BAJA MINING CORP
Management Discussion and Analysis
QUARTER END REPORT – June 30, 2006

(RESTATED)

As discussed herein this Management's Discussion and Analysis ("MD&A") of Baja Mining Corp. has been amended to give effect to the restatement as described in "Restatement" below and in "Restatement" in Note 2 of the restated consolidated financial statements for the three and six months ended June 30, 2006. Apart from revisions resulting from the restatement, this MD&A does not reflect events subsequent to August 24, 2006.

1.1 Date of Report: August 24, 2006

1.2 Overall Performance

Restatement

During an internal review of the financial statements and the procedures involved in the preparation of the quarter ender September 30, 2006, the Company discovered an error in the accrual of exploration expenses for the second quarter ended June 30, 2006. In the previously released financial statements the Company had incorrectly accrued $2,245,505 in exploration expenses. There were also incorrect allocations between expense categories. In addition, 986,993 warrants that were granted to agents with respect to private placements had not been recorded as share issue costs. Warrants granted as agent fees require a fair value calculation (Black-Scholes) that is recorded as share capital and convertible securities issuance costs. Further, upon review of the option pricing model (Black-Scholes) used for valuing stock options and warrants issued during 2006, the Company concluded that the time period used to calculate the volatility assumption and the expected life required adjustment.

For a detailed analysis see note 2 of the restated consolidated financial statements for the three and six months ended June 30, 2006.

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, in excess of CAD $46 million has been spent on exploration, pre-feasibility studies and the current DFS on the Boleo Project. Since completing a $10 million financing in April 2004, the

Company has been actively proceeding to complete the DFS, under the direction of Bateman Engineering Inc. Canada ("Bateman"), with assistance primarily from Bateman's office in Brisbane, Australia. The majority of test work for the DFS was completed in July 2006 however a follow-up mine site test (to determine best practice for roof bolt installation during mine development) is planned for September 2006. The DFS was scheduled for completion in September 2006 however delays in obtaining drill rigs for the 38,800 metre in-fill drill program is expected to delay final mine design which will have the effect of delaying delivery of the DFS into the 4th quarter of 2006. Management are progressing on construction financing efforts to limit the effect of the delay on the construction timetable. 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 (during the initial five years and anticipated to increase thereafter) 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 1,850 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 June 30, 2006

Management Additions and Changes (see news releases dated April 12, June 1, and June 27th, 2006)

During the quarter the Company continued to bolster its management team as we move closer to a production decision. This included the initial appointment of Eric W. Norton, P.Eng., as Director of Project Development and recent elevation to Vice-President – Project Development and Operations. His new position reflects the broader scope of responsibility for the development of the Boleo project; which involves not only the completion of the DFS but also strategic planning and implementation of project operations. Mr. Norton graduated from the University of Toronto (1974), with a Bachelor of Applied Science (Honours) in Metallurgy and Materials Science. He worked for Teck Cominco (previously Cominco) for 31 years as a Manager in the various operating plants at the Trail, B.C. zinc smelter and Riddle, Oregon nickel smelter and recently as a Manager in the Exploration Business Development Group in Vancouver, B.C.

The Company was also extremely fortunate to secure the services of Scott G. Britton, P.Eng., as General Manager – Mining during the quarter. Mr. Britton graduated from Virginia Polytechnic Institute & State University in Blacksburg, Virginia, USA with a Bachelor of Science – Mining Engineering (1977) and has completed graduate work towards both a Masters of Engineering Management and a Masters in Business (Finance) at Drexel University and Indiana University of Pennsylvania, respectively. Mr. Britton has extensive operating experience in underground mine management (particularly soft rock mining comparable to Boleo), mine engineering, resource development planning, capital and operating cost budgets, and detailed operations planning.

Reflecting the changing duties and responsibilities as we move forward to the next phase of development of Boleo, William Murray was promoted to the new position of Vice President - Corporate Development and Kendra Greenslade was officially appointed as Corporate Secretary.

In addition to the changes noted we are actively seeking a Vice President - Construction, to supervise development of the Boleo Project, and a full time Chief Financial Officer (to be based in Vancouver to replace Robert Mouat who has been fulfilling this role on an interim basis from his home in Bahamas).

Funding (see news release dated April 17, 2006)

The Company completed a private placement for gross proceeds of $23 million in April 2006. It was estimated that the cost to complete the DFS, including the 38,500 metre in-fill drilling program was

approximately $10.5 million and accordingly the financing provided more than adequate funds to complete the DFS and provide the Company with adequate working capital for the near term.

Environmental Permitting – El Boleo Project (see News release dated May 15, 2006)

The Company's Mexican subsidiary, Minera y Metalurgica del Boleo S.A. de C.V. ("MMB"), submitted the Environmental Impact Manifest ("EIM") for approval of the development of the Boleo copper-cobalt-zinc-manganese project on May 8th, 2006, 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 through the submittal of the EIM on May 8th, 2006.

MMB has now received preliminary comments from SEMARNAT to its EIM submission and is in the process of reviewing and responding to the same. We expect to file our response to SEMARNAT in early September 2006.

Successful Test Mining Results at El Boleo Project (see news release dated July 20, 2006)

As part of the Definitive Feasibility Study ("DFS") at Boleo the Company retained Australian Mine Design and Development Pty. Ltd. ("AMDAD"), along with Agapito Associates Incorporated ("AAI") of Golden, Colorado, USA, to design and supervise the tests aimed at defining productive and safe mining methods, as well as to provide geotechnical and operational information to guide design of a full scale underground mine capable of producing over 2.5 million tonnes of ore per year.

The primary objective during test mining was to confirm the geotechnical feasibility of underground mining at Boleo. Further, as a consequence of AAI's extensive experience in underground mining of soft-rock, bedded deposits, it was requested that their report also address and provide recommendations on key operational issues identified during this evaluation.

Based on the test mine activities at Boleo, observations and review of the data and information collected by AAI, the following preliminary geotechnical and operational feasibility conclusions for underground mining in the mantos were reached:

- With appropriate and site-specific mine design, equipment selection, mine planning and operation execution:
    1. Based on currently available information, the most appropriate mining methodology for underground mining the clay mantos and breccias at Boleo would utilize room-and-pillar mining with pillar removal similar to those practiced by the coal mining industries of North America, Australia and South Africa.
    2. Room-and-pillar with pillar removal mining methods should approach production levels comparable in magnitude to similar operations in the coal mining industries of North America, Australia and South Africa

- Longwall and shortwall mining methods are not suited for the conditions at Boleo as a consequence of (1) the extensive faulting which divides the mantos into relatively small, irregular-shaped districts and (2) the hard conglomerate floor that is difficult to cut.

The Company's senior project team are now incorporating the mine trial results and recommendations made by AMDAD and AAI into the design of the underground mine openings and selecting the equipment needed for successful high productivity and safe mining operations.

In-fill Drill Program (see news release dated July 21, 2006)

As part of the Definitive Feasibility Study ("DFS") on the Boleo project, the Company embarked on a 38,800 metre diamond drill-hole program. This program has been designed to reduce the spacing between drill holes, particularly in Manto 1 in the southern part of the property so that the existing "Inferred" resources can be re-classified as "Indicated" or better. The aim is to have a dominantly "Measured" status for blocks that are anticipated to be mined in the first 5-7 years with the balance of blocks that are anticipated to be mined in years 8 through 20 to be classified as either "Measured" or "Indicated". The Company had four drill rigs conducting the in-fill program and has recently increased this to six drill rigs to try and speed up the program. Regrettably until the program is completed and the resource model revised by the Company's geological consultants, final mine design for the DFS cannot be completed. Accordingly while the company expects all plant and infrastructure matters for the DFS to be ready in September the final DFS, with mine design, is probably not going to be delivered until the fourth quarter of 2006.

Phase 2 Pilot Plant successfully concluded

A demonstration Phase 2 Pilot Plant campaign ("Pilot Plant") was successfully completed during the quarter at SGS Lakefield Research Ltd ("Lakefield") treating ore from the Boleo property.

A 6 week Pilot Plant campaign was conducted continuously from June 7 to July 14, 2006 treating a composite sample totalling 4.2 tonnes of ore that was obtained during the Test Mining campaign conducted in March at Boleo. The purpose of the demonstration campaign was to:

1) Finalize design criteria for recoveries of metals and consumption of key consumables to be used in the Definitive Feasibility Study ("DFS") being prepared by Bateman Engineering Canada Inc. ("Bateman");
2) Provide a design basis for Bateman to give process guarantees in the next phase of the project which is detail design and procurement;
3) Demonstrate that the high clay content of the Boleo ore does not present a problem for washing in the Counter Current Decantation ("CCD") circuit;
4) Produce sufficient quantities of copper cathode, cobalt cathode and zinc sulphate to enable off-take buyers to evaluate the quality of product(s);
5) Produce a saleable Manganese product (manganese carbonate);
6) Demonstrate that the limestone located at Boleo is suitable for use as the neutralizing agent;
7) Confirm that Commonwealth Scientific and Industrial Research Organization's ("CSIRO") Direct Solvent Extraction ("DSX") technology is capable of giving good separation and recovery of Cobalt and Zinc into saleable products; and
8) Provide an opportunity for equipment vendors to work with Bateman on equipment design.

Operation of the Pilot Plant was stable and reached a steady state condition within a few days of start-up. Operation continued smoothly 24 hours/day for the scheduled period. Test results met or exceeded the desired objectives in all aspects. The extractions of key metals in the leaching circuit under design

conditions were: copper 91%; cobalt 82%; zinc 55%; manganese 97%. A number of specialist assays of final products are still pending but it is expected that the copper cathode grade meets LME Grade 'A' specifications (as was the case in the November 2004 pilot plant) and the cobalt metal is suitable for sale without requiring further refining.

The overflow of the metal bearing solution from the CCD circuit was very clear and leach residues settled quickly. Limestone, for acid neutralization, from the Boleo property was used, as opposed to purchasing lime for neutralization, for the entire test period. Several equipment vendors were on-site for the test period and the data collected is being used for design of several of the solid/liquid separation steps in the anticipated flow sheet. Good separation of zinc and cobalt was achieved and the zinc solution collected is suitable for production of zinc sulphate that can be sold in the fertilizer and animal feed markets.

President John Greenslade said, "The pilot plant was a technical success. The extraction and recovery of copper, cobalt, zinc and manganese was demonstrated from ore to saleable products. Copper metal cathode, cobalt metal cathode, zinc sulphate solution and precipitated manganese carbonate were all successfully recovered from Boleo ore".

The results of the pilot test are now being incorporated into the DFS report.

Equipment Option Acquired

The Company has acquired an option to purchase four diesel driven generator sets from a United States power company. Each unit is rated at 2.5MW, providing a total of 10MW. The generation plant had been used to provide standby power for an East Coast island. The units are in excellent condition as they have very low operating hours and are maintained in a hot standby state. The modules are skid-mounted and are thus easily re-locatable. The option provides for a series of payments that, in total, will amount to approximately 10% of the cost of equivalent new units.

The Company's El Boleo project will require an average of 34 MW of power when fully operational and its power supply will be totally independent of the power grid of the State of Baja California Sur, Mexico, where El Boleo is located. Most of the power will be provided through heat recovery and steam generation from the acid plant. The balance of the requirements will be generated from diesel fired units. The acquisition of the 10 MW generating plant will cover most of this additional power and will more than adequately provide power for the construction activities. The units will remain in storage, on hot standby, in the United States until required at El Boleo and will be moved to site prior to the start of construction in 2007.

1.4 Results of Operations for the Quarter ended June 30, 2006 (restated)

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 June 30, 2006 and June 30, 2005, the Company recorded a consolidated net loss, before other items, of $7,126,248 ($0.07 loss per share) and $1,500,208 ($0.02 loss per share) respectively. The results reflect the increased activity on the Boleo project for the period.

Exploration and Development Expenses

The Company incurred $6,437,004 in exploration and development expenses during the quarter ended June 30, 2006 compared with $1,059,814 during the quarter ended June 30, 2005. The Company has been focused on completing the DFS on the Boleo property in Mexico. The majority of the exploration

expenses in the current period relate to in-fill drilling, feasibility studies, phase 2 pilot plant costs and other professional consulting fees in connection with the Boleo property. The increased level of activity is a direct result of the completion of a major equity issue in April 2006 and increased activity related to completing the DFS.

General and Administrative Expenses

General and administrative expenses ("G&A") for the quarter ended June 30, 2006 increased by $248,852 compared with the previous year. Increases were mainly in the following areas:

- Amortization: $39,922 (2005 - $7,066) Amortization has been allocated between exploration and general and administration. The increase is the result of the acquisition of additional equipment during the year.
- Management and consulting fees: $105,906 (2005 - $70,176) largely as a result of increased activity.
- Rent: $35,250 (2005 - $37,753) The decrease is the result of shared office recovery on the increased office space to accommodate additional personnel in Canada and Mexico
- Stock-based compensation: $611,190 (2005 - $106,130) has been recognised during the quarter ended June 30, 2006. Of this amount, $213,841 has been allocated to general and administration expenses, and the balance to exploration expenses. During the quarter ended June 30, 2006, the Company granted 400,000 stock options to directors and consultants of the Company at an exercise prices ranging between $1.45 and $1.57. The fair value of options granted was estimated using the Black-Scholes option pricing model. Stock-based compensation expenses accounted for 25.5% (2005 – 24.1%) of total G&A expenses.
- Travel: $111,307 (2005 - $20,034) Travel has been allocated between exploration and general and administration. 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, as well as investor awareness programs.
- Wages: $127,793 (2005 - $55,965) Wages have been allocated between exploration and general and administration. Due to the addition of employees required, as the Company moves the next stage of development, costs have increased accordingly.

1.5 Summary of Quarterly Information (restated)

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

	Q3 Sep 30, 2004	Q4 Dec 31, 2004	Q1 Mar 31, 2005	Q2 Jun 30, 2005	Q3 Sep 30, 2005	Q4 Dec 31, 2005	Q1 Mar 31, 2006	Q2 Jun 30, 2006
Total Revenues	$-	$-	$-	$-	$-	$-	$-	$-

Income or loss before discontinued operations and extraordinary items:

Total	$(2,436,996)	$(2,454,005)	$(2,017,441)	$(1,496,227)	$(2,313,964)	$(1,169,099)	$(1,930,508)	$(7,227,621)
Per Share	$(0.04)	$(0.04)	$(0.03)	$(0.02)	$(0.04)	$(0.02)	$(0.03)	$(0.07)

Per Share Fully Diluted	$(0.04)	$(0.04)	$(0.03)	$(0.02)	$(0.04)	$(0.02)	$(0.03)	$(0.07)

Net income or loss:

Total	$(2,436,996)	$(2,454,005)	$(2,017,441)	$(1,496,227)	$(2,313,964)	$(1,169,099)	$(1,930,508)	$(7,227,621)
Per Share	$(0.04)	$(0.04)	$(0.03)	$(0.02)	$(0.04)	$(0.02)	$(0.03)	$(0.07)
Per Share Fully Diluted	$(0.04)	$(0.04)	$(0.03)	$(0.02)	$(0.04)	$(0.02)	$(0.03)	$(0.07)

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 and in particular the $23 million equity issue in April 2006, exploration and operating activities increased significantly as reflected in net losses during each quarter thereafter.

1.6 Contractual Obligations and Commitments

The Company has a number of management and consulting agreements. The future commitments under these contracts as at June 30, 2006 amount to:

12 month period ending	
2007	$ 405,800
2008	$ 288,000
2009	$ 240,000
	$ 933,800

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 entered into a lease with the existing landlord for additional office space. The commitment is for a period of fifty months commencing August 01, 2006 with a minimum annual rental of $29,045.

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 the fourth quarter of 2006. The agreement may be terminated upon thirty

days written notice. As at June 30, 2006, the Company had a remaining terminable commitment of US $1.3 million.

1.7 Liquidity (restated)

During the quarter ended June 30, 2006, the Company had negative cash flow of $4,182,252 (2005 - $1,352,887) from operating activities. The cash outflow was mainly attributable to exploration expenditures of $6,437,004 (2005 - $1,059,814) and general and administration expenditures of $689,244 (2005 - $440,392).

In terms of investment activities, the Company utilized $51,092 (2005 - $124,269) to acquire mining equipment for use at and to develop the test mine site, and $12,769 ($Nil) for leasehold improvements and office furniture and equipment.

During the quarter ended June 30, 2006, the Company raised $19,439,164 (2005 - $193,950) on the placement of units and shares. Of this amount $2,544,136 (2005 - $193,950) related to 2,967,003 warrants exercised, $292,250 (2005 - $Nil) to 835,000 share options exercised, and $16,602,778 (net of issuance costs) related to share subscriptions received in respect of a private placement of 25,555,556 units which was completed in April 2006. The balance of the proceeds of the April 2006 unit offering was received during the quarter ended March 31, 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 Transactions with Related Parties

During the quarter ended June 30, 2006, the Company paid $263,836 (2005 - $110,839) management fees and wages 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 paid $Nil (2005 - $7,000) of rent expense to related companies, which are controlled by directors and officers, for shared office facilities. The Company also paid directors' fees of $12,750 (2005 - $Nil).

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

1.14 Financial instruments and Risk Factors

As of June 30, 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.

1.15 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.

1.16 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.