

**BAJA MINING CORP.**

Consolidated Financial Statements

December 31, 2005 and 2004

## Report of Independent Registered Public Accounting Firm

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### To the Shareholders of Baja Mining Corp.:

We have audited the accompanying consolidated balance sheets of Baja Mining Corp. (the "Company") as at December 31, 2005 and 2004 and the related consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005, in accordance with Canadian generally accepted accounting principles.

*"Staley, Okada & Partners"*

Vancouver, B.C.  
March 21, 2006, except as to Note 12a, which  
is as of April 6, 2006

STALEY, OKADA & PARTNERS  
CHARTERED ACCOUNTANTS

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## Comments By Auditors For U.S. Reader On Canada - U.S. Reporting Conflict

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In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when financial statements are affected by future events, the outcome of which is indeterminable. As discussed in Note 1, the Company's continued existence as a going concern is dependent upon the future economic success of its exploration and development activities, the Company's ability to continue to secure adequate financing and the Company achieving a positive cash flow and profitable operations. Our report to the shareholders dated March 21, 2006, except as to Note 12a, which is as of April 6, 2006, is expressed in accordance with Canadian reporting standards, which do not require a reference to such going concern considerations in the auditors' report when the situation is adequately disclosed in the financial statements.

*"Staley, Okada & Partners"*

Vancouver, B.C.  
March 21, 2006, except as to Note 12a, which  
is as of April 6, 2006

STALEY, OKADA & PARTNERS  
CHARTERED ACCOUNTANTS

**Baja Mining Corp.**  
**Consolidated Balance Sheets**  
**As at December 31**

ASSETS	2005	2004
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<b>Current assets</b>		
Cash and cash equivalents	\$ 2,760,084	\$ 5,248,382
Accounts receivable	216,657	176,981
Due from related party <i>(Note 7b)</i>	43,884	34,990
	<hr/>	<hr/>
	3,020,625	5,460,353
Mineral properties and mining concessions <i>(Note 4)</i>	757,793	757,793
Property, plant and equipment <i>(Note 5)</i>	598,714	136,861
	<hr/>	<hr/>
	\$ 4,377,132	\$ 6,355,007
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<b>LIABILITIES</b>		
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<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 392,129	\$ 1,161,195
Due to related parties <i>(Note 7c)</i>	61,186	47,003
	<hr/>	<hr/>
	453,315	1,208,198
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<b>SHAREHOLDERS' EQUITY</b>		
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Share capital <i>(Note 6)</i>	45,406,370	40,582,163
Contributed surplus <i>(Note 6g)</i>	2,339,721	1,390,189
Deficit	(43,822,274)	(36,825,543)
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	3,923,817	5,146,809
	<hr/>	<hr/>
	\$ 4,377,132	\$ 6,355,007
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Commitments *(Note 10)*

ON BEHALF OF THE BOARD:

"John W. Greenslade", Director

"Robert L. Mouat", Director

See accompanying Notes to the Consolidated Financial Statements

**Baja Mining Corp.**  
**Consolidated Statements of Loss and Deficit**  
**For the years ended December 31**

	2005	2004	2003
<b>Exploration expenses</b>			
Camp, general and travel	\$ 471,457	\$ 230,530	\$ 22,510
Concession and claim fees	184,412	163,481	102,014
Drilling	706,062	128,071	-
Feasibility studies	1,206,270	507,930	-
Geological and environmental	425,153	238,738	881
Metallurgical	279,165	64,533	138,617
Pilot plant costs	705,870	1,364,224	-
Professional and consulting fees			
Related Party ( <i>Note 7a</i> )	329,112	211,884	71,420
Other	438,421	337,925	46,256
Stock-based compensation expense ( <i>Note 6f</i> )	415,515	578,382	-
	5,161,437	3,825,698	381,698
<b>General and administrative expenses</b>			
Amortization	137,532	19,864	8,311
Audit and legal fees	271,839	51,653	50,398
Filing, exchange and transfer agent fees	48,758	40,110	-
Interest and bank charges	6,220	3,178	3,013
Management and consulting fees			
Related party ( <i>Note 7a</i> )	122,933	123,273	-
Other	101,302	50,467	-
Office and general	73,663	42,348	7,926
Promotion, trade show and marketing	159,988	187,049	-
Rent	133,946	70,595	-
Stock-based compensation expense ( <i>Note 6f</i> )	538,515	817,324	-
Telephone	38,734	20,860	3,029
Travel	35,810	102,345	5,622
Wages and subcontract	184,578	116,162	16,594
	1,853,818	1,645,228	94,893
<b>Loss before other items</b>	(7,015,255)	(5,470,926)	(476,591)
Foreign exchange gain (loss)	(7,616)	(15,040)	72,562
Interest income and other	26,140	94,281	-
<b>Net loss for the year</b>	(6,996,731)	(5,391,685)	(404,029)
<b>Deficit - beginning of year</b>	(36,825,543)	(31,433,858)	(31,029,829)
<b>Deficit - end of year</b>	\$ (43,822,274)	\$ (36,825,543)	\$ (31,433,858)
<b>Basic and diluted loss per share for the year</b>	\$ (0.11)	\$ (0.10)	\$ (0.01)
<b>Weighted average number of shares outstanding</b>	64,643,324	54,172,505	40,000,000

See accompanying Notes to the Consolidated Financial Statements

**Baja Mining Corp.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31**

	2005	2004	2003
<b>Operating activities</b>			
Net loss for the year	\$ (6,996,731)	\$ (5,391,685)	\$ (404,029)
Items not involving cash:			
Amortization	137,532	19,864	8,311
Consulting fees settled by sale of subsidiary	-	27,000	-
Stock-based compensation expense	954,030	1,395,706	-
	<u>(5,905,169)</u>	<u>(3,949,115)</u>	<u>(395,718)</u>
Net changes in working capital balances			
Accounts receivable and advances	(39,676)	(106,196)	(42,382)
Accounts payable and accrued liabilities	(769,066)	1,065,213	18,046
	<u>(6,713,911)</u>	<u>(2,990,098)</u>	<u>(420,054)</u>
<b>Investing activities</b>			
Advances (repayments) of amounts due from related parties	(8,894)	(34,990)	-
Proceeds of merger	-	81,339	-
Acquisition of concessions	-	-	(1,272)
Acquisition of property, plant and equipment	(599,385)	(104,392)	-
	<u>(608,279)</u>	<u>(58,043)</u>	<u>(1,272)</u>
<b>Financing activities</b>			
Advances (repayments) of amounts due to related parties	14,183	(711,856)	463,677
Net proceeds from issuance of common shares	4,819,709	8,952,375	-
	<u>4,833,892</u>	<u>8,240,519</u>	<u>463,677</u>
<b>Increase (decrease) in cash and equivalents</b>	<b>(2,488,298)</b>	<b>5,192,378</b>	<b>42,351</b>
<b>Cash and equivalents - beginning of year</b>	<b>5,248,382</b>	<b>56,004</b>	<b>13,653</b>
<b>Cash and equivalents - end of year</b>	<b>\$ 2,760,084</b>	<b>\$ 5,248,382</b>	<b>\$ 56,004</b>

**Supplemental Schedule of Non-Cash Investing and Financing  
Activities (Note 11)**

See accompanying Notes to the Consolidated Financial Statements

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

**1. Nature and continuance of operations**

Baja Mining Corp. (“the Company”), formerly First Goldwater Resources Inc., was incorporated on July 15, 1985 under the Company Act of British Columbia. The Company is a reporting issuer in British Columbia and trades on the TSX Venture Exchange. Effective April 20, 2004, the Company completed a business combination with Mintec International Corporation through a reverse takeover.

The Company is in the process of exploring its resource properties in Mexico and is considered to be in the exploration stage.

These financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to meet its obligations and maintain its operations is contingent upon successful completion of additional financing arrangements and/or the ability to generate profitable operations in the future.

**2 Reverse takeover of Mintec International Corporation**

Effective April 20, 2004, pursuant to a share exchange agreement, the Company acquired all the issued and outstanding shares of Mintec International Corporation (“Mintec”) by issuing 40,000,000 common shares of the Company. The transaction resulted in a change of control and therefore, the transaction is treated as a reverse takeover for accounting purposes whereby Mintec is identified as the acquirer. Accounting for the business combination as reverse takeover results in the following:

- (a) The consolidated financial statements of the combined entities are issued under the legal parent (Baja Mining Corp.) but are considered a continuation of the financial statements of the legal subsidiary, Mintec.
- (b) Since Mintec is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.
- (c) The fair value of net assets acquired were as follows:

Total assets	\$	110,167
Total liabilities		(63,796)
	\$	<u>46,371</u>

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

3                    **Summary of Significant Accounting Policies**

(a)            **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's significant subsidiary is Mintec International Corporation and its wholly owned subsidiary, Minera y Metalurgica Del Boleo, S.A de C.V., which has been accounted for using the purchase method. All significant inter-company transactions and balances have been eliminated.

(b)            **Resource interests**

The Company is in the process of developing its mineral properties and has capitalized the acquisition costs for its property rights and mining concessions. The Company has adopted the policy of expensing mineral exploration costs incurred prior to the completion of an economic feasibility study.

Capitalized costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of ore reserves, while capitalized costs for prospects abandoned are written off.

Management periodically reviews the estimated future operating cash flows of its mining operations in determining if adjustments to the carrying values of its mining assets are required to record those assets at the net recoverable amount. The ultimate recoverability of the amounts capitalized for the mining assets is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in the mining assets have been based on best estimates. However, it is reasonably possible that changes could occur in the near term, which could adversely affect management's estimates and may result in further write-downs of capitalized carrying values.

Ownership in mineral properties involves certain inherent risks due to the difficulties of determining and obtaining clear title to claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristics of many mineral properties. The Company has investigated ownership of its mineral properties and, to the best of its knowledge, ownership of its interests are in good standing.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

3 **Summary of Significant Accounting Policies – (cont'd)**

(c) **Property, plant and equipment and amortization**

Property, plant and equipment are recorded at cost. Amortization of assets held in Canada is calculated using the declining balance method at the following annual rates:

Office equipment and furniture	20%
Leasehold improvements	20%
Computer equipment	30%
Vehicles	30%
Software	100%

Amortization of assets held in Mexico is calculated using the straight-line method at the following annual rates:

Warehouse	5%
Office equipment and furniture	10%
Machinery and equipment	25%
Transportation equipment	25%
Computer equipment	30%
Test mining equipment	50%

One-half the normal rate is applied in the year of acquisition.

(d) **Management estimates**

These consolidated financial statements have been prepared in accordance Canadian generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results may differ from these estimates.

(e) **Fair market value of financial instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and amounts due to related parties. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company is not exposed to significant interest, currency or credit risks arising from these financial instruments, except for the currency risk (*Note 3f*).

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

3 **Summary of Significant Accounting Policies – (cont'd)**

(f) **Foreign currency translation and currency risk**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet. Non-monetary assets, liabilities and other items are translated at historical rates. Revenue and expenses are translated at average rates of exchange prevailing during the year. Exchange gains or losses arising from these translations are included in income of the year.

The Company operates internationally, which gives rise to the risk that cash flows may be adversely impacted by exchange rate fluctuations. The Company has not entered into foreign currency contracts to hedge its risk against foreign currency fluctuations.

As at December 31, 2005, the Company has the following foreign denominated financial instruments:

	Foreign currency amount	Canadian dollar amount
Cash in United States Dollars	243,579	284,104
Cash in Mexican Pesos	262,449	28,791
Value added taxes recoverable in Mexican Pesos	1,028,217	112,795

(g) **Basic and diluted loss per share**

Basic earnings per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the “if converted” method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

(h) **Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

3 **Summary of Significant Accounting Policies – (cont'd)**

(i) **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

(j) **Stock based compensation**

On January 1, 2004, the Company adopted the amended CICA Handbook Section 3870 “Stock-based Compensation and Other Stock-based Payments”. In terms of this amended standard, all stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. Compensation costs attributable to share options granted are measured at a fair value at the grant date and charged to operations over the vesting period. Consideration paid by the option holder, at the time options are exercised, is recorded as an increase to share capital.

(k) **Property option agreements**

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the option holder, amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

(l) **Asset retirement obligations**

The recommendations of CICA Handbook Section 3110, Asset Retirement Obligations (“CICA 3110”), became effective on January 1, 2004. This section requires the recognition of a legal liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company’s estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

No liability accrual has been recorded as the Company is in the exploration stage on its properties and no reasonable estimate of the fair value of the liability can be estimated. There is no effect on prior years, as a result of adopting this new recommendation.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

3 **Summary of Significant Accounting Policies – (cont'd)**

(m) **Variable Interest Entities**

The Company has adopted Accounting Guideline 15, “consolidation of Variable Interest Entities” for annual and interim financial statements beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The adoption of this guideline did not have any impact on the Company’s consolidated financial statements.

(n) **Comparative Figures**

Certain of the comparative figures have been reclassified to conform with the presentation of the current year.

4 **Resource property costs**

Boleo Project details are as follows:

	<u>2005</u>	<u>2004</u>
Property rights ( <i>Note 4a</i> )	\$ 651,443	\$ 651,443
Mining concessions ( <i>Note 4b</i> )	106,350	106,350
Total at cost	<u>\$ 757,793</u>	<u>\$ 757,793</u>

(a) **Property rights**

The Company owns three properties covering approximately 6,692 hectares, located near Santa Rosalia, Baja California Sur, Mexico. The annual property tax on these properties is approximately \$5,800.

(b) **Mining concessions**

The Company acquired certain concessions covered by 16 separate titles and covering approximately 18,084.8 hectares, located near Santa Rosalia, Baja California Sur, Mexico. The annual fees related to these concessions are approximately \$154,700.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

4 **Resource property costs - (cont'd)**

(c) **Details of cumulative expenditures on the Boleo Project are as follows:**

	<b>2005</b>		<b>2004</b>
Camp, general and travel	\$ 1,041,342	\$	569,885
Concession fees and other	1,803,328		1,618,916
Drilling	7,891,311		7,185,249
Ecological	1,034,426		1,034,426
Feasibility studies	2,844,457		1,638,187
Geological and geochemical	6,758,341		6,333,188
Hydrological	56,186		56,186
Management fees	2,893,966		2,893,966
Metallurgical and contract services	7,756,895		6,771,860
Payroll and social security	1,259,261		1,259,261
Professional fees	3,658,299		2,890,766
Roads	687,494		687,494
Stock based compensation expenses	993,897		578,382
	<b>\$ 38,679,203</b>	<b>\$</b>	<b>33,517,766</b>

5 **Property, Plant and Equipment**

Comprised of the following:

<b>As at December 31, 2005</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Computer equipment and software	131,626	92,915	38,711
Leasehold improvements	101,559	10,152	91,407
Machinery and equipment	274,924	42,749	232,175
Mining equipment	86,262	55,176	31,086
Office equipment and furniture	79,714	33,566	46,148
Transportation equipment	46,922	28,482	18,440
Warehouse	167,149	26,402	140,747
	<b>888,156</b>	<b>289,442</b>	<b>598,714</b>
<b>As at December 31, 2004</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Computer equipment and software	113,302	57,093	56,209
Leasehold improvements	-	-	-
Machinery and equipment	12,395	6,834	5,561
Mining equipment	41,945	23,125	18,820
Office equipment and furniture	49,422	25,325	24,097
Transportation equipment	32,923	18,151	14,772
Warehouse	38,784	21,382	17,402
	<b>288,771</b>	<b>151,910</b>	<b>136,861</b>

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

6

**Share Capital**

(a) **Authorized**

200,000,000 common shares without par value

(b) **Details of transactions are as follows:**

	<u>Shares</u>	<u>Amount</u>
<b>Balance – December 31, 2002</b>	<b>1,016,149</b>	<b>\$ 31,577,900</b>
Shares issued (i)	5,137,455	-
<b>Balance – December 31, 2003</b>	<b>6,153,604</b>	<b>31,577,900</b>
Shares issued (i)	600,000	-
Shares issued on reverse takeover transaction	40,000,000	46,371
Brokered private placement ( <i>Note 6d</i> )	10,666,666	8,000,000
Short form prospectus offering ( <i>Note 6d</i> )	2,666,666	2,000,000
Shares issued for agent's fees	77,370	58,028
Share issue costs	-	(1,116,813)
Shares issued on exercise of stock options	20,000	4,400
Fair value of options exercised ( <i>Note 6g</i> )	-	5,517
Shares issued on exercise of warrants	52,000	6,760
<b>Balance – December 31, 2004</b>	<b>60,236,306</b>	<b>40,582,163</b>
Brokered private placements ( <i>Note 6d</i> )	8,255,715	3,389,500
Non-brokered private placements ( <i>Note 6d</i> )	3,505,249	1,251,837
Share issue costs	-	(415,750)
Shares issued on exercise of warrants	4,243,550	585,322
Shares issued on exercise of stock options	40,000	8,800
Fair value of options exercised ( <i>Note 6g</i> )	-	4,498
<b>Balance – December 31, 2005</b>	<b>76,280,820</b>	<b>\$ 45,406,370</b>

(i) In accordance with the principles of reverse takeover accounting, the authorized share capital and number of common shares issued are those of the legal parent. The amount of share capital proceeds, to the date of the reverse takeover, represents that share capital proceeds of Mintec and is not related to the issuance of the shares by First Goldwater Resources Inc. As a result, although First Goldwater Resources Inc. issued 5,137,455 shares in the year ended December 31, 2003 and 600,000 in the 2004 period prior to the reverse takeover, Mintec did not issue any shares and did not have any share capital proceeds. The proceeds raised by First Goldwater Resources Inc. are included in the net assets acquired by Mintec in the reverse takeover transaction.

(c) **Share issued to acquire Mintec International Corporation**

Effective April 20, 2004, pursuant to a share purchase agreement, the Company acquired all the issued and outstanding shares of Mintec International Corporation in exchange for 40,000,000 shares. The share exchange resulted in a change of control, which is accounted for as a reverse takeover.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

6 **Share Capital - (cont'd)**

(d) **Private Placements**

During the financial year ended December 31, 2004, the following share placements were completed:

(i) April 2004 - In connection with the acquisition of Mintec International Corporation, the Company completed a brokered private placement of 10,666,666 units at \$0.75 per unit on April 20, 2004. Each unit consists of one common share and one half warrant. Each whole warrant is exercisable for a period of five years at \$1.15 per share. In connection with the private placement, the Company paid the agent a 6% cash commission, a \$48,000 corporate finance fee and granted the agent 533,333 non-transferable share purchase warrants, exercisable into 533,333 common shares at \$0.75 until October 19, 2005.

(ii) April 2004 - The Company also completed a public offering of 2,666,666 units at \$0.75 per unit. Each unit consists of one common share and one-half warrant. Each whole warrant is exercisable for a period of five years at \$1.15. In connection with the offering, the Company paid the agent a 6% commission of which \$84,473 was in cash and the agent elected to receive 47,370 units for the balance of the commission), a \$10,000 administration fee, issued the agent 30,000 units as a corporate finance fee and granted the agent 133,333 non-transferable share purchase warrants, exercisable into 133,333 common shares at \$0.75 until October 19, 2005.

During the financial year ended December 31, 2005, the following share placements were completed:

(iii) March 2005 – a private brokered placement of 2,000,000 units at \$0.60 per unit, realizing gross proceeds of \$1,200,000. Each unit consists of one share and one half-share purchase warrant. Two share purchase warrants entitle the holder to acquire one share at \$1.15 within two years of issue. The expiration date for the warrants will be extended to five years, should the Company achieve Tier 1 status, on the TSX, prior to expiry of the two-year term. Agents' fees relating to this placement amounted to \$92,500 settled in cash.

(iv) March 2005 – a private non-brokered placement of 100,000 units at \$0.60 per unit, realizing gross proceeds of \$60,000. Each unit consists of one share and one half-share purchase warrant. Two share purchase warrants entitle the holder to acquire one share at \$1.15 within two years of issue. The expiration date for the warrants will be extended to five years, should the Company achieve Tier 1 status, on the TSX, prior to expiry of the two-year term.

(v) November 2005 - a private non-brokered placement of 1,426,678 units at \$0.35 per unit, realizing gross proceeds of \$499,337. Each unit consists of one share and one half-share purchase warrant. Two share purchase warrants entitle the holder to acquire one share at \$0.45 within two years of issue.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2005, 2004 and 2003**

6 **Share Capital - (cont'd)**

(d) **Private Placements - (cont'd)**

(vi) December 2005 - a private non-brokered placement of 1,978,571 units at \$0.35 per unit, realizing gross proceeds of \$692,500. Each unit consists of one share and one half-share purchase warrant. Two share purchase warrants entitle the holder to acquire one share at \$0.45 within two years of issue.

(vii) December 2005 - a private brokered placement of 1,000,000 units at \$0.35 per unit, realizing gross proceeds of \$350,000. Each unit consists of one share and one half-share purchase warrant. Two share purchase warrants entitle the holder to acquire one share at \$0.45 within two years of issue. Agent's fees relating to this issue amounted to \$33,750 settled in cash.

(viii) December 2005 - a private brokered placement of 5,255,715 units at \$0.35 per unit, realizing gross proceeds of \$1,839,500. Each unit consists of one share and one half-share purchase warrant. Two share purchase warrants entitle the holder to acquire one share at \$0.45 within two years of issue. Agent's fees relating to this issue amounted to \$186,581 settled in cash.

(e) **Warrants**

As at December 31, 2005 the following warrants are outstanding:

Balance 2004	Granted 2005	Exercised 2005	Expired 2005	Balance 2005	Exercise Price	Expiry Date
666,666	-	-	666,666	-	\$0.75	October 19, 2005
4,210,550	-	4,210,550	-	-	\$0.13	July 11, 2005 (i)
-	1,050,000	-	-	1,050,000	\$1.15	June 8, 2007 (ii)
-	713,339	-	-	713,339	\$0.45	November 2, 2007
-	989,285	-	-	989,285	\$0.45	December 16, 2007
-	3,127,858	-	-	3,127,858	\$0.45	December 21, 2007
6,705,351	-	33,000	-	6,672,351	\$1.15	April 20, 2009
11,582,567	5,880,482	4,243,550	666,666	12,552,833		

Balance 2003	Granted 2004	Exercised 2004	Expired 2004	Balance 2004	Exercise Price	Expiry Date
-	4,262,550	52,000	-	4,210,550	\$0.13	July 11, 2005 (i)
-	666,666	-	-	666,666	\$0.75	October 19, 2005
-	6,705,351	-	-	6,705,351	\$1.15	April 20, 2009
-	11,634,567	52,000	-	11,582,567		

(i) These warrants, originated in First Goldwater Resources Inc., prior to the reverse takeover transaction (*Note 2*).

(ii) The expiration date for the warrants will be extended from two to five years, should the Company achieve Tier 1 status, on the TSX, prior to expiry of the two-year term.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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6 **Share Capital - (cont'd)**

(f) **Stock Options**

As at December 31, 2005 and 2004 the following stock options are outstanding:

<b>Balance 2004</b>	<b>Granted 2005</b>	<b>Exercised 2005</b>	<b>Expired 2005</b>	<b>Balance 2005</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
240,000	-	40,000	200,000	-	\$0.22	October 1, 2005
2,290,000	-	-	760,000	1,530,000	\$0.35(i)	March 22, 2009
695,000	-	-	200,000	495,000	\$0.35(i)	May 17, 2009
225,000	-	-	-	225,000	\$0.35(i)	July 22, 2009
620,000	-	-	-	620,000	\$0.35(i)	August 13, 2009
500,000	-	-	500,000	-	\$0.35(i)	August 17, 2009
100,000	-	-	-	100,000	\$0.35(i)	August 20, 2009
-	1,000,000	-	-	1,000,000	\$0.35(i)	March 15, 2010
-	310,000	-	-	310,000	\$0.35(i)	April 12, 2010
-	150,000	-	150,000	-	\$0.35(i)	June 1, 2010
-	1,870,000	-	-	1,870,000	\$0.35	September 15, 2010
-	375,000	-	-	375,000	\$0.35	November 30, 2010
4,670,000	3,705,000	40,000	1,810,000	6,525,000		

  

<b>Balance 2003</b>	<b>Granted 2004</b>	<b>Exercised 2004</b>	<b>Expired 2004</b>	<b>Balance 2004</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
-	260,000	20,000	-	240,000	\$0.22	October 1, 2005 (ii)
-	2,290,000	-	-	2,290,000	\$0.75	March 22, 2009
-	695,000	-	-	695,000	\$0.75	May 17, 2009
-	225,000	-	-	225,000	\$0.75	July 22, 2009
-	620,000	-	-	620,000	\$0.75	August 13, 2009
-	500,000	-	-	500,000	\$0.75	August 17, 2009
-	100,000	-	-	100,000	\$0.75	August 20, 2009
-	4,690,000	20,000	-	4,670,000		

- (i) The exercise price of stock options granted prior to September 15, 2005 was amended from prices ranging from \$0.60 - \$0.75 to \$0.35, subject to the approval of disinterested shareholders of the Company. A revaluation of options granted, not yet exercised, and which are subject to this amendment, has been performed.
- (ii) These options originated in First Goldwater Resources Inc., prior to the reverse takeover transaction (*Note 2*).

The Company adopted a stock option plan ("the plan") whereby, the Company may grant stock options up to a maximum of ten percent of the number of issued shares of the Company. At December 31, 2005, the Company has reserved 7,628,082 common shares under the plan (2004 - 6,023,630).

The option plan has the following vesting requirement:

- (i) Options granted to employee and consultants conducting investor relations activities will vest with the right to exercise one-quarter of the option upon conclusion of every three months subsequent to the grant date.
- (ii) Options granted to other employees, consultants, directors and officers vest immediately.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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6 **Share Capital - (cont'd)**

(f) **Stock Options - (cont'd)**

The fair value of the options granted during the year was estimated at each grant date using the Black-Scholes option-pricing model. During the year, the Company granted 3,705,000 five year stock options at an exercise price of \$0.35; 1,830,000 of which were granted to directors and 1,875,000 granted to consultants and employees. Stock-based compensation costs, in the amount of \$954,030 (2004 - \$1,395,706), have been recognized and charged to expenses, with an offsetting amount recorded as a credit to contributed surplus. The exercise price of stock options granted prior to September 15, 2005 was amended from \$0.75 to \$0.35, subject to the approval of disinterested shareholders of the company. A revaluation of options granted, not yet exercised, and which are subject to this amendment, has been performed.

The fair value of stock options granted was estimated at each grant date based on the Black-Scholes option-pricing model, using the following weighted average assumptions:

	<u>2005</u>	<u>2004</u>
Risk free interest rate	3.89%	3.61%
Dividend yield	0%	0%
Expected volatility	56.65%	80.52%
Expected stock option life	5 years	4.8 years
Weighted average fair value of stock options granted	\$0.27	\$0.30

(g) **Contributed Surplus**

Fair value of options granted ( <i>Note 6f</i> )	\$ 1,395,706
Fair value of 20,000 options exercised ( <i>Note 6b</i> )	<u>(5,517)</u>
Balance December 31, 2004	1,390,189
Fair value of options granted ( <i>Note 6f</i> )	954,030
Fair value of 40,000 options exercised ( <i>Note 6b</i> )	<u>(4,498)</u>
Balance December 31, 2005	<u>2,339,721</u>

(h) **Escrow Shares**

On April 20, 2004, 40,000,000 shares issued on the acquisition of Mintec International Corporation were placed into escrow and will be released from escrow over a three-year period. The three-year release period includes 4,000,000 shares released upon exchange approval and 6,000,000 shares released every six months thereafter. As at December 31, 2005 there are 18,000,000 shares in escrow.

A pooling agreement also covers the escrow shares, in terms of which half of these shares were released by April 20, 2005, a further quarter were released by October 20, 2005. The balance of 10,000,000 shares will be released by April 20, 2006.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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7

**Related Party Transactions**

(a) The Company entered into the following transactions with current or former directors or officers of the Company or with companies with current or former directors or officers in common:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Management fees paid or accrued	\$ 452,045	\$	
Legal fees paid or accrued	-	97,640	70,011
Financing fees paid or accrued	-	65,000	-
Rent and administration costs paid or accrued	32,754	64,000	-
Salaries and wages paid to employees related to directors and officers of the Company	68,502		-
Consulting services paid or accrued	-	27,000	-
	<u>\$ 553,301</u>	<u>\$ 631,548</u>	<u>\$ 141,431</u>

(b) The Company had the following amounts due from a company with directors in common. The amount is non-interest bearing, unsecured and is due on demand.

	<u>2005</u>	<u>2004</u>
Minterra Resource Corp.	\$ 43,844	34,990

(c) The Company had the following amounts due to a company of a former director of the Company or companies with directors in common:

	<u>2005</u>	<u>2004</u>
Tek Terra Corporation	\$ 46,931	42,413
Minera Terra Gaia, S.A. de C.V.	11,570	1,945
Holmes Greenslade, a law firm of which an insider is a former partner	2,645	2,645
	<u>\$ 61,146</u>	<u>\$ 47,003</u>

The amounts are non-interest bearing, unsecured and are due on demand.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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8

**Income Taxes**

(a) The Company operates in Canada and Mexico and is subject to varying rates of taxation. In addition, the Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended December 31 are as follows:

	<b>2005</b>	<b>2004</b>
Loss before income taxes for accounting purposes	\$ 6,996,731	\$ 5,391,685
Adjustments for differences between accounting and taxable income:		
Amortization	(137,533)	(19,936)
Stock-based compensation	(954,030)	(1,395,706)
Share issuance costs deductible for taxes	306,513	223,363
Non-deductible and other items	(742,783)	(675,903)
Consolidated loss for tax purposes	5,468,898	3,523,503
Tax rate	35.6%	35.6%
Expected tax recovery for the year	1,946,928	1,254,367
Increase (decrease) in taxes due to:		
Foreign income at different tax rates	(264,091)	(150,879)
Current valuation allowance	(1,682,837)	(1,103,488)
Tax recovery for the year	\$ -	\$ -

(b) Future income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets as at December 31 are as follows:

	<b>2005</b>	<b>2004</b>
Non-capital loss carry-forwards	\$ 3,470,563	\$ 1,924,355
Property, plant and equipment	8,266	879
Share issuance costs	356,956	318,068
	3,835,785	2,243,302
Valuation allowance	(3,835,785)	(2,243,302)
Future income tax asset	\$ -	\$ -

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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8 **Income Taxes- (cont'd)**

(c) The Company has incurred non-capital losses for income tax purposes in Canada of approximately \$3,478,000, which may be used to reduce future taxable income. The income tax benefits, if any, of these losses have not been recorded in these financial statements because of uncertainty of their recovery. These losses will expire as follows:

Year of Expiry	<u>Amount</u>
2006	\$ 436,000
2007	373,000
2008	213,000
2009	61,000
2010	98,000
2011	829,000
2015	<u>1,468,000</u>
	<u>\$ 3,478,000</u>

(d) The Company has incurred non-capital losses for income tax purposes in Mexico of approximately \$7,697,000, which may be used to reduce future taxable income. The income tax benefits, if any, of these losses have not been recorded in these financial statements because of uncertainty of their recovery. These losses will expire as follows:

Year of Expiry	<u>Amount</u>
2011	\$ 139,000
2012	321,000
2013	542,000
2014	2,694,000
2015	<u>4,001,000</u>
	<u>\$ 7,697,000</u>

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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9 **Segmented Information**

The Company's only business activity is exploration and development of mineral reserves. This activity is carried out primarily in Mexico.

The breakdown by geographic region for the year ended December 31, 2005 is as follows:

	<b>Canada</b>	<b>Mexico</b>	<b>Consolidated</b>
Exploration expenses	\$ -	\$ 5,161,437	\$ 5,161,437
Capital expenditures	\$ 153,903	\$ 445,482	\$ 599,385
Segment loss	\$ 1,318,551	\$ 5,678,180	\$ 6,996,731
Total assets	\$ 2,733,758	\$ 1,643,374	\$ 4,377,132

The breakdown by geographic region for the year ended December 31, 2004 is as follows:

	<b>Canada</b>	<b>Mexico</b>	<b>Consolidated</b>
Exploration expenses	\$ -	\$ 3,825,698	\$ 3,825,698
Capital expenditures	\$ 16,386	\$ 88,006	\$ 104,392
Segment loss	\$ 1,565,987	\$ 3,825,698	\$ 5,391,685
Total assets	\$ 4,448,173	\$ 1,906,834	\$ 6,355,007

10 **Commitments**

(a) On September 22, 2004, the Company signed an agreement with Bateman Engineering Pty Ltd. ("Bateman") to complete a definitive feasibility study on the Boleo Project. The estimated contract value is \$8.9 million. The definitive feasibility study is scheduled to be completed by July 2006 and the agreement may be terminated upon thirty days written notice. As at December 31, 2005, the Company has paid or accrued a total of approximately \$3.2 million under the agreement, for a remaining terminable commitment of \$5.7 million.

(b) During the current year, the Company signed a number of management and consulting agreements with directors and officers of the Company. The future commitments under these contracts, which expire at April 30, 2006, amount to \$54,000 at December 31, 2005. Subsequent to December 31, 2005, one of these contracts was extended to April 30, 2007, for an additional commitment of \$216,000 during 2006 and \$72,000 during 2007.

(c) The Company has committed to an operating lease for office space for a term of 63 months expiring September 2010. The minimum lease payment is \$74,480 per annum.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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11 **Supplemental Schedule of Non-Cash Investing and Financing Activities**

The following are the non-cash investing and financing activities of the Company:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Fair value of options exercised transferred from contributed surplus to share capital	\$ 4,498	\$ 5,517	\$ -
Shares issued for acquisition of Mintec International Corporation	\$ -	\$ 46,371	\$ -
Property, plant and equipment acquired on business combination	\$ -	\$ 1,828	\$ -
Resource property acquired on business combination	\$ -	\$ 27,000	\$ -
Accounts payable assumed on business combination	\$ -	\$ 63,796	\$ -
Sale of subsidiary with a resource property in exchange for consulting services received	\$ -	\$ 27,000	\$ -
Interest received	\$ 26,140	\$ 94,281	\$ -
Interest paid	\$ -	\$ -	\$ -

12 **Subsequent Events**

(a) Subsequent to year-end, the Company announced that it has arranged on a “best efforts” basis, a private placement of up to 25,555,556 units at \$0.90 per unit for a maximum gross proceeds of \$23,000,000. Each unit consists of one share and one half-share purchase warrant. Two share purchase warrants entitle the holder to acquire one share at \$1.25 within two years of issue. The expiration date for the warrants will be extended to five years, should the Company achieve Tier 1 status, on the TSX, prior to expiry of the two-year term.

(b) Subsequent to year-end, the Company listed its shares on the Frankfurt Exchange.

(c) Subsequent to year-end, the Company granted 675,000 stock options to consultants of the Company at prices ranging from \$0.94 to \$1.21 per share, for a period of five years from the date of grant.

(d) Subsequent to year-end, the Company granted 300,000 stock options to a director of the Company at \$0.81 per share, for a period of five years from the date of grant.

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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13 **Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP")**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Except as set out below, these financial statements also comply, in all material aspects, with accounting principles generally accepted in the United States and the rules and regulations of the Securities Exchange Commission.

- (a) Under Canadian GAAP, the mineral properties are carried at cost and written off or written down if the properties are abandoned, sold or if management decides not to pursue the properties. Under United States GAAP, the Company would periodically review and obtain independent reports in determining adjustments to the mineral properties and record properties at net realizable value. The Company has not yet obtained an independent report for United States GAAP purposes, therefore, the Company's mineral property costs would have been written off.
- (b) Under United States GAAP, adjustments arising from foreign currency translations are deferred until realization and are included as a separate component of shareholders' equity as a component of comprehensive income or loss. Therefore, translation adjustments are not included in determining net income but reported as other comprehensive income. Under Canadian GAAP, translation adjustments are included in net income. There is no comprehensive income category in Canada.
- (c) The impact of the above differences between Canadian and United States GAAP on losses for the years ended December 31 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income (Loss) for the year as reported	\$ (6,996,731)	\$ (5,391,685)	\$ (404,029)
Foreign exchange adjustment	7,616	15,040	(72,562)
Less mineral property expenditures during the year	-	-	(1,272)
Adjustment Income (Loss) for the year in accordance with United States GAAP	<u>\$ (6,989,115)</u>	<u>\$ (5,376,645)</u>	<u>\$ (477,863)</u>
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Primary loss per share for the year in accordance with United States GAAP	<u>\$ (0.11)</u>	<u>\$ (0.10)</u>	<u>\$ (0.01)</u>

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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13 **Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – (cont'd)**

(d) The impact of the above differences between Canadian and United States GAAP on the deficits as at December 31, as reported, is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Deficit - As reported	\$ (43,822,274)	\$ (36,825,543)	\$ (31,433,858)
Less capitalized mineral property costs	(757,793)	(757,793)	(757,793)
Foreign exchange adjustment	(25,429)	(33,045)	(48,085)
Deficit in accordance with United States GAAP	<u>\$ (44,605,496)</u>	<u>\$ (37,616,381)</u>	<u>\$ (32,239,736)</u>

(e) The impact of the above differences between Canadian and United States GAAP on the statement of changes in shareholders' equity, as reported, is as follows:

	<u>Common Shares</u>			<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Comprehensive Income</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>					
Shareholders' equity balance as reported at December 31, 2003	6,153,604	\$ 31,577,900	\$ -	\$ (31,433,858)	\$ -	\$ -	144,042
Add back write-off of mineral property costs	-	-	-	(757,793)	-	-	(757,793)
Foreign exchange adjustment	-	-	-	(48,085)	48,085	-	-
Shareholders' equity in accordance with United States GAAP at December 31, 2003	<u>1,016,149</u>	<u>\$ 31,577,900</u>	<u>\$ -</u>	<u>\$ (32,239,736)</u>	<u>\$ 48,085</u>	<u>\$ -</u>	<u>(613,751)</u>
Shareholders' equity balance as reported at December 31, 2004	60,236,306	\$ 40,582,163	\$ 1,390,189	\$ (36,825,543)	\$ -	\$ -	5,146,809
Less capitalized mineral property costs	-	-	-	(757,793)	-	-	(757,793)
Foreign exchange adjustment	-	-	-	(33,045)	33,045	-	-
Shareholders' equity in accordance with United States GAAP at December 31, 2004	<u>60,236,306</u>	<u>\$ 40,582,163</u>	<u>\$ 1,390,189</u>	<u>\$ (37,616,381)</u>	<u>\$ 33,045</u>	<u>\$ -</u>	<u>4,389,016</u>
Shareholders' equity balance as reported at December 31, 2005	76,280,820	\$ 45,406,370	\$ 2,339,721	\$ (43,822,274)	\$ -	\$ -	3,923,817
Less capitalized mineral property costs	-	-	-	(757,793)	-	-	(757,793)
Foreign exchange adjustment	-	-	-	(25,429)	25,429	-	-
Shareholders' equity in accordance with United States GAAP at December 31, 2005	<u>76,280,820</u>	<u>\$ 45,406,370</u>	<u>\$ 2,339,721</u>	<u>\$ (44,605,496)</u>	<u>\$ 25,429</u>	<u>\$ -</u>	<u>3,166,024</u>

**Baja Mining Corp.**  
**Notes to the Consolidated Financial Statements**  
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13 **Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – (cont'd)**

(f) The impact of the above difference between Canadian and United States GAAP on the statement of cash flows for the years ended December 31, as reported, is as follows:

	2005	2004	2003
<b>Cash flows from operating activities</b>			
As reported	\$ (6,713,911)	\$ (2,990,098)	\$ (420,054)
Mineral property costs	-	-	(1,272)
Per United States GAAP	\$ (6,713,911)	\$ (2,990,098)	\$ (421,326)
<b>Cash flows from investing activities</b>			
As reported	\$ (608,279)	\$ (58,043)	\$ (1,272)
Mineral property costs	-	-	1,272
Per United States GAAP	\$ (608,279)	\$ (58,043)	-

**(g) New Accounting Pronouncements**

In April 2002, the FASB issued SFAS No. 145, "*Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*". SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements, by rescinding SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB No. 30 will now be used to classify those gains and losses. Additionally, SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. Finally, SFAS No. 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. The Company adopted the provisions of SFAS No. 145 that amended SFAS No. 13, as required, on May 15, 2002 for transactions occurring after such date with no material impact on its financial statements. The Company adopted the remaining provisions of SFAS No. 145, as required, on January 1, 2003, with no material impact on its financial statements.

13           **Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – (cont'd)**

**(g) New Accounting Pronouncements – (cont'd):**

In June 2002, the FASB issued SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*". SFAS No. 146 was issued to address the financial accounting and reporting for costs associated with exit or disposal activities, unless specifically excluded. SFAS No. 146 requires that a liability for a cost associated with a covered exit or disposal activity be recognized and measured initially at its fair value in the period in which the liability is incurred, except for a liability for one-time termination benefits that is incurred over time. If employees are not required to render service until they are terminated in order to receive the one-time termination benefits or if employees will not be retained to render service beyond the minimum retention period (as dictated by existing law, statute or contract, or in the absence thereof, 60 days), a liability for the termination benefits shall be recognized and measured at its fair value at the communication date. If employees are required to render service until they are terminated in order to receive the one-time termination benefits and will be retained to render service beyond the minimum retention period, a liability for the termination benefits shall be measured initially at the communication date based on the fair value of the liability as of the termination date. The liability shall be recognized rateably over the future service period. SFAS No. 146 also dictates that a liability for costs to terminate an operating lease or other contract before the end of its term shall be recognized and measured at its fair value when the entity terminates the contract in accordance with the contract terms. A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity is to be recognized and measured at its fair value when the entity ceases using the right conveyed by the contract. SFAS No. 146 further dictates that a liability for other covered costs associated with an exit or disposal activity be recognized and measured at its fair value in the period in which the liability is incurred. The Company adopted SFAS No. 146, as required, on January 1, 2003 with no material impact on its financial statements.

In November 2002, the FASB issued FASB interpretation No. 45 ("FIN 45"), "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*". FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. FIN 45 also requires disclosure about certain guarantees that an entity has issued. The disclosure requirements of FIN 45 were effective for fiscal years ending after December 15, 2002. The Company adopted the provisions of FIN 45, as required, on January 1, 2002 with no material impact on its financial statements.

**Baja Mining Corp.**  
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13 **Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – (cont'd)**

**(g) New Accounting Pronouncements – (cont'd):**

In December 2002, the FASB issued SFAS No. 148, *"Accounting for Stock-Based Compensation -- Transition and Disclosure"*. SFAS No. 148 amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company effective January 1, 2003 has used APB25 therefore adoption of SFAS No. 148 is not required.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *"Consolidation of Variable Interest Entities, an Interpretation of APB No. 51."* FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company adopted the provisions of FIN 46, as required, with no material impact on its financial statements

On April 30, 2003, the FASB issued SFAS No. 149, *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities."* SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group ("*DIG*") process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company adopted SFAS No. 149, as required, on July 1, 2003, with no material impact on its financial statements.

13            **Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – (cont'd)**

**(g) New Accounting Pronouncements – (cont'd):**

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"*. SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS No. 150, as required, on July 1, 2003, with no material impact on its financial statements.

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB No. 104 revises or rescinds portions of the interpretive guidance included in Tope 13 of the codification of staff accounting bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The adoption of SAB No. 104 did not have a material effect on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which revised SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R will supersede APB Opinion 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, "Statement of Cash Flows." The significant differences in accounting from Canadian GAAP under SFAS No. 123R include the requirement to measure and record to the financial statements the costs of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, recognized over the period during which an employee is required to provide services in exchange for such award. SFAS 123R also requires forfeitures of unvested instruments such as stock options be estimated at the grant date to determine the total compensation to be recognized. Under Canadian GAAP, the Company recognizes the fair value of an employees' services award over the vesting period and accounts for forfeitures only as they occur. SFAS No. 123R is effective January 1, 2006. The Company is currently assessing the impact of these and other differences arising from the application of SFAS 123R.

13 **Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – (cont'd)**

**(g) New Accounting Pronouncements – (cont'd):**

In December 2004, FASB issued SFAS No. 153, "*Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29*". The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions", is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In March 2005, the SEC staff issued Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment," which provides guidance on the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as on the valuation of share-based payments. SAB No. 107 provides interpretive guidance related to valuation methods (including assumptions such as expected volatility and expected term), first time adoption of SFAS No. 123R in an interim period, the classification of compensation expense and disclosures subsequent to adoption of SFAS No. 123R. The Company is currently evaluating the impact of SAB No. 107 on our consolidated financial statements.

In March 2005, the FASB issued Interpretation 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations"—an interpretation of FASB No. 143. FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143 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. FIN 47 requires a liability to be recognized for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 was effective for fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2005, the FASB issued FASB Staff Position Paper ("FSP") 115-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," superseding EITF 03-1. Adoption of FSP 115-1 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.