

BAJA MINING CORP
(Formerly First Goldwater Resources Inc.)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Second Quarter Ended June 30, 2005 and 2004

(Stated in Canadian Dollars)

(Unaudited)

To the Shareholders of Baja Mining Corp:

The interim consolidated balance sheet of Baja Mining Corp. (the "Company") as at June 30, 2005 and the interim consolidated statements of loss and deficit and cash flows for the quarter ended June 30, 2005 have not been audited or reviewed by our auditors.

Baja Mining Corp (Formerly First Goldwater Resources Inc.)
Interim Consolidated Balance Sheets
As at June 30, 2005 and December 31, 2004
Stated in Canadian Dollars
(Unaudited-Prepared by Management)

ASSETS	June 30, 2005	December 31, 2004
	(Unaudited)	(Audited)
Current		
Cash	\$ 819,539	\$ 1,098,382
Short term deposits	1,745,000	4,150,000
Accounts receivable and advances	175,196	176,981
Due from related party <i>(Note 7)</i>	25,746	34,990
Prepaid expenses and other	59,760	-
	<u>2,825,241</u>	<u>5,460,353</u>
Mineral properties and mining concessions <i>(Note 4)</i>	757,793	757,793
Property, plant and equipment, net of amortization <i>(Note 6)</i>	<u>278,746</u>	<u>136,861</u>
	<u>\$ 3,861,780</u>	<u>\$ 6,355,007</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 349,826	\$ 1,161,195
Due to related parties <i>(Note 7)</i>	<u>42,413</u>	<u>47,003</u>
	<u>392,239</u>	<u>1,208,198</u>
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 5)</i>	41,936,813	40,582,163
Contributed surplus <i>(Note 5h)</i>	1,871,939	1,390,189
Deficit	<u>(40,339,211)</u>	<u>(36,825,543)</u>
	<u>3,469,541</u>	<u>5,146,809</u>
	<u>\$ 3,861,780</u>	<u>\$ 6,355,007</u>

Nature and Continuance of Operations *(Note 1)*

Commitments *(Note 9)*

APPROVED BY THE DIRECTORS:

"Robert Mouat" , Director

"John Greenslade" , Director

SEE ACCOMPANYING NOTES

Baja Mining Corp (Formerly First Goldwater Resources Inc.)
Interim Consolidated Statements of Loss and Deficit
For the Six Months Ended June 30, 2005 and 2004
Stated in Canadian Dollars
(Unaudited-Prepared by Management)

	<u>Second Quarter</u>		<u>Cumulative</u>	
	3 months Ended	3 months Ended	6 months Ended	6 months Ended
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Exploration Expenses				
Camp, general and travel	109,675	108,497	257,258	108,497
Concession and claim fees	-	51,609	74,102	51,609
Drilling	162,211	-	383,651	-
Feasibility studies	133,746	-	627,202	-
Geological and environmental	426,955	-	430,028	-
Pilot plant costs	21,373	-	196,602	-
Professional and consulting fees	205,856	124,269	502,467	163,412
	<u>1,059,816</u>	<u>284,375</u>	<u>2,471,310</u>	<u>323,518</u>
General and Administrative Expenses				
Amortization	7,066	1,710	11,432	3,208
Audit fees and legal fees	35,266	35,465	46,119	35,465
Bank charges	1,991	-	2,774	-
Filing, exchange and transfer agent fees	36,012	15,793	44,695	15,793
Investor relations and marketing consultants	19,965	9,500	51,251	9,500
Management and consulting fees	70,176	75,273	119,880	75,273
Office and general	30,290	11,659	55,555	17,191
Promotion, trade show and marketing	10,146	3,443	30,092	3,443
Rent	37,753	15,000	65,369	15,000
Stock-based compensation expense (Note 5h)	106,130	-	481,750	-
Telephone	9,598	-	12,840	-
Travel	20,034	-	47,639	-
Wages and subcontract	55,965	18,905	100,031	20,160
	<u>440,392</u>	<u>186,748</u>	<u>1,069,427</u>	<u>195,033</u>
Loss before other items	(1,500,208)	(471,123)	(3,540,737)	(518,551)
Foreign exchange gain (loss)	(2,139)	(12,108)	7,716	(12,108)
Interest income and other	6,120	29,975	19,353	29,975
Net Loss for the Period	(1,496,227)	(453,256)	(3,513,668)	(500,684)
Deficit - Beginning of Period	(38,842,984)	(31,530,686)	(36,825,543)	(31,483,258)
Deficit - End of Period	<u>\$ (40,339,211)</u>	<u>\$ (31,983,942)</u>	<u>\$ (40,339,211)</u>	<u>\$ (31,983,942)</u>
Basic and diluted loss per share for the Period	(\$ 0.02)	(\$ 0.01)	(\$ 0.06)	(\$ 0.01)
Weighted average number of shares outstanding	61,042,975	55,958,506	61,042,975	55,958,506

SEE ACCOMPANYING NOTES

Baja Mining Corp (Formerly First Goldwater Resources Inc.)
Interim Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2005 and 2004
Stated in Canadian Dollars
(Unaudited-Prepared by Management)

	<u>Second Quarter</u>		<u>Cumulative</u>	
	<u>3 months Ended</u> <u>June 30, 2005</u>	<u>3 months Ended</u> <u>June 30, 2004</u>	<u>6 months Ended</u> <u>June 30, 2005</u>	<u>6 months Ended</u> <u>June 30, 2004</u>
Operating Activities				
Net loss for the period	\$ (1,496,227)	\$ (453,256)	\$ (3,513,668)	\$ (500,684)
Items not involving cash:				
Amortization	7,066	1,710	11,432	3,208
Stock-based compensation expense	106,130	-	481,750	-
	(1,383,031)	(451,546)	(3,020,486)	(497,476)
Net changes in non-cash working capital balances:				
Accounts receivable and advances	(42,977)	(32,475)	1,785	(33,622)
Prepaid expenses and other	7,963	98,978	(59,760)	98,978
Accounts payable and accrued liabilities	65,158	149,369	(811,369)	143,942
	(1,352,887)	(235,674)	(3,889,830)	(288,178)
Investing Activities				
(Advances) repayment from related party	65,186	-	9,244	-
Acquisition of property, plant and equipment	(124,269)	(22,062)	(153,317)	(22,062)
	(59,083)	(22,062)	(144,073)	(22,062)
Financing Activities				
Net proceeds from issuance of common shares	193,950	8,969,620	1,354,650	8,969,620
Advances from (repayment) to related parties	-	(748,289)	(4,590)	(748,289)
	193,950	8,221,331	1,350,060	8,221,331
Increase (decrease) in Cash - During the Period	(1,218,020)	7,963,595	(2,683,843)	7,911,091
Cash and Cash Equivalents - Beginning of Period	3,782,559	3,500	5,248,382	56,004
Cash and Cash Equivalents - End of Period	\$ 2,564,539	\$ 7,967,095	2,564,539	\$ 7,967,095
Represented By:				
Cash	819,539	437,120	819,539	437,120
Short term deposits	1,745,000	7,529,975	1,745,000	7,529,975
Cash - End of Period	\$ 2,564,539	\$ 7,967,095	\$ 2,564,539	\$ 7,967,095

SEE ACCOMPANYING NOTES

Baja Mining Corp (Formerly First Goldwater Resources Inc.)
Notes to the Interim Consolidated Financial Statements
June 30, 2005 and 2004 – Page 1
Stated in Canadian Dollars
(Unaudited-Prepared by Management)

Note 1 Nature and Continuance of Operations

Baja Mining Corp, 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 have been prepared in accordance with 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.

Note 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 International Corporation. As such, the comparative figures presented are those of Mintec International Corporation.
- (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	<u>(63,796)</u>
	<u>\$ 46,371</u>

Note 3 Summary of Significant Accounting Policies

These unaudited interim financial statements are prepared by the Company in accordance with Canadian generally accepted accounting principles. The preparation of financial data is based on accounting policies and practices consistent with those used in the annual audited financial statements. These interim financial statements do not include all the disclosures included in the Company's annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the Company's annual financial statements.

(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. 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.

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

(c) Property, Plant and Equipment and Amortization

Amortization for leasehold improvement is calculated using the straight-line method over the lease term.

Capital assets are recorded at cost. Assets held in Canada are calculated using the declining balance method at the following annual rates:

Computer equipment	30%
Office equipment and furniture	20%
Software	100%

Capital assets held in Mexico are calculated using the straight-line method at the following annual rates:

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

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, short-term deposits, accounts receivable and advances, accounts payable and amounts due from and 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 3(f)*).

Baja Mining Corp (Formerly First Goldwater Resources Inc.)

Notes to the Interim Consolidated Financial Statements

June 30, 2005 and 2004 – Page 4

Stated in Canadian Dollars

(Unaudited-Prepared by Management)

Note 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 June 30, 2005, the Company has the following foreign denominated financial instruments:

	<u>Foreign Amount</u>	<u>Canadian Equivalent</u>
Cash in U.S. dollars	400,497	490,769
Cash in Mexican pesos	138,352	15,744
Value added taxes recoverable in Mexican pesos	475,166	54,074
Payroll taxes payable in Mexican pesos	48,962	5,572

(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 (Formerly First Goldwater Resources Inc.)

Notes to the Interim Consolidated Financial Statements

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(Unaudited-Prepared by Management)

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

(i) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and term deposits 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”. Under 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 is 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 optionee, 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 (Formerly First Goldwater Resources Inc.)
Notes to the Interim Consolidated Financial Statements
June 30, 2005 and 2004 – Page 6
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Note 4 Resource Property Costs

Boleo Project details are as follows:

	June 30, 2005	December 31, 2004
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 containing approximately 6,692 hectares, located near Santa Rosalia, Baja California Sur, Mexico. The annual property tax on these properties is approximately \$12,000.

(b) Mining concessions:

The Company acquired certain concessions covered by 16 separate titles and covering approximately 18,864 hectares, located near Santa Rosalia, Baja California Sur, Mexico. The annual fees related to these concessions are approximately \$150,000.

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

	June 30, 2005	December 31, 2004
Camp and general and travel	\$ 827,143	\$ 569,885
Concession fees and other	1,693,018	1,618,916
Drilling	7,568,900	7,185,249
Ecological	1,034,426	1,034,426
Feasibility studies and pilot plant costs	2,461,991	1,638,187
Geological and environmental	6,763,216	6,333,188
Hydrological	56,186	56,186
Management fees	2,893,966	2,893,966
Metallurgical	6,771,860	6,771,860
Payroll and social security	1,259,261	1,259,261
Professional and consulting fees	3,393,233	2,890,766
Roads	687,494	687,494
Stock-based compensation expenses	578,382	578,382
	<u>\$ 35,989,076</u>	<u>\$ 33,517,766</u>

Baja Mining Corp (Formerly First Goldwater Resources Inc.)
Notes to the Interim Consolidated Financial Statements
June 30, 2005 and 2004 – Page 7
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(Unaudited-Prepared by Management)

Note 5 Share Capital

(a) Authorized:

200,000,000 common shares without par value

(b) Details of transactions are as follows:

	Shares	Amount
Balance – December 31, 2002	1,016,149	\$ 31,577,900
Shares issued (i)	5,137,455	-
Balance – December 31, 2003	6,153,604	31,577,900
Shares issued (i)	600,000	-
Shares issued on reverse takeover transaction (<i>Note 5c</i>)	40,000,000	46,371
Private placement (<i>Note 5d</i>)	10,666,666	8,000,000
Private placement (<i>Note 5d</i>)	2,666,666	2,000,000
Shares issued for agent's fees	77,370	58,028
Share issuance costs	-	(1,116,813)
Shares issued on exercise of stock options	20,000	4,400
Fair value of options exercised	-	5,517
Shares issued on exercise of warrants	52,000	6,760
Balance – December 31, 2004	60,236,306	40,582,163
Private placement, net (<i>Note 5e</i>)	2,100,000	1,160,700
Shares issued on exercise of warrants –\$1.15	33,000	37,950
Shares issued on exercise of warrants –\$0.13	1,200,000	156,000
Balance – June 30, 2005	63,569,306	\$ 41,936,813

(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 Company). 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.

Note 5 Share Capital - (cont'd)

(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.

(d) Brokered Private Placements:

(i) Brokered Private Placements

In connection with the above-mentioned acquisition, 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) Short Form Offering

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. In addition, the Company paid a \$10,000 administration fee and 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.

(e) Private Placements:

Two private placements were executed in March 2005 and closed in June 2005. These private placements were initially agreed at \$0.75 per Unit but were subsequently reduced to \$0.60 per Unit: 1) The Company agreed to 2,000,000 Units at \$0.60 per Unit for gross proceeds of \$1,200,000. Each Unit consists of one common share and one-half warrant. Each whole warrant is exercisable for a period of 5 years at a price of \$1.15 per share. A finder's fee of \$92,500 was paid in accordance with the TSX Venture Exchange policy. 2) An additional 100,000 Units at a price of \$0.60 per Unit for gross proceeds of \$60,000 were authorized for issuance on March 21, 2005 and closed on June 7, 2005. Each Unit consists of one common share and one-half warrant. Each whole warrant is exercisable for a period of 5 years at a price of \$1.15 per share.

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Note 5 Share Capital - (cont'd)

(e) Private Placements:

	<u>Shares</u>	<u>Amount</u>
Private placement	2,000,000	1,200,000
Share issuance costs-finder fees & exchange fees	-	(99,300)
Private placement	100,000	60,000
Total	<u>2,100,000</u>	<u>1,160,700</u>

(f) Warrants:

As at June 30, 2005 the following warrants are outstanding:

Number of Warrants	Exercise Price	Expiry Date
1,050,000	\$1.15	June 7, 2010
6,672,351	\$1.15	April 20, 2009
666,666	\$0.75	October 19, 2005
3,010,550	\$0.13	July 11, 2005 (i)
<u>11,399,567</u>		

- (i) The warrants, expiring on July 11, 2005, originated in First Goldwater Resources Inc., prior to the reverse takeover. They were all exercised in July 2005 prior to expiry.

(g) Stock Options:

As at June 30, 2005 the following stock options are outstanding:

Number	Exercise Price	Expiry Date
240,000	\$0.22	October 1, 2005
2,290,000	\$0.75	March 22, 2009
495,000	\$0.75	May 17, 2009
225,000	\$0.75	July 22, 2009
620,000	\$0.75	August 13, 2009
100,000	\$0.75	August 20, 2009
1,000,000	\$0.75	March 15, 2010
310,000	\$0.75	April 12, 2010
<u>5,280,000</u>		

The Company adopted a stock option plan ("the Plan"). Under the Plan the Company may grant stock options up to 10% of the number of issued shares of the Company at

Baja Mining Corp (Formerly First Goldwater Resources Inc.)

Notes to the Interim Consolidated Financial Statements

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Stated in Canadian Dollars

(Unaudited-Prepared by Management)

Note 5 Share Capital - (cont'd)

the time of the granting of options. During the second quarter ended June 30, 2005, 200,000 options were cancelled subsequent to the termination of a consultant. The Company also granted 310,000 share purchase options to a director of the Company.

(i) Options granted to employee and consultants conducting Investor Relations Activities will become vested with the right to exercise one-quarter of the option upon conclusion of every 3 months subsequent to the grant date.

(ii) Options granted to other employees, consultants, directors and officers are vested immediately.

The fair value of the options granted during the period was estimated at the date of the grant using the Black-Scholes option-pricing model. During the current quarter the Company has recognized a stock-based compensation expenses in the amount of \$106,130, which has been charged to general and administrative expenses, with the offsetting amount, recorded as a credit to contributed surplus (*Note 5h*).

The Black-Scholes option-pricing model for the current stock-based compensation expenses has the following assumptions:

Risk free interest rate	3.84%
Dividend yield	0%
Expected volatility	62.69%
Weighted average expected stock option life	5 years

(h) Contributed Surplus

Balance – March 31, 2005	\$ 1,765,809
Stock-based compensation	106,130
Balance – June 30, 2005	<u>\$ 1,871,939</u>

(i) 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.

A pooling agreement also covers the escrow shares, whereby 50% of these shares will be released by April 20, 2005, a further 25% of these shares will be released by October 20, 2005, and the remaining shares will be released by April 20, 2006.

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As at June 30, 2005, there were 24,000,000 shares remaining in escrow and 8,000,000 escrow shares, remain subject to the pooling agreement.

Note 6 Property, Plant and Equipment

Details are as follows:

	June 30, 2005	December 31, 2004
Computer equipment and software	\$ 122,423	\$ 113,302
Leasehold improvement	91,403	-
Machinery and equipment	12,395	12,395
Mining equipment	41,945	41,945
Office equipment and furniture	73,637	49,422
Transportation equipment	32,923	32,923
Warehouse	67,362	38,784
	<u>442,088</u>	<u>288,771</u>
Accumulated amortization	(163,342)	(151,910)
	<u>\$ 278,746</u>	<u>\$ 136,861</u>

Note 7 Related Party Transactions

(a) During the six months ended June 30, 2005 and 2004, the Company incurred the following transactions with directors or officers of the Company or with companies with directors or officers in common:

	2005	2004
Project management fees and management fees paid/accrued to companies controlled by directors and officers of the Company	\$ 188,933	\$ 83,273
Legal fees accrued/paid to a law firm whose partner is a director and officer of the Company	-	95,363
Financing fees paid to a Company controlled by a director and officer of the Company	-	65,000
Rent and administration paid to companies with directors in common	32,754	15,000
Salaries and wages paid to employees related to a director of the Company	39,612	-
	<u>\$ 261,299</u>	<u>\$ 258,636</u>

The charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

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Note 7 Related Party Transactions – (cont'd)

(b) The Company had the following amounts due from a company with directors in common:

	June 30, 2005	December 31, 2004
Minterra Resource Corp.	\$ 25,746	\$ 34,990

The amount is non-interest bearing, unsecured and is due on demand.

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

	June 30 2005	December 31, 2004
Tek Terra Corporation	\$ 42,413	\$ 42,413
Minera Terra Gaia, S.A.de C.V.	-	1,945
A law firm in which an insider is a partner	-	2,645
Total	\$ 42,413	\$ 47,003

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

Note 8 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 six months ended June 30, 2005 is as follows:

	Canada	Mexico	Consolidated
Exploration expenses	\$ -	\$ 2,471,310	\$ 2,471,310
Net loss	\$ 835,971	\$ 2,677,697	\$ 3,513,668
Total assets	\$ 2,310,719	\$ 1,551,061	\$ 3,861,780

The breakdown by geographic region for the six months ended June 30, 2004 is as follows:

	Canada	Mexico	Consolidated
Exploration expenses	\$ -	\$ 323,518	\$ 323,518
Net loss	\$ 137,585	\$ 363,099	\$ 500,684
Total assets	\$ 7,803,661	\$ 1,031,005	\$ 8,834,666

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Note 8 Segmented Information- (cont'd)

The breakdown by geographic region for the three months ended June 30, 2005 is as follows:

	Canada	Mexico	Consolidated
Exploration expenses	\$ -	\$ 1,059,816	\$ 1,059,816
Net loss	\$ 280,957	\$ 1,215,270	\$ 1,496,227
Total assets	\$ 2,310,719	\$ 1,551,061	\$ 3,861,780

The breakdown by geographic region for the three months ended June 30, 2004 is as follows:

	Canada	Mexico	Consolidated
Exploration expenses	\$ -	\$ 284,375	\$ 284,375
Net loss	\$ 97,692	\$ 355,564	\$ 453,256
Total assets	\$ 7,803,661	\$ 1,031,005	\$ 8,834,666

Note 9 Commitments

(a) On September 22, 2004, the Company signed an agreement with Bateman Engineering Pty Ltd. ("Bateman") to complete the Final Feasibility Study on the Boleo Project, with an estimated contract amount of \$8.9 million. The Final Feasibility Study is scheduled to complete by December 2005 and the agreement may be terminated upon 30 days prior written notice. Termination would then be effective as of that date and Bateman would be owed for all services completed to that date. As at June 30, 2005, the Company has paid or accrued a total of approximately \$3.5 million under the agreement, for a remaining terminable commitment of \$5.4 million.

(b) The Company signed a number of management and consulting agreements with directors and officers of the Company. The future commitments under these contracts are as follows:

	Amount
2005	\$ 216,000
2006	72,000
	<u>\$ 288,000</u>

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Note 10 Subsequent Event

The Company signed a lease agreement for office space for a term of 63 months from July 2005 to September 2010; and is committed to future minimum lease payments as follows:

	<u>Amount</u>
2005	\$ 32,240
2006	74,480
2007	74,480
2008	74,480
2009	74,480
2010	55,860
	<u>\$ 386,020</u>