\$ 0.43
Outstanding, April 30, 2005	13,224,583	\$ 0.19
Exercisable, April 30, 2005	13,224,583	\$ 0.19

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NOTE 9 - RELATED PARTY TRANSACTIONS

Loans from officers

 During prior periods, the Chief Executive Officer and Chairman of the Company, loaned the Company an aggregate of \$1,422,587. As of April 30, 2005 the net principal balance owing to him was \$1,422,587 and accrued interest payable was \$449,931. See Note 6.

During prior periods, the Chief Financial Officer and Secretary of the Company, loaned the Company an aggregate of \$209,251. As of April 30, 2005 the net principal balance owing to him was \$209,251 and accrued interest payable was \$9,858. See Note 6.

Accrued Payroll and Expenses Owed to Officers

 As of April 30, 2005 the Company owed the Chief Financial Officer and Secretary of the Company \$93,500 for back wages and \$6,000 for accrued expenses.

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 our financial and operating results in the past will affect our 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 our control at the Relief Canyon Mine are estimated by us (based on past exploration by Newgold and work done by others).

Our properties now include 78 unpatented mining claims contained in about 1000 acres.

Our operating plan is to place our mining claims into profitable production by the end of fiscal 2006, and use the net proceeds from these operations to fund ongoing exploration and development of our property holdings. Through the use of joint ventures, royalties, arrangements and partnerships, we intend to progressively enlarge the scope and scale of the mining and processing operations, thereby increasing both our annual revenues and ultimately our net profits. Our objective is to achieve annual growth rates in revenue and net profits for the foreseeable future;

- o We expect 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 our exploration growth strategy, we expect exploration, research and development expenditures in 2005 will total between \$500,000 and \$1 million.
- o Additional funding or the utilization of other venture partners will be

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required for mining operations, exploration, research, development and operating expenses. In the past we have been dependent on the funding from the private placement of our securities as well as loans from related parties as the sole sources of capital to fund operations.

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RESULTS OF OPERATION

We have only recently resumed business operations after having been inactive from July 2001 until February 2003. Consequently, we are in the process of reinstating our business and mining operations, the results of operations for the last two fiscal years will likely not be indicative of Newgold's current and future operations. The current management discussion and analysis should be read from the context of Newgold's recent resumption of its mining business.

Operating Results for the Fiscal Quarters Ended April 30, 2005 and 2004

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 quarters ended April 30, 2005 and 2004, respectively. 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 related to the Relief Canyon mining property which has been recorded as an \$800,000 deferred option income.

During the quarter ended April 30, 2005 the Company spent \$29,000 on exploration expenses related to the Relief Canyon mining property. Exploration expenses expended during the same quarter ended April 30, 2004 were \$5,000. These expenses relate primarily to maintenance and retention costs required to maintain the Company's mining claims. The Company incurred operating expenses of \$202,880 during the quarter ended April 30, 2005. Of this amount, \$93,500 reflects officer compensation and related payroll taxes during the quarter, \$22,323 reflect promotional expense and \$59,848 reflect fees for outside professional services. A large portion of the outside professional services reflects legal and accounting work pertaining to Newgold's annual report on Form 10-KSB for fiscal year 2005 and for the amended annual report on Form 10-KSB/A for fiscal year 2004. During the quarter ended April 30, 2004 the Company incurred operating expenses of \$75,375 of which \$55,000 represents officer compensation, \$8,190 reflecting payroll penalties and \$11,000 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 \$356,824 during the quarter ended April 30, 2005 which compares to interest expenses of \$47,565 incurred during the same quarter ended April 30, 2004. Although the amount of loans outstanding during the first quarter of fiscal 2006 only increased by approximately \$220,000 compared to the first quarter of fiscal 2005, the increase in additional interest expense was primarily due to the increase in accretion of warrants issued in October 2004 as a debt discount.

The Company's total net loss for the quarter ended April 30, 2005 increased to \$588,704 compared to a net loss of \$127,940 incurred for the same quarter ended April 30, 2004. The larger net loss in the current fiscal year reflects the substantial increase in operating expenses and interest expense as well as a lack of revenues recognized during the first quarter of fiscal year 2006.

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LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred significant operating losses during the last two fiscal years and during the quarter ended April 30, 2005 which has resulted in an accumulated deficit of \$16,974,006 as of the end of the first quarter of fiscal year 2006. At April 30, 2005, the Company had cash and other current assets of \$245,848 and a net working capital deficit of \$3,841,930. Since the resumption of its business in February 2003, the Company has been dependent on borrowed or invested funds in order to finance its ongoing operations. As of April 30, 2005, the Company had outstanding notes payable in the gross principal amount of \$1,855,375 (net balance of \$1,327,147 after \$528,228 of note payable discount) which reflects an increase of \$219,445 compared to notes payable in the gross principal amount of \$1,635,930 (net balance of \$1,593,840 after \$42,090 of note payable discount) as of April 30, 2004.

As of April 30, 2005, we were in default on two promissory notes due to unrelated parties in the principal amounts of \$19,844 and \$176,500.

In the quarter ended April 30, 2005 Newgold raised a total of \$575,000 through the sale of 2,500,000 shares of its restricted stock.

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 April 15, 2005, 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 April 30, 2005, 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 borrowing from other sources. To date, the Company's President has paid a substantial portion of the Company's expenses since restarting its 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

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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 April 30, 2005, 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

Newgold 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. Newgold's prospects must be considered in light of the risks and difficulties encountered by new companies which have not yet established their business operations.

Newgold will need additional funds to finance its mining and exploration activities as well as fund its current operations. It currently has limited 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 Newgold's independent auditors includes a "going concern" qualification. In the auditor's opinion, Newgold's limited operating history and the accumulated shareholders' deficit as of January 31, 2005, raise substantial doubt about its ability to continue as a going concern.

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 Newgold's operations unless it is able to offset such a price drop by substantially increased production.

Newgold's disclosures of its mineral resources are only estimates. Newgold has no proven or probable reserves and has no ability to currently measure or prove its reserves other than estimating such reserves relying on information produced in the 1990's and thus may be unable to actually recover the quantity of gold anticipated. Newgold can only estimate a potential mineral resource 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

Newgold'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

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that Newgold's exploration programs will result in the discovery of new mineral reserves or resources.

Newgold's mining property rights consist of 78 mill site and 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, Newgold may not be able to retain its royalty interests on that property, which could reduce its future revenues.

Mining is subject to extensive 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. Newgold believes that, it is currently operating in compliance with all known safety and environmental standards and regulations applicable to its Nevada property. Currently, Newgold is only permitted to carry on designated mining activities until it posts a reclamation bond and the mining property is brought into compliance with the requirements of the Nevada Department of Environmental Protection. Permitting Newgold's mining property for full exploration and mining activities is expected to take 6 to 15 months. However, there can be no assurance that permits will be granted or that future changes in federal or Nevada laws, regulations or interpretations thereof will not have a material adverse affect on Newgold'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, Newgold carried insurance against certain property damage loss (including business interruption) and comprehensive general liability insurance. While Newgold 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. Newgold has not obtained environmental liability insurance because such coverage is not considered by management to be cost effective. Newgold currently carries no insurance on any of its properties due to the current status of the mine and Newgold's current financial condition.

Newgold is substantially dependent upon the continued services of A. Scott Dockter, its President. Newgold 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

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spend the majority of his time assisting Newgold, there can be no assurance that Mr. Dockter's services will remain available to Newgold. If Mr. Dockter's services are not available to Newgold, Newgold will be materially and adversely affected. However, Mr. Dockter has been a significant shareholder of Newgold since its inception and considers his investment of time and money in Newgold of significant personal value.

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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 requires management 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 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.

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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

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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.

Recent Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations". FIN No. 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method

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of settlement. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005 for calendar-year companies). Retrospective application of interim financial information is permitted but is not required. Management does not expect adoption of FIN No. 47 to have a material impact on the Company's financial statements.

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.

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PART II - OTHER INFORMATION

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

SALES OF UNREGISTERED SECURITIES DURING THE QUARTER

In February 2005 the Company issued 500,000 shares of common stock at a price of \$0.15 per share to an investor for total proceeds of \$75,000. Additionally, 500,000 warrants to purchase common stock at a price of \$0.30 per share were issued to the investor. The warrants expire three years from the date of issuance. The shares were offered and sold exclusively to individuals residing or entities formed outside the United States and are not deemed to be "U.S. persons" as that term is defined under Regulation S of the Securities Act of 1933 (the "1933 Act"). Each investor represented that it is purchasing such shares for its own account. Both the offer and the sale of the Newgold shares were made outside the United States and are deemed to be "offshore transactions"

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as that term is defined under Regulation S. The share certificate contains a legend indicating that such shares can only be transferred in compliance with the provisions of Regulation S. In light of the foregoing, such sales were deemed exempt from registration pursuant to Regulation S of the 1933 Act. The shares are deemed to be "restricted securities" as defined in Rule 144 under the 1933 Act.

In April 2005 the Company issued 2,000,000 shares of common stock at a price of \$0.25 per share to investors for total proceeds of \$500,000. Additionally, 1,000,000 warrants to purchase common stock at a price of \$0.50 per share were issued to the investors. The warrants expire three years from the date of issuance. 1,000,000 of the shares were offered and sold exclusively to individuals residing or entities formed outside the United States and are not deemed to be "U.S. persons" as that term is defined under Regulation S. Each investor represented that it is purchasing such shares for its own account. Both the offer and the sale of the Newgold shares were made outside the United States and are deemed to be "offshore transactions" as that term is defined under Regulation S. The share certificate contains a legend indicating that such shares can only be transferred in compliance with the provisions of Regulation S. In light of the foregoing, such sales were deemed exempt from registration pursuant to Regulation S of the 1933 Act. The shares are deemed to be "restricted securities" as defined in Rule 144 under the 1933 Act. The issuances of the other 1,000,000 shares were made without any public solicitation to two investors and were acquired for investment purposes only. The investors had access to information about Newgold and were deemed capable of protecting their own interests. The issuance of the stock 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. The stock and warrants are deemed to be "restricted securities" as defined in Rule 144 under the 1933 Act.

Prior issuances of the Company's common stock during fiscal years 2005 and 2004 have been reported in the Company's prior filings with the Securities and Exchange Commission.

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ITEM 5. OTHER INFORMATION

Effective June 7, 2005 Newgold was cleared to resume trading on the Over-the-Counter Bulletin Board trading service. Newgold's trading symbol is NGLD.

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: June 10, 2005

NEWGOLD, INC.

/s/SCOTT DOCKTER

Scott Dockter, President and Chief Executive
Officer

/s/JAMES KLUBER

James Kluber, Principal Accounting Officer and
Chief Financial Officer

