

BAJA MINING CORP
(Formerly First Goldwater Resources Inc.)
Management Discussion and Analysis
QUARTERLY REPORT – June 30, 2005

This Management's Discussion and Analysis of Baja Mining Corp provides analysis of Baja Mining Corp's financial results for the second quarter ended June 30, 2005. The following information should be read in conjunction with the accompanying unaudited interim consolidated financial statements and the notes to the unaudited interim consolidated financial statements.

1.1 Date of Report: August 25, 2005

1.2 Overall Performance

Nature of Business and Overall Performance

Baja Mining Corp, formerly First Goldwater Resources Inc., ("the Company") is involved in the development of the Boleo copper-cobalt-zinc deposit, Mexico. The Company commenced operations upon incorporation in 1985 and engaged primarily in exploration and development of mineral and natural resource properties.

On April 20, 2004, the Company completed a business combination with Mintec International Corporation ("Mintec") and completed a \$10 million equity financing in conjunction with the business combination. The business combination resulted in a change of control of the Company whereby Mintec is deemed to be the acquirer. The transaction is accounted for under the purchase method, on a reverse take-over basis ("RTO"). Mintec, through its wholly owned Mexican subsidiary, Minera y Metalurgica del Boleo S.A. de C.V. ("MMB"), owns a 100% interest in a copper-cobalt-zinc mineral deposit (the Boleo property). Since the completion of the above-mentioned financing, the Company has been focused on completing the Final Feasibility Study on the Boleo property.

The Boleo Project

The Boleo Project is located on the east coast of the Baja California Peninsula, some 900 kilometres south of San Diego and near the town of Santa Rosalia B.C.S., Mexico. Over the last twelve years, approximately CAD \$33 million has been spent on exploration and pre-feasibility studies on the Boleo Project. Since completing a \$10 million financing in April 2004, the Company has been actively proceeding to complete a Definitive Feasibility Study ("DFS"), under the direction of Bateman Engineering Inc. Canada ("Bateman"), with assistance primarily from Bateman's office in Brisbane, Australia. The DFS is focused on the development of an underground mine at a currently estimated production rate of 2.6 million dry tonnes of run-of mine ore to produce up to 50,000 tonnes per year of cathode copper, 2,000 tonnes per year of cobalt (either as high grade cobalt cathode or possibly as a high quality cobalt carbonate) and approximately 23,000 tonnes of zinc sulphate per year.

Current Development in the Second quarter ended June 30, 2005

Subsequent to the successful completion of the Solid/Liquid Separation test and Phase 1 of the Pilot Plant that demonstrated the Boleo ore can be treated in a continuous pilot plant program to leach, separate and recover pay metals in final commercial form, the Company is proceeding with an underground test-mining program utilizing a Continuous Underground Mining Machine.

The resource models developed by geological consultants Hellman & Schofield Pty. Ltd. (H&S) of Sydney, Australia (per news release dated April 7, 2005) have allowed mine planning to progress to a point where underground mining methods have been selected as the most optimal approach for Boleo.

The Company retained the consulting firm Australian Mine Design & Development Limited (AMDAD) for their expertise in mine design of flat lying sediment hosted deposits like Boleo. AMDAD proposes the use of modern, high productivity, continuous miners as used in the Australian and South African coal mines. A test mine site was selected which is representative of the conditions to be encountered at Boleo and the test area pre-developed from March to May 2005. The test mine trial will commence in mid September 2005. A geotechnical company specializing in soft rock mining will work with AMDAD to fully instrument the workings and collect data. The test will allow AMDAD to confirm production rates, ground support conditions and operating costing for input into the mine design for the DFS as well as detailed capital and operating costs.

Corporate Update

On April 12, 2005, Mr. Ross Glanville was appointed a Director of the Company. Mr. Glanville graduated from the University of British Columbia in 1970 with a Bachelor of Applied Science Degree (Mining Engineering) and became a member of the Association of Professional Engineers of British Columbia in 1972 (P.Eng.). In 1974, he obtained a Master of Business Administration Degree (MBA), specializing in finance and securities analysis. In 1980, he became a member of the Certified General Accountants of B.C. (CGA). Mr. Glanville has thirty-five years of experience in mining, exploration, finance, marketing and management and held senior executive positions with major and junior mining and consulting companies.

The Company also announced the resignation of Mr. Thomas Pressello as Chief Financial Officer of the Company effective April 22, 2005. Mr. Robert Mouat has been appointed as interim Chief Financial Officer.

As of June 30, 2005, the Company had working capital of \$2,433,002, which is not sufficient to satisfy the costs related to the completion of the DFS and current general and administrative activities for the 2005 fiscal year. The Company will undertake additional financing in the near future to complete the DFS, which we anticipate completing by June 2006.

1.3 Results of Operations For the Second Quarter Ended June 30, 2005

Operations

The Company is still at the exploration and development stage at its Boleo Project and has no revenue generating activities. For the second quarter ended June 30, 2005, the Company recorded a net loss of \$1,496,227 or \$0.02 loss per share. Cumulatively for the six months period, the Company had net loss of \$3,513,668 or \$0.06 loss per share. In comparison, the Company had net loss of \$453,256 and \$500,684 respectively for the second quarter and six months period last year. The results show the effect of substantially higher exploration and administrative activities in 2005 compared with the previous periods last year.

Exploration Expenses

The Company incurred \$1,059,816 of exploration expenses in the quarter ended June 30, 2005 and \$2,471,310 for the six month period. With the completion of the \$10 million financing in April 2004, the Company has been focused on completing the DFS on the Boleo Property. The majority of the exploration expenses in the current quarter related to environmental consulting, feasibility studies, drilling and other professional or consulting fees in connection with the Boleo property.

General and Administrative Expenses

In this second quarter, the Company granted stock options to a director and expensed stock options vested to an investor-relations representative resulting in a non-cash stock-based compensation expense of \$106,130 (\$nil-2004 comparable quarter). For the six months period, stock option expense totalled \$481,750, which accounted for 45% of the total general and administrative expenses.

The Company incurred \$70,176 in management and consulting fees in the second quarter in 2005 and \$119,880 for the six months period. A consulting fee of \$40,243 was paid to a financial consulting firm in connection with general corporate financial advice with respect to the financing and development of the Boleo project. Consequently, management and consulting fees for the six months period increased from the comparable six months period last year.

The Company was relatively inactive until the completion of the RTO on April 20, 2004; therefore, general and administrative expenses were much lower comparatively for the first and second quarter last year. Consequently, general and administrative expenses such as filing and transfer agent fees, investor relations, office expense, rent, travel, promotion, and wages and subcontract were significantly higher in second quarter and for the six months period in 2005 in comparison to the same periods in fiscal 2004.

1.4 Transactions with Related Parties

For the six months ended June 30, 2005, the Company paid \$188,933 management and consulting fees to companies controlled by officers and directors of the Company. Of this amount, \$68,933 was included in general and administrative expenses and the balance included in exploration expenses. The Company also paid \$32,754 of rent expense to related companies, which are controlled by directors and officers, for shared office facilities.

All the above charges are on terms and conditions similar to non-related parties.

1.5 Summary of Quarterly Information

Quarterly financial data for the eight most recently completed quarters is provided below.

	Q3 Sept 30, 2003	Q4 Dec 31, 2003	Q1 Mar 31, 2004	Q2 June 30, 2004	Q3 Sept 30, 2004	Q4 Dec 31, 2004	Q1 Mar 31, 2005	Q2 June 30, 2005
Total Revenues	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-

Income or loss before discontinued operations and extraordinary items:

Total	\$(193,717)	\$(143,094)	\$(47,428)	\$(453,256)	\$(2,436,996)	\$(2,454,005)	\$(2,017,441)	\$(1,496,227)
Per Share	\$(0.005)	\$(0.005)	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)
Per Share Fully Diluted	\$(0.005)	\$(0.005)	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)

Net income or loss:

Total	\$(193,717)	\$(143,094)	\$(47,428)	\$(453,256)	\$(2,436,996)	\$(2,454,005)	\$(2,017,441)	\$(1,496,227)
Per Share	\$(0.005)	\$(0.005)	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)
Per Share Fully Diluted	\$(0.005)	\$(0.005)	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)

General Discussion of Quarterly Results

Net Income (Loss)

The Company carried out exploration activities on the Boleo property in Mexico. Factors that caused fluctuations in the Company's quarterly results are the amount and extent of exploration and operating activities in the quarters. Since completion of the \$10 million equity financing on April 20, 2004, exploration and operating activities increased significantly as reflected in higher net loss in each quarter thereafter.

1.6 Liquidity and Capital Resources

For the quarter ended June 30, 2005, the Company had negative cash outflow of \$1,352,887 from exploration and administrative activities compared to negative cash outflow of \$235,674 in the comparable quarter. The increase in cash outflow was attributed to significantly higher exploration and operation on the Boleo property.

For investment activities, the Company incurred \$124,269 for the acquisition of capital assets and leasehold improvements in connection with the relocation of the Company's head office in Canada. The Company also received \$65,186 from amounts due from a related company during the second quarter of 2005.

In the second quarter ended June 30, 2005, the Company received \$193,950 from the exercise of share purchase warrants.

As an exploration stage company, the Company continues to rely on equity or debt financing to meet the ongoing cash requirements of the Company. The Company is investigating the possibility of raising additional capital through debt or equity financing arrangements and, although management has successfully raised significant amounts of capital in the past, there can be no assurance that it will be able to raise additional capital in the future.

1.7 Off-Balance Sheet Arrangements

The Company has no material off-balance sheet arrangement such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations and any obligations that trigger financing, liquidity, market or credit risk to the Company.

1.8 Contractual Obligations and Commitments

The Company has no long-term debts, material capital lease obligations and purchase obligations. The Company has management and consulting contracts with officers and directors of the Company for services rendered with future commitments under these contracts totalled \$216,000 in fiscal 2005 and \$72,000 in fiscal 2006.

The Company has committed to an operating lease for office space for a term of 63 months from July 2005 to September 2010 with minimum lease payment of \$74,480 per annum.

The Company also signed an agreement with Bateman Engineering Ltd. Canada for the completion of DFS budgeted at approximately CDN \$8.9 million. The Bateman Agreement does not include the costs of in-fill drilling, the test mining program, or management costs related to the DFS. The completed DFS is estimated to cost approximately US\$10,992,000 (CDN\$13,700,000), of which approximately CDN\$5,700,000 has been incurred to date.

1.9 Financial instruments and Risk Factors

As of June 30, 2005 the Company was not exposed to any financial instruments risks since their fair value approximates their carrying values because of the short-term maturity of those instruments.

The Company operates internationally, which gives rise to the risk of 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.

Mineral exploration and development involves a high degree of risk since few properties are developed into producing mines. There is no assurance that the Company's mineral exploration activities will result in the discovery of resources that would be economical for commercial production. The commercial viability of the mineral deposits is dependent upon a number of factors, which are beyond the Company's control. Some of these factors are attributable to commodity prices, government policy and regulation and environmental protection.

Resource estimates involves degree of uncertainty in the calculation of reserves and the corresponding grades. Resource estimates are dependent partially on statistical inferences drawn from drilling, sampling and other data. The indicated and inferred resources figures set forth by the Company is estimates, and there is no certainty that the level of resources will be realized. In addition, decline in the market price for copper, zinc and cobalt may adversely affect the economics of a reserve and may require the Company to reduce its estimates.

1.10 Outlook

The Company is actively proceeding with the DFS of the Boleo Property in order to develop a mine at the Boleo Property with an overall objective of maximizing production output and minimizing capital and operating costs.

1.11 Caution on Forward-Looking Information

This report contains certain "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those acknowledged in such statements.