

BAJA MINING CORP.
Management Discussion and Analysis
YEAR END REPORT – December 31, 2005

This Management's Discussion and Analysis of Baja Mining Corp. provides analysis of Baja Mining Corp.'s financial results for the year ended December 31, 2005. The following information should be read in conjunction with the accompanying audited consolidated financial statements and the notes to the audited consolidated financial statements.

1.1 Date of Report: April 19, 2006

1.2 Overall Performance

Nature of Business and Overall Performance

Baja Mining Corp. (the "Company") is involved in the development of the Boleo copper-cobalt-zinc-manganese 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-manganese mineral deposit (the Boleo property). Since the completion of the above-mentioned financing, the Company has been focused on completing a Definitive Feasibility Study ("DFS") 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 Baja California Sur, Mexico. Over the last twelve years, approximately CAD \$38 million has been spent on exploration, pre-feasibility studies and feasibility studies on the Boleo Project. Since completing a \$10 million financing in April 2004, the Company has been actively proceeding to complete a DFS, under the direction of Bateman Engineering Inc. Canada ("Bateman"), with assistance primarily from Bateman's office in Brisbane, Australia. The DFS is scheduled to be completed in July 2006. The DFS is focused on the development of an underground mine, supplemented in some years with partial production from a series of low strip ratio open pits, 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), up to 23,000 tonnes of zinc sulphate per year, and possibly 35,000 to 65,000 tonnes of manganese (as manganese carbonate) per year.

Current Development in the year ended December 31, 2005

Preliminary Economic Assessment

In August 2005, a "Preliminary Assessment"¹ of the El Boleo Project was published which included

¹ The PEA is contained within a National Instrument 43-101 report dated August 12, 2005 entitled "A Preliminary Assessment of the El Boleo Copper Cobalt Project", Baja California South, Mexico, prepared for Baja Mining Corp. by independent Qualified persons, William Yeo, MAusIMM, PhD., and Phillip Hellman, FAIG, PhD., of Hellman & Schofield, John Wyche, MAusIMM, MMICA,CPMin, of AMDAD, Michael Holmes, MSAIMM, PrEng., of Bateman, John Greenslade, BASc, M.Eng., P.Eng., LLB, and Don Hunter, FAusIMM, MIOM,CPEng, C.Eng. (the "Bateman Preliminary Assessment"). The Preliminary Economic Assessment (the "PEA") contained in the Bateman Preliminary Assessment was prepared by John Greenslade, President of the Company and a non-independent Qualified Person. The PEA was reviewed by Don Hunter, FAusIMM, MIOM,CPEng, C.Eng., to provide for necessary independence under N.I. 43-101. The entire report is available under the Company's profile at www.sedar.com or on its website www.bajamining.com.

the results of a Preliminary Economic Assessment (“PEA”) of the El Boleo Property (see News Release dated September 13th, 2005). The PEA of the El Boleo project indicates that the project is sufficiently robust that it warrants continuing development to completion of the DFS.

The PEA of the El Boleo project is based upon the following:

- the Mineral Resource Estimate for copper, cobalt and zinc prepared by independent geological consultants Hellman and Schofield Pty Ltd of Sydney, Australia;
- the process flowsheet developed by independent consultants Bateman Engineering Pty Ltd., of Brisbane, Australia, and recoveries of copper, cobalt and zinc achieved during the Phase 1 pilot plant testing program at SGS Lakefield Research Ltd., Lakefield, Ontario, conducted under the guidance of Bateman and factored plant capital and operating costs developed by Bateman;
- the Mine Design and Preliminary Production Schedule (utilizing base case metal prices) and mine capital and operating costs developed by independent mining consultants Australian Mine Design and Development (“AMDAD”) of Sydney, Australia; and
- Base case metal prices of copper - US\$0.95 per pound, cobalt – US\$12.00 per pound and zinc - US\$0.45 per pound . No value has yet been included for manganese carbonate production.

Financial modelling based on the current, un-optimized preliminary mine schedule indicates that the project is potentially attractive at base case metal prices. Modelling at base case metal prices shows that the project could generate net after tax profit of US\$761.3 million, with a discounted present value of US\$307.6 million at a 6% discount rate, over an initial projected 20 year mine life.

The current base case is for annual mine production to deliver 3.5 million wet tonnes (2.6 million dry tonnes) of run-of mine ore per year to the process facility; with maximum annual metal production of 50,000 tonnes of copper, 2000 tonnes of cobalt and 23,000 tonnes of zinc sulphate. Capital cost of the construction of the mine and mill complex is currently estimated at US\$292 million and total operating costs (including general and administrative expenses) at US\$19.90 per dry tonne of ore feed. The current PEA does not include economics for the production of manganese carbonate as an additional by-product which is currently under a technical, marketing (off-take) and financial review.

A financial model was created utilizing the current mine production schedule over an initial 20 years, the associated diluted metal grades based on the H&S geological resource and AMDAD mine schedule, metal recoveries from the Phase I pilot plant, capital and operating costs as set out herein and base case metal prices of copper US\$ 0.95/lb, cobalt US\$ 12.00/lb and zinc US\$ 0.45/ lb. In addition, sensitivity analysis was also conducted at various increased metal prices.

The effective sensitivity of the project to metal price is summarized in the following sensitivity table.

SENSITIVITY TO METAL PRICES						
Metal price US\$/pound			IRR (%)	Net Present Value Million US\$		
Copper	Cobalt	Zinc		6% discount	8% discount	10% discount
\$0.95	\$12.00	\$0.45	21.2	\$307.6	\$226.2	\$164.3
\$1.05	\$14.00	\$0.55	25.6	\$418.1	\$317.0	\$239.9
\$1.15	\$16.00	\$0.65	29.7	\$528.0	\$407.3	\$314.9
\$1.64*	\$13.10	\$0.54	37.6	\$715.1	\$564.1	\$448.4

*Note : Current cash prices as of July 13, 2005 – Copper US\$ 1.64/lb, Cobalt US\$ 13.10/lb, Zinc US\$ 0.54/lb.

The potential revenue stream from cobalt and zinc sulphate (based upon contained zinc metal content), at base-case metal prices, generates sufficient revenue to cover all operating costs resulting in net annual copper metal production cost of zero cents (\$0.00) per pound of LME grade copper produced. The following table provides base case highlights of the PEA.

Preliminary Economic Assessments – Base Case Highlights	
Preliminary Mine Production Schedule	2,600,000 dry tonnes per year (7,246 dry tonnes per day)
Cut-off grade (with dilution)	1.1% copper equivalent
Average grade	2.5% copper equivalent
Capital Cost	US\$292 million
Operating Cost	US\$19.90/tonne of ore
Metal Prices	Copper – US\$0.95/lb. Cobalt – US\$12.00/lb Zinc - US\$0.45/lb
(After tax) Internal rate of return (IRR)	21.2%
(After tax) Present Value (Millions)	US\$307.6 @6% discount rate US\$226.2 @8% discount rate US\$164.3 @10% discount rate

The Preliminary Economic Assessment includes the use of inferred resources that are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. Thus there is no certainty that the preliminary assessment will be realized.

Underground Mine Trial

As part of the DFS on the El Boleo Property management elected to conduct a trial underground mine at the property. Initial portal development was completed in early 2005 and underground mining equipment was sourced during the third quarter of 2005 for the test mine. The test mine consisted of approximately 400 meters of development headings from which a series of test panels were mined utilizing a bord and pillar mining method. Development headings were driven primarily in the ore horizon utilizing a continuous mining machine (a 54 tonne DOSCO 1300 roadheader), similar to those used in coal, potash and salt mines. For more information on this method please visit: http://www.bajamining.com/projects/mining_methods.

The test mining area was selected as in a relatively short horizontal distance ground conditions representative of most of the underground conditions likely to be encountered during actual mining operations over the initial 20 year mine life could be accessed. The test mine will provide the Company with valuable information on how this high production, mechanized mining method will work, as well as providing valuable insight into equipment selection and possible modifications needed to conventional continuous mining machines to adequately deal with the high clay content of the mineralized material being mined and processed.

Inspection of the mantos (a flat lying, bedded, sedimentary deposit) in drill core and in recent underground exposures by geotechnical consultants and mining experts retained by the Company suggests that conventional continuous miners should be able to achieve very high production rates. The Company recognised the importance of understanding how the proposed systems will perform through a range of conditions such as in previously mined areas and in areas of steeper dips, undulating floors or faulting. The test mine site is in Manto 3.

The site was selected because:

- Manto 3 in this area has a range of working heights similar to the proposed initial production areas.
- The entries are off a steep hillside so that a reasonable working depth of 60 to 70 metres can be reached with minimal development.
- The local manto dips of 8° to 10° are similar to the proposed production areas.
- The planned development and pillar extraction sites include both virgin ground and previously mined areas.
- It is adjacent to a major regional fault which has a vertical displacement of 7 metres. It is planned to drive at least one heading through the fault to assess ground stability.

The test mine was designed by Australian Mine Design & Development (AMDAD), an Australian consultant specialising in the design of high production Australian coal mines - utilising continuous miners and both longwall and shortwall production units.

Work to date has demonstrated that the continuous mining machine is easily able to mine the mineralized mantos and un-mineralized hangingwall waste that may also be mined in development of mineralized areas. In addition, in most areas of development the “back” (the roof above the development) has been relatively competent and has only required minimal ground support (by roof bolting). Areas of localized faulting that have also included voids beside the Main Drive from previous mining as well as old underground roadways required more significant ground support to be installed but can be mined, albeit at a slower rate.

The clayey nature of the mineralized mantos has presented challenges in material handling with the equipment being utilized as the moist nature of the clay tends to cause it to build up on conveying surfaces on the continuous mining machine. Being aware of this problem will allow modifications to be made to the design of production equipment.

The development drive to date has already added significantly to an understanding of how modern, high production mining methods can be applied at Boleo. Positive outcomes so far include:

- confirmation that the mineralized unit (copper, cobalt, zinc and manganese) is easily cut by the road header. Initial indications are that even light weight continuous miners should be able to achieve high cutting rates.
- The miner produces no dust as it cuts so there should be no need for water sprays which may have caused problems in the clay rich copper horizons.
- The workings have passed through numerous voids and stope fill areas from the old mine workings. These areas did not present any greater mining difficulty than the virgin areas so initial indications are that the old mine workings will not create undue mining problems.
- Some roof stability problems were encountered but these allowed the geologists to gain a detailed understanding of the structures in the immediate roof. Roadway and support designs and procedures were modified and the changes are providing stable workings.

The Company is proceeding to completion of a DFS under the direction of Bateman Engineering Inc. Canada with anticipated completion in mid- 2006. The DFS is investigating the viability of the underground mine producing 2.6 million dry tonnes per year of run-of-mine ore which will be processed through a hydrometallurgical processing plant to recover up to 50,000 tonnes per year (tpy) of London Metal Exchange (LME) (or better) grade copper; up to 2,000 tpy high purity cobalt metal; and up to 10,000 tpy of contained zinc, as zinc sulphate. Final design production criteria will be settled as part of the DFS. Investigations are continuing on potential recovery of 45,000 – 85,000 tpy of contained manganese, probably as manganese carbonate.

Completion of the underground mining trial at the Boleo Copper Cobalt Project was extended from March 2006 into April 2006 to allow expansion of the pillar extraction area. The mineralised manto, or seam, being mined averages 2.5 metres in height. By the end of February 2006 pillar extraction by continuous miner had opened a stope area measuring 40 metres by 18 metres, or over 700 square metres. By the end of March 2006 this has been expanded to an area of 37 metres by 48 metres, or nearly 1,800 square metres. Over 3,000 metric tonnes of ore were mined from the pillar area. In addition over 250 metres of access and geotechnical monitoring roadways were driven, all within ore.

The mining trial was designed to provide geotechnical and operational information to guide design of a full scale underground mine capable of producing over 2.5 million tonnes per year. This style of mining relies on controlled collapse of the seam roof in the mined out areas so that the broken rock in the collapsed zone can take the weight of the overlying strata. Ground movement monitors have been installed around the stope area and on the surface above it to track subsidence of the roof through to the controlled failure stage. Most of the controlled roof collapse within the stope area should occur in this period but it may continue for several weeks so the ground movement monitoring will continue into April 2006. This information will form the input for numerical analyses of the mine roof, openings, and pillars at the scale required for full production.

A great deal of information has been gathered on the mining methods and systems required for efficient, high production underground mining at Boleo:

- The continuous miner registers very low power consumption when cutting the ore so it will be possible to achieve high cutting rates from relatively small machines.
- The trial site was selected in an area where intensive mining of the high grade base of the manto had been conducted during the earlier years of last century. However, after mining over 300 metres of access, monitoring and stope roadways through old mine openings, stope fill and undisturbed ground the trial has only been delayed once by ground conditions directly attributable to the old workings. This was a four metre wide section at the junction of two old drives. One day was lost supporting through the area and that section of the stope was completed without further delay.
- Numerous pieces of support timber from the old workings have been picked up by the continuous miner but they are all so aged that they crumbled. There was a concern that the old timbers could have jammed in the miner or caused tears in the conveyor belts but this is no longer considered a problem.
- Immediate roof conditions have been observed in detail in the collapsed stope area and in several small failures in the access roadways. By understanding more about the occurrence of low angle faulting in the roof strata, which is prevalent throughout Boleo, it has been possible to plan roadway widths and rock bolting patterns that provide good stability.
- Trials with different drill steels and bits have greatly reduced rock bolt installation times in the relatively soft roof strata.
- Testing of different methods of handling the clay rich ore has offered solutions to problems with clay build up on the continuous miner chain conveyor. This is a common problem with clays but the information gathered allows design of suitable loading, haulage and handling systems.
- The ore has a high inherent moisture and raises no dust during cutting so there is no need for water dust suppression which could have caused problems in the high clay environment.

One of the biggest changes suggested by the trial to date comes from the success in mining through the old workings. Prior to the trial the production mine was being planned around shortwall panels to provide support through loose ground in the previously mined areas. However it appears that

subsidence through the old workings has compacted the clay rich manto and restored some competence to the mining horizon. This, and the potential for high cutting rates, enables the mine planners to consider more flexible and lower capital cost mining systems such as room and pillar using mobile roof supports.

Following completion of mining and geotechnical monitoring, geotechnical analyses of the proposed mining systems will be conducted through April and May. A mine plan will then be developed through the middle of 2006 to define the detailed mine layouts, equipment fleet, workforce, production schedule and capital and operating cost estimates.

As of December 31, 2005, the Company had working capital of \$2,567,310 which is not sufficient to satisfy the costs related to the completion of the DFS and current general and administrative activities for the following fiscal year. Subsequent to December 31, 2005 the Company completed a brokered private placement to raise \$23 million. This placement provided the Company with adequate funding to complete the DFS and cover all currently planned expenditures for the balance of 2006 and provide an estimated \$8 million in working capital at the end of 2006. Currently planned expenditures to complete the DFS include:

- (a) a phase II pilot plant to be conducted at SGS Lakefield Research Inc., Ontario, at an estimated cost of \$2.5 million;
- (b) an in-fill drilling program (in part for the DFS, although the majority of the program is to enhance the current reserve classification to satisfy the anticipated requirements of major lenders for project construction); and
- (c) engineering costs to the principal DFS engineering firm at an estimated amount of \$1.8 million.

1.3 Results of Operations For the Year ended December 31, 2005

Operations

The Company is still at the exploration and development stage at its Boleo Project and has no revenue generating activities. For the year ended December 31, 2005, the Company recorded a net loss of \$6,996,731 (2004 - \$5,391,685) or \$0.11 (2004 - \$0.10) loss per share. The results are indicative of the substantially higher exploration and administrative activities in 2005 compared with the same period in 2004.

Exploration Expenses

The Company incurred \$5,161,437 in exploration expenses during the year ended December 31, 2005 (2004 - \$3,825,698). With the completion of the \$10 million financing in April 2004, the Company has been focused on completing the DFS and test mine on the Boleo property in Mexico. The majority of the exploration expenses in the current year related to environmental consulting, feasibility studies, drilling and other professional consulting fees in connection with the Boleo property.

General and Administrative Expenses

General and administrative expenses for the 2005 financial year increased by \$208,590 compared with the previous year. Increases were mainly in the following areas:

- amortization: \$137,533 (2004 - \$19,864) The increase is related to the acquisition of \$599,385 of capital assets, of which \$153,903 was in Canada and \$445,482 was in Mexico.

- audit and legal fees: \$271,838 (2004 - \$51,653) Comprised of the following: audit fees \$89,271 (2004 - \$33,311), accounting fees 35,078 (2004 - \$Nil) and legal fees \$147,489 (2004 - \$18,342). Audit fees were underprovided for in the 2004 financial year resulting in additional charges in the 2005 financial year. Extensive legal costs were incurred relating to consultations with legal council regarding listing the Company as a Tier 1 filer on the Toronto Stock Exchange.
- management and consulting fees: \$224,235 (2004 - \$173,740) Consulting fees of \$101,302 were paid to a financial consulting firm in connection with general corporate financial advice with respect to construction financing and development of the Boleo project, and \$122,933 paid to management and related parties of the Company.
- rent: \$133,946 (2004 - \$70,595) In July 2005 the Company relocated its Vancouver office to more spacious premises resulting in an increase in expenses.
- stock based compensation: \$954,030 (2004 - \$817,324) During the year ended December 31, 2005, the Company granted 3,705,000 stock options to directors and consultants of the Company at an exercise price of \$0.35. A further 1,350,000 stock options were granted to investor relations consultants at an exercise price of \$0.35. The fair value of options granted was estimated using the Black-Scholes option pricing model. Accordingly, stock based compensation expenses in the amount of \$954,030 have been recognised and charged to expenses, accounting for 13.6% of total expenses. 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 but not yet exercised, and which are subject to this amendment, has been performed. In the opinion of management, no adjustment to the contributed surplus is necessary.
- wages: \$184,578 (2004 - \$116,162) Due to recruitment of additional staff, payroll costs increased accordingly.

1.4 Transactions with Related Parties

During the year ended December 31, 2005, the Company paid \$520,547 (2004 - \$567,548) management and consulting fees to directors and officers of the Company, and to companies controlled by officers and directors of the Company. The Company also paid \$32,754 (2004 - \$64,000) 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 Selected Annual Information

The following financial data is selected financial information for the Company for the three most recently completed financial years ending December 31,

	2005	2004	2003
Total revenues	\$ -	\$ -	\$ -
Income (loss) before discontinued operations and extraordinary items	\$(6,996,731)	\$(5,391,685)	\$ (404,029)
Income (loss) per share before discontinued operations and extraordinary items	\$(0.11)	\$(0.10)	\$(0.01)
Fully diluted income (loss) per share before discontinued operations and extraordinary items	\$(0.11)	\$(0.10)	\$(0.01)
Net income (loss)	\$(6,996,731)	\$(5,391,685)	\$ (404,029)
Income (loss) per share	\$(0.11)	\$(0.10)	\$(0.01)
Fully diluted income (loss) per share	\$(0.11)	\$(0.10)	\$(0.01)
Total assets	\$ 4,377,132	\$ 6,355,007	\$ 970,077
Total long term debt	\$ -	\$ -	\$ -
Dividend	\$ -	\$ -	\$ -

Financial year 2005 compared to financial year 2004

The Company recorded a loss in 2005 of \$6,996,731 (\$0.11 loss per share) compared to a loss in 2004 of \$ 5,391,685 (\$0.10 loss per share). The loss in 2005 was primarily attributable to the increase in exploration and operating activities, noticeably in feasibility study expenditures of \$1,206,270 incurred (2004 - \$507,930).

Financial year 2004 compared to financial year 2003

The Company recorded a loss in 2004 of \$ 5,391,685 (\$0.10 loss per share) compared to a loss in 2003 of \$ 404,029 (\$0.01 loss per share). The loss in 2004 was primarily attributable to the increase in exploration and operating activities, in addition to recognizing of stock-based compensation.

1.6 Summary of Quarterly Information

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

	Q1 Mar 31, 2004	Q2 Jun 30, 2004	Q3 Sep 30, 2004	Q4 Dec 31, 2004	Q1 Mar 31, 2005	Q2 Jun 30, 2005	Q3 Sep 30, 2005	Q4 Dec 31, 2005
Total Revenues	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-

Income or loss before discontinued operations and extraordinary items:

Total	\$(47,428)	\$(453,256)	\$(2,436,996)	\$(2,454,005)	\$(2,017,441)	\$(1,496,227)	\$(2,313,964)	\$(1,169,099)
Per Share	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.04)	\$(0.02)
Per Share Fully Diluted	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.04)	\$(0.02)

Net income or loss:

Total	\$(47,428)	\$(453,256)	\$(2,436,996)	\$(2,454,005)	\$(2,017,441)	\$(1,496,227)	\$(2,313,964)	\$(1,169,099)
Per Share	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.04)	\$(0.02)
Per Share Fully Diluted	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.04)	\$(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 results were 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 net losses during each quarter thereafter.

Quarter December 31, 2005 compared to December 31, 2004.

For the quarter ended December 31, 2005 the Company incurred a loss of \$1,169,099 (\$0.02 loss per share) compared to a loss of \$2,454,005 for the quarter ended December 31, 2004 (\$0.04 loss per share). The loss in both years was primarily attributable to expenses related to the DFS on the Boleo Project, in amount of \$685,529 in the 2005 fourth quarter and \$1,294,259 in the 2004 fourth quarter. In addition, general and administrative expenses amounted to \$483,570 in the fourth quarter of 2005 compared to \$1,159,746 in the fourth quarter of 2004.

1.7 Liquidity and Capital Resources

During the year ended December 31, 2005, the Company had negative cash outflow of \$6,713,911 (2004 - \$2,990,098) from operating activities. The increase in cash outflow was attributed to significantly higher exploration expenditures and development of a test mine operation on the Boleo property.

In terms of investment activities, the Company utilized \$449,211 to acquire mining equipment for use at and to develop the test mine site, and \$150,174 for leasehold improvements and office furniture and equipment.

During the year ended December 31, 2005, the Company raised \$4,819,709 (2004 - \$8,952,375) on the placement of shares.

The following private placements, brokered and non-brokered, were completed:

(i) 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. Agents fees relating to this placement amounted to \$92,500 settled in cash.

(ii) 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.

(iii) October 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.

(iv) November 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.

(v) 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. Agents fees relating to this issue amounted to \$33,750 settled in cash.

(vi) 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. Agents fees relating to this issue amounted to \$186,581 settled in cash.

During the year ended December 31, 2005, the Company raised \$585,322 on the exercise of 4,243,550 share purchase warrants by warrant holders. An additional \$8,800 was raised when 40,000 share purchase options were exercised.

As an exploration stage company, the Company continues to rely on equity or debt financing to meet the ongoing cash requirements of the Company. In April 2006, the Company closed a private placement raising gross proceeds of \$23,000,000. Through the efforts of a syndicate led by Westwind Partners Inc. and including Haywood Securities Inc (the “Agents”), the Company raised gross proceeds of \$14,517,702 through the issuance and sale of 16,130,780 units at a price of \$0.90 per unit. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.25 until April 13, 2008 or until April 13, 2011 with the consent of the TSX Venture Exchange. The balance of funds were raised by the Company for gross proceeds of \$8,482,298.40. Subscription proceeds in the amount of \$1,999,930.00 and the applicable 2,222,144 units are being held in escrow pending receipt of final release authorization documentation.

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.

1.8 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.

1.9 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 totalling \$288,000 in fiscal 2006 and \$72,000 in fiscal 2007.

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 the 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 DFS is scheduled to be completed by July 2006. The agreement may be terminated upon thirty days written notice. As at December 31, 2005, the Company had paid or accrued a total of approximately \$3.2 million under the agreement, for a remaining terminable commitment of \$5.7 million.

1.10 Financial instruments and Risk Factors

As of December 31, 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.

1.11 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.

1.12 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.