

**BAJA MINING CORP**  
**Management Discussion and Analysis**  
QUARTER END REPORT – March 31, 2006

*This Management's Discussion and Analysis of Baja Mining Corp provides analysis of Baja Mining Corp's financial results for the quarter ended March 31, 2006. The following information should be read in conjunction with the accompanying interim unaudited consolidated financial statements and the notes to the interim unaudited consolidated financial statements.*

1.1 Date of Report: May 26, 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 \$40 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 DFS, under the direction of Bateman Engineering Inc. Canada ("Bateman"), with assistance primarily from Bateman's office in Brisbane, Australia. The test work for completion of the DFS is scheduled to be completed by July 2006 with delivery of the final DFS in September 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 ("tpy") of cathode copper, 2,000 tpy of cobalt (either as high grade cobalt cathode or possibly as a high quality cobalt carbonate; consideration is being given to reduce this to 1,800 tpy), up to 23,000 tpy of zinc sulphate, and possibly 50,000 to 65,000 tpy of manganese (as manganese carbonate).

Current Development in the quarter ended March 31, 2006

**Preliminary Economic Assessment**

In August 2005, a “Preliminary Assessment”<sup>1</sup> of the El Boleo Project was published which included the results of a Preliminary Economic Assessment (“PEA”) of the El Boleo Property (see News Release dated September 13<sup>th</sup>, 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 flow sheet 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.

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.

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<sup>1</sup> 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](http://www.sedar.com) or on its website [www.bajamining.com](http://www.bajamining.com).

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.

<b>SENSITIVITY TO METAL PRICES</b>						
<b>Metal price US\$/pound</b>			<b>IRR (%)</b>	<b>Net Present Value Million US\$</b>		
<b>Copper</b>	<b>Cobalt</b>	<b>Zinc</b>		<b>6% discount</b>	<b>8% discount</b>	<b>10% discount</b>
\$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
\$3.76**	\$15.50**	\$1.76**	78.2	\$2,066.0	\$1,681.7	\$1,383.5

Note: \*Cash prices as of July 13, 2005; \*\* Cash prices as of May 26, 2006.

No contribution has been included for manganese carbonate production, pending further analysis of this market.

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.

<b>Preliminary Economic Assessments – Base Case Highlights</b>	
Preliminary Mine Production Schedule	2,600,000 dry tpy (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. 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 road header), 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](http://www.bajamining.com/projects/mining_methods).

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 mining area selected in manto 3 represents most of the underground conditions likely to be encountered during actual mining operations over the initial twenty year mine life and provided the Company with valuable information on how this high production, mechanized 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.

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), a consultant specialising in the design of high production Australian coal mines - utilising continuous miners and both long wall and short wall production units.

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 tpy. 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. This information will form the input for numerical analyses of the mine roof, openings, and pillars at the scale required for full production.

Following a series of delays caused by equipment problems which were unrelated to the mining conditions, mining progressed rapidly and it is expected that the mining component of the trial was completed during April 2006. 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 is continuing.

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 continuous mining machine is easily able to mine the mineralized mantos and unmineralized hanging wall waste that may also be mined in development of mineralized areas.
- 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 the 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 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 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 short wall 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 were 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.

### ***Environmental Impact Manifest***

During May 2006, the Company submitted the Environmental Impact Manifest (“EIM”) for approval of the development of the Boleo copper-cobalt-zinc-manganese project to the Mexican Federal environmental agency, SEMARNAT (Secretaria de Medio Ambiente y Recursos Naturales). Prior to the initiation of construction activities, all mining projects in Mexico are required to apply for and obtain an environmental impact authorization and a land use permit. This requires the presentation of an EIM which deals with the impacts of the operation, the environmental mitigation, control and compensation measures to the satisfaction of authorities having environmental jurisdiction. Similar to many countries, Mexico has environmental legislation at the Federal, State and Municipal levels of government. In addition, the Boleo Project is located within the buffer zone of the El Vizcaino Natural Protected Area. The management plan for the Vizcaino area specifically recognises the existence of three mining operations in the area, which includes El Boleo. The project will also be required to obtain a permit for mining activities within the limits of a natural protected area. This permit was also applied for simultaneously. The Company is advised by its environmental consultants in Mexico that the process for resolving any issues surrounding the filed EIM and leading to the issuance of the

environmental impact authorization and the permit to work in a natural protected area follows a timetable approximately as set out below:

<b>Activity</b>	<b>Scheduled Timing (working days)</b>	<b>From</b>	<b>To</b>
Integrate official EIM file	10	May 8/06	May 22/06
Government determines if additional information is required	40	May 23/06	June 19/06
Company integrates additional information	60	June 20/06	Sept. 11/06
Government evaluates final document and issues permit	20	Sept. 11/06	Oct. 9/06

Authorities have the right to request an expert opinion for complex projects, which could extend the evaluation period an additional 60 days. Prior to the submission of the EIM, unofficial presentations were conducted in Mexico City by representatives of the Company to various Mexican authorities to assist in identifying any areas of concern and address such issues prior to submission. With the EIM now submitted, discussions will continue with State and local authorities.

The DFS is on track for completion Q3 2006. An infill drilling program commenced at Boleo in March 2006 in order to bring the first five years of production up to Measured and Indicated Resource status. A second, fully integrated, pilot plant campaign is scheduled to start in late May 2006 with completion in June 2006. This test work campaign has been initiated and design work and construction of the pilot plant facility is currently underway. This second phase plant will be conducted at SGS Lakefield Research in Ontario, Canada.

The objectives for this pilot plant include:

- Demonstrating the suitability of the use of Boleo Carbonate material in various planned neutralization duties throughout the plant. Boleo Carbonate is readily available on the Boleo property and its use in the plant has been shown to be both economically attractive and technically viable;
- Demonstrating refinements to the raffinate iron removal circuit prior to Direct Solvent Extraction of zinc sulphate and cobalt;
- Demonstrating and testing of the Direct Solvent Extraction circuit under operating parameters recently optimized during extensive bench scale test work in Australia;
- Production of design data to provide additional confidence in the current design basis;
- Production of operational data that will facilitate the provision by Bateman Engineering of suitably framed Process Guarantees.

In addition there will be numerous test work initiatives conducted in parallel with the pilot campaign that relate to the environmental characterization of waste products and streams from the pilot campaign. Potential suppliers of equipment to the project will be present, conducting their own test work on suitable samples from the pilot campaign.

As of March 31, 2006, the Company had working capital of \$6,106,644 (December 31, 2005 - \$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 March 31, 2006 the Company completed the placement of 25,555,556 units raising gross proceeds of \$23 million. The additional \$18 million (\$4,995,962 having been received by March 31, 2006), will provide sufficient capital to complete the DFS and planned current expenditures.

### 1.3 Results of Operations for the Quarter ended March 31, 2006

#### Operations

The Company is still at the exploration and development stage at its Boleo Project and has no revenue generating activities. For the quarters ended March 31, 2006 and March 31, 2005, the Company recorded a consolidated net loss, before other items, of \$2,029,378 (\$0.03 loss per share) and \$2,040,529 (\$0.03 loss per share) respectively. The results reflect a minimal decrease in total costs for the comparative periods.

#### Exploration and Development Expenses

The Company incurred \$1,272,847 in exploration and development expenses during the quarter ended March 31, 2006 compared with \$1,411,494 during the quarter ended March 31, 2005. 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 period relate to environmental consulting, feasibility studies, pilot plant costs and other professional consulting fees in connection with the Boleo property. The nature of expenditure has changed from lower costs on drilling and feasibility studies to increased expenditures on a pilot plant.

#### General and Administrative Expenses

General and administrative expenses ("G&A") for the quarter ended March 31, 2006 increased by \$127,496 compared with the previous year. Increases were mainly in the following areas:

- Amortization: \$50,248 (2005 - \$4,366) The increase is the result of the acquisition of additional equipment of \$599,385 during the year ended December 31, 2005 and during the quarter ended March 31, 2006 of \$137,654.
- Management and consulting fees: \$77,228 (2005 - \$49,704) Consulting fees of \$35,228 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 \$42,000 paid to management and related parties of the Company.
- Rent: \$17,975 (2005 - \$27,616) The decrease is a result of amounts recouped from related which share office space.
- Stock-based compensation: \$420,536 (2005 - \$375,620) has been recognised during the quarter ended March 31, 2006. Of this amount, \$159,000 has been allocated to general and administration expenses, and the balance to exploration expenses. During the quarter ended March 31, 2006, the Company granted 1,175,000 stock options to directors and consultants of the Company at an exercise prices ranging between \$0.56 and \$1.21. The fair value of options granted was estimated using the Black-Scholes option pricing model. Stock-based compensation expenses accounted for 20.7% (2005 - 18.4%) of total G&A expenses.
- Travel: \$128,592 (2005 - \$27,605) These costs increased as a result of additional visits to the mine site by management and consultants of the Company. Additional travel was also undertaken to secure funds for ongoing operations.
- Wages: \$144,584 (2005 - \$44,066) Due to the addition of employees required, as the Company moves the next stage of development, costs have increased accordingly.

### 1.4 Transactions with Related Parties

During the quarter ended March 31, 2006, the Company paid \$140,718 (2005 - \$141,648) management and consulting fees to directors and officers and employees related to directors of the Company, and to companies controlled by officers and directors of the Company. The Company also paid \$Nil (2005 - \$10,821) 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.

	<b>Q2 Jun 30, 2004</b>	<b>Q3 Sep 30, 2004</b>	<b>Q4 Dec 31, 2004</b>	<b>Q1 Mar 31, 2005</b>	<b>Q2 Jun 30, 2005</b>	<b>Q3 Sep 30, 2005</b>	<b>Q4 Dec 31, 2005</b>	<b>Q1 Mar 31, 2006</b>
<b>Total Revenues</b>	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-

### Income or loss before discontinued operations and extraordinary items:

<b>Total</b>	\$(453,256)	\$(2,436,996)	\$(2,454,005)	\$(2,017,441)	\$(1,496,227)	\$(2,313,964)	\$(1,169,099)	\$(1,930,508)
<b>Per Share</b>	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.04)	\$(0.02)	\$(0.03)
<b>Per Share Fully Diluted</b>	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.04)	\$(0.02)	\$(0.03)

### Net income or loss:

<b>Total</b>	\$(453,256)	\$(2,436,996)	\$(2,454,005)	\$(2,017,441)	\$(1,496,227)	\$(2,313,964)	\$(1,169,099)	\$(1,930,508)
<b>Per Share</b>	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.04)	\$(0.02)	\$(0.03)
<b>Per Share Fully Diluted</b>	\$(0.01)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.04)	\$(0.02)	\$(0.03)

## 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, and subsequent financings, exploration and operating activities increased significantly as reflected in net losses during each quarter thereafter.

## 1.7 Liquidity and Capital Resources

During the quarter ended March 31, 2006, the Company had negative cash flow of \$1,791,114 (2005 - \$2,536,943) from operating activities. The cash outflow was mainly attributable to exploration expenditures of \$1,011,811 (2005 - \$1,411,494) and general and administration expenditures of \$546,783 (2005 - \$249,049).

In terms of investment activities, the Company utilized \$133,203 (2005 - \$29,048) to acquire mining equipment for use at and to develop the test mine site, and \$4,451 (\$Nil) for leasehold improvements and office furniture and equipment.

During the quarter ended March 31, 2006, the Company raised \$5,136,712 (2005 - \$1,160,700) on the placement of shares. Of this amount \$11,250 (2005 - \$Nil) related to 25,000 warrants exercised, \$129,500 (2005 - \$Nil) to 370,000 share options exercised, and \$4,995,962 (2005 - \$1,160,700) related to share subscriptions received in respect of a private placement of 25,555,556 units which was completed in April 2006.

### 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 \$234,000 in fiscal year 2006 and \$96,000 in fiscal year 2007.

The Company has committed to an operating lease for office space for a term of 63 months expiring 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 US \$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 March 31, 2006, the Company has paid or accrued a total of approximately US \$3.4 million under the agreement, for a remaining terminable commitment of US \$1.4 million.

### 1.10 Financial instruments and Risk Factors

As of March 31, 2006 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 Cautions 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.