

Dia Bras Exploration Inc.

Consolidated Financial Statements
December 31, 2005 and March 31, 2005

April 13, 2006

Auditors' Report

To the Shareholders of Dia Bras Exploration Inc.

We have audited the consolidated balance sheets of **Dia Bras Exploration Inc.** as at December 31, 2005 and March 31, 2005 and the consolidated statements of operations and deficit and cash flows for the nine-month period ended December 31, 2005 and the year ended March 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and March 31, 2005 and the results of its operations and its cash flows for the nine-month period ended December 31, 2005 and the year ended March 31, 2005 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

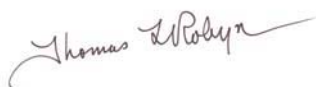
Chartered Accountants

Dia Bras Exploration Inc.

Consolidated Balance Sheets

	As at December 31, 2005 \$	As at March 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	3,541,961	2,954,870
Short-term deposit, maturing August 29, 2006, bearing interest at 1.5% per annum (as at March 31, 2005 – maturing August 31, 2005 and bearing interest at 1.5%)	15,000	15,000
Receivable	327,000	-
Sales tax and other receivables	1,037,122	1,011,872
Inventories from pilot mining program (note 5)	142,239	220,600
Temporary investment (note 6)	42	246,667
Prepaid expenses	94,048	8,819
	<hr/>	<hr/>
	5,157,412	4,457,828
Property, plant and equipment (note 7)	-	14,027
Mining assets (note 8)	19,912,804	15,819,615
Deferred costs – Advance on royalty payment (note 9)	350,000	350,000
Intangible asset – Licence (note 10)	-	27,102
	<hr/>	<hr/>
	25,420,216	20,668,572
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	771,264	289,749
Current portion of obligation related to assets under capital lease (note 11)	49,335	518,300
Income taxes payable	45,000	-
	<hr/>	<hr/>
	865,599	808,049
Obligation related to assets under capital lease (note 11)	157,928	-
Future income tax liabilities	397,600	-
	<hr/>	<hr/>
	1,421,127	808,049
Shareholders' Equity		
Share capital (note 12)	26,921,601	20,782,703
Warrants (note 13)	2,880,496	6,165,776
Contributed surplus (note 15)	4,802,240	1,380,600
Deficit	(10,605,248)	(8,468,556)
	<hr/>	<hr/>
	23,999,089	19,860,523
	<hr/>	<hr/>
	25,420,216	20,668,572

Approved by the Board of Directors



Thomas L. Robyn
Director



Philip Renaud
Director

Dia Bras Exploration Inc.

Consolidated Statements of Operations and Deficit

	For the nine-month period ended December 31, 2005 \$	For the year ended March 31, 2005 \$
Income		
Interest income	19,904	114,440
Gain on disposal of temporary investment (note 6)	26,218	-
Gain on currency exchange	36,895	-
Agent income – Sub-licensing fee (note 6)	-	92,500
	<u>83,017</u>	<u>206,940</u>
Expenses		
Administrative expenses	374,519	490,108
Professional and consulting fees	194,926	192,012
Information to shareholders and trustee fees	193,382	169,106
Business development	50,586	372,442
Stock-based compensation costs (note 14)	249,808	489,790
Amortization and write-off of property, plant and equipment	12,268	6,730
Amortization and write-off of intangible asset – Licence	27,102	22,898
Write-off of mining assets – Exploration building and equipment	58,070	-
Write-off of mining assets – Costs and deferred exploration expenses (note 8(a)(iii), (vi), (vii) and (viii))	557,588	481,706
Write-down of temporary investment	18,333	45,833
Loss on currency exchange	-	32,119
	<u>1,736,582</u>	<u>2,302,744</u>
Loss before income taxes	<u>(1,653,565)</u>	<u>(2,095,804)</u>
Provision from income taxes (note 16)		
Current	45,000	-
Future	397,600	-
	<u>442,600</u>	<u>-</u>
Net loss for the period	<u>(2,096,165)</u>	<u>(2,095,804)</u>
Deficit – Beginning of period	<u>(8,468,556)</u>	<u>(5,780,742)</u>
Share and warrant issue expenses	<u>(40,527)</u>	<u>(592,010)</u>
Deficit – End of period	<u>(10,605,248)</u>	<u>(8,468,556)</u>
Basic and diluted net loss per share	<u>(0.04)</u>	<u>(0.05)</u>
Basic and diluted weighted average number of outstanding shares	<u>58,376,171</u>	<u>42,261,582</u>

Dia Bras Exploration Inc.

Consolidated Statements of Cash Flows

	For the nine-month period ended December 31, 2005 \$	For the year ended March 31, 2005 \$
Cash flows from		
Operating activities		
Net loss for the period	(2,096,165)	(2,095,804)
Adjustments for		
Future income taxes (note 16)	397,600	-
Gain on disposal of temporary investment	(26,218)	-
Stock-based compensation costs	249,808	489,790
Amortization and write-off of property, plant and equipment	12,268	6,730
Amortization and write-off of intangible asset – Licence	27,102	22,898
Write-off of mining assets – Exploration building and equipment	58,070	-
Write-off of mining assets – Costs and deferred exploration expenses	557,588	481,706
Write-down of temporary investment	18,333	45,833
Agent income – Sub-licensing fee	-	(92,500)
Unrealized loss on currency exchange	6,239	32,119
	(795,375)	(1,109,228)
Changes in non-cash working capital items (note 18)	(705,899)	(1,211,745)
	(1,501,274)	(2,320,973)
Financing activities		
Short-term loan	582,618	-
Reimbursement of short-term loan	(582,618)	-
Payment of obligation related to asset under capital lease	(10,846)	-
Share capital issued (note 12)	5,820,439	6,838,868
Share and warrant issue expenses	(40,527)	(592,010)
Warrants issued (note 13)	-	2,880,496
	5,769,066	9,127,354
Investing activities		
Increase in mining assets	(9,184,506)	(11,595,821)
Proceeds from sales of concentrate	5,235,402	-
Disposal of temporary investment	254,510	-
Disposal of mining assets	18,373	-
Disposal (purchase) of property, plant and equipment	1,759	(20,757)
Decrease in short-term deposit	-	3,485,000
Acquisition of temporary investment	-	(200,000)
Business acquisition (note 4)	-	(150,000)
Purchase of intangible asset – Licence	-	(50,000)
	(3,674,462)	(8,531,578)
Translation adjustments on cash and cash equivalents	(6,239)	(27,024)
Increase (decrease) in cash and cash equivalents during the period	587,091	(1,752,221)
Cash and cash equivalents – Beginning of period	2,954,870	4,707,091
Cash and cash equivalents – End of period	3,541,961	2,954,870

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

1 Nature of operations

The Company was incorporated under the Canada Business Corporations Act on April 11, 1996.

The Company has mining rights options to acquire interests in mining properties located in the Chihuahua District of Mexico which are presently at the exploration stage. Until it is determined that the properties contain mineral reserves or resources that can be economically mined, they are classified as mining properties. The economic viability of these mining properties has not yet been assessed. The recoverability of costs relating to the mining properties, including deferred exploration expenses, is dependent upon the discovery of economically recoverable reserves and resources, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development and construction of processing facilities, as well as future profitable production or alternatively, upon disposal of such properties at an amount equal to the Company's investment therein.

At the Bolivar mine property, the Company began, in 2005, a pilot mining program as part of a pre-feasibility study. However, the Company is not considered to have reached a level of commercial production.

For the nine-month period ended December 31, 2005, the Company incurred a net loss of \$2,096,165. Cash and cash equivalents at that date amount to \$3,541,961. In addition to ongoing working capital requirements such as general and administrative costs, the Company must secure sufficient funding for its existing property payment and for exploration and development programs. In the nine-month period ended December 31, 2005, the Company closed private placements in the amount of \$4,500,000 and warrants were exercised for a total amount of \$1,320,439. The Company also sold concentrates from pilot mining for \$5,562,402. The proceeds were used mainly to advance the exploration and development of its pilot mining program at the Bolivar mine.

In accordance with industry standards for properties at that stage of exploration, the Company has taken reasonable measures to ensure proper title to its properties. However, there is no guarantee that title to any of its properties will not be challenged or impugned. The Company's properties may be subject to prior unregistered agreements or transfers, and title may be affected, among other things, by undetected defects.

In order to align its year-end with those of its Mexican subsidiaries, the Company has changed its year-end from March 31 to December 31 and, accordingly, the period ended December 31, 2005 includes only nine months of operations.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

2 Significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned foreign subsidiaries, Dia Bras Mexicana S. de R.L. de C.V., Servicios de Minería de la Sierra S. de R.L. de C.V., Nichromex S. de R.L. de C.V. and Perforaciones Mineras Ram S.A.

Asesores Administrativos y Recursos Humanos S. de R.L. de C.V. and Compañía Minera Metalúrgica Malpaso S. de R.L. de M.I. are consolidated in the accounts of the Company as they are variable interest entities (“VIE”) and the Company is the primary beneficiary of these two entities.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where management judgment is applied are asset valuations, contingent liabilities and future income taxes. Actual results could differ from those estimates and such differences could be material.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

Temporary investment

The temporary investment is recorded at the lower of cost and quoted market value.

Inventories from pilot mining

Inventories from pilot mining consist of ore and concentrate which are recorded at the lower of cost and net realizable value.

Property, plant and equipment

Office equipment is recorded at cost and amortized over its estimated useful life using the straight-line method over a three-year period.

Mining assets

Mining assets include mining rights and options to acquire interests in mining properties, deferred exploration expenses, exploration building and equipment, supplies inventory that will be used for exploration, and deposits on future mining assets. All costs directly related to foreign projects are capitalized.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

Costs and deferred exploration expenses

Exploration costs are deferred until the economic viability of the project has been established, at which time costs are added to mining properties, plant and equipment. Costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available for development over a period of three consecutive years or results from exploration work not warranting further investment.

Proceeds from the sale of a mining asset are applied against related carrying costs and any excess is reflected as a gain in the statement of operations. In the case of a partial sale, if carrying costs exceed the proceeds, only the loss is reflected.

Revenue from the sale of concentrate from the pilot mining program before commencement of commercial production is recorded as a reduction of the related deferred exploration expenses and is recognized when the following conditions are met:

- ♦ persuasive evidence of an arrangement exists;
- ♦ delivery has occurred under the terms of the arrangement;
- ♦ the price is fixed or determinable; and
- ♦ collection is reasonably assured.

Exploration building and equipment

The exploration building and equipment are recorded at cost.

Amortization of the exploration building and equipment is capitalized as deferred exploration expenses when related to a specific project. Amortization is computed using the following methods and rates or period:

	Method	Rate/Period
Building	Declining balance	10%
Equipment and rolling stock	Declining balance	30%
Computers and office furniture	Straight-line	3 years

Supplies inventory

Supplies inventory is recorded at the lower of cost and replacement value.

Deferred costs – Advance on royalty payment

Deferred costs in reference to the Nichromet licence are recorded at cost. They will be expensed as royalty payments when mineral production on properties covered by the agreement begins, on the basis of a 1% net smelter return royalty, or written off if the technology covered by the Nichromet licence is lost for non-performance.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

Intangible asset – Licence

The licence was accounted for at cost and amortized using the straight-line method over its finite useful life of two years.

Stock option plan and stock-based compensation costs

The Company applies the fair value method to account for options granted to its employees, officers, directors and consultants. Any consideration paid on exercise of stock options is credited to share capital. The stock-based compensation cost is stated as per the periods of option acquisition. The contributed surplus resulting from the stock-based compensation is transferred to the declared share capital when the options are exercised.

Foreign currency translation

Foreign currency

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Other assets and liabilities as well as items from the consolidated statements of operations are translated at the rates of exchange in effect on each transaction date. Gains and losses on translation are included in income.

Foreign operations

The Company's subsidiaries and consolidated VIEs are considered to be integrated. As a result, the accounts of the subsidiaries and VIEs are remeasured into the functional currency using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities are remeasured at the historical rates. Revenues and expenses are remeasured at the average rates for the periods. Gains and losses resulting from remeasurement are reflected in the consolidated statements of operations and deficit.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the accounting and tax bases of assets and liabilities using enacted income tax rates expected to be in effect in the fiscal year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets when it is more likely than not that some or all of such assets will not be realized.

Share and warrant issue expenses

Share and warrant issue costs are accounted for in the year in which they are incurred and recorded as an increase in deficit in the year in which the shares are issued.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the weighted average number of shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities.

The diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of the stock options and other dilutive securities.

Asset retirement obligations

Asset retirement obligations are recognized at fair value in the period in which the Company incurs a legal obligation associated to the retirement of an asset. The associated costs are capitalized as part of the carrying value of the related asset and amortized over its remaining useful life. The liability is accreted using a credit-adjusted risk-free interest rate.

3 Financial instruments

Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have material effects on the estimated fair value amounts.

The fair value of cash and cash equivalents, the short-term deposit, the receivable, sales tax and other receivables, and accounts payable and accrued liabilities is comparable to their carrying value due to the relatively short period to maturity of the instruments.

Interest rate risk

The Company's receivable, sales tax and other receivables, and accounts payable and accrued liabilities are non-interest bearing. Cash and cash equivalents bear interest at variable rates. The obligation related to the asset under capital lease bears interest at a fixed rate.

Foreign exchange risk

The Company's sales of concentrate and purchases are denominated in foreign currencies, predominantly in U.S. dollars and Mexican pesos. Consequently, certain assets, liabilities and expenses are exposed to currency fluctuations.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

4 Business acquisition

In June 2004, the Company acquired 100% of the shares of Perforaciones Mineras Ram S.A. for a cash consideration of \$150,000. The transaction was recorded using the purchase method whereby the purchase price was allocated to the machinery and equipment based on their estimated fair value at the date of the transaction. This company is currently inactive.

5 Inventories from pilot mining program

	As at December 31, 2005 \$	As at March 31, 2005 \$
Ore	83,921	-
Concentrate	58,318	220,600
	<u>142,239</u>	<u>220,600</u>

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

6 Temporary investment

	As at December 31, 2005 \$	As at March 31, 2005 \$
Ecu Silver Mining Inc.		
166 Common shares (quoted market value \$73) (as at March 31, 2005 – 916,666 common shares and quoted market value \$246,667)	42	246,667

Acting as sub-licensing agent for Nichromet Extraction Inc. (“Nichromet”) in Mexico (note 9), the Company signed, in October 2004, an agreement with Ecu Silver Mining Inc. (“Ecu Silver”) for the acquisition by the latter of the right to use the Nichromet technology for its mining projects in Mexico in consideration for 1,000,000 common shares, of which 500,000 will be issued when production begins, and a 1.5% net smelter royalty (“NSR”). The total consideration is shared equally with Nichromet. Therefore, only 250,000 common shares have been recorded as income in the amount of \$92,500 in the consolidated statements of operations and deficit using the fair market value, at the transaction dates, of the common shares received from Ecu Silver.

As part of this transaction, the Company made a private placement of \$200,000 in consideration for 666,666 units of Ecu Silver, each unit comprising one common share and one common share purchase warrant entitling its holder to subscribe to one common share of Ecu Silver at a price of \$0.39 until August 10, 2006.

During the nine-month period ended December 31, 2005, the Company disposed of 916,500 common shares of Ecu Silver for \$254,510. This transaction resulted in a gain on disposal of \$26,218.

As at December 31, 2005, the Company still owned 666,666 warrants of Ecu Silver which have all been exercised subsequent to the period-end and the shares obtained from the exercise of the warrants were also disposed of for a total consideration of \$412,800, the Company thereby realizing a gain on disposal of approximately \$152,800.

7 Property, plant and equipment

	As at December 31, 2005		
	Cost \$	Accumulated amortization \$	Net \$
Canada			
Office equipment	18,998	18,998	-

Dia Bras Exploration Inc.
Notes to Consolidated Financial Statements
December 31, 2005 and March 31, 2005

	As at March 31, 2005		
	Cost \$	Accumulated amortization \$	Net \$
Canada			
Office equipment	20,757	6,730	14,027

8 Mining assets

	As at December 31, 2005 \$	As at March 31, 2005 \$
Costs and deferred exploration expenses (a)	13,537,347	10,197,775
Exploration building and equipment (b)	4,979,639	4,561,913
Supplies inventory	1,119,116	773,960
Deposits on future mining assets	276,702	285,967
	19,912,804	15,819,615

a) Cost and deferred exploration expenses

	Cost		Deferred exploration expenses		Total	
	As at December 31, 2005 \$	As at March 31, 2005 \$	As at December 31, 2005 \$	As at March 31, 2005 \$	As at December 31, 2005 \$	As at March 31, 2005 \$
Mexico (Chihuahua District)						
Bolivar projects (options)						
Bolivar mine (i)	1,433,381	1,223,855	7,858,922	4,505,523	9,292,303	5,729,378
Piedras Verdes (ii)	301,828	226,175	2,072,362	2,072,362	2,374,190	2,298,537
Santa María (iii)	-	133,495	-	269,657	-	403,152
San José (iii)	74,864	74,864	271,504	271,504	346,368	346,368
El Cumbre (vii)	-	43,449	-	110,987	-	154,436
Mezquital	24,495	23,336	99,105	99,105	123,600	122,441
La Cascada	8,282	8,282	133,577	133,577	141,859	141,859
Val	2,560	2,560	100,928	100,928	103,488	103,488
Other	27,158	23,682	33,714	33,714	60,872	57,396
Promontorio projects (options)						
Promontorio and Hidalgo (iv)	135,702	61,147	811,330	718,832	947,032	779,979
El Magistral (v)	147,635	60,741	-	-	147,635	60,741
	2,155,905	1,881,586	11,381,442	8,316,189	13,537,347	10,197,775

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements
December 31, 2005 and March 31, 2005

	For the nine-month period ended December 31, 2005 \$	For the year ended March 31, 2005 \$
Balance – Beginning of period	10,197,775	2,552,001
Costs and deferred exploration expenses		
Property acquisition and related costs	451,263	1,493,588
Sampling	179,671	415,509
Geology consulting and management	660,598	633,696
Geophysical survey	27,927	122,515
Drilling and mining development	1,352,627	2,444,972
Pilot milling	1,570,210	335,393
Supervision and local administrative costs	1,056,287	647,934
Transportation of ore and concentrate	2,530,748	946,510
Road	41,725	187,761
Camp costs and food	550,053	133,306
Capitalized amortization of exploration building and equipment	833,442	356,161
Stock compensation costs (note 14)	205,011	410,135
	9,459,562	8,127,480
Write-off of mining assets – Costs and deferred exploration expenses ((iii), (vi), (vii) and (viii))	(557,588)	(481,706)
Sale of concentrate	(5,562,402)	-
	3,339,572	7,645,774
Balance – End of period	13,537,347	10,197,775

Mexico

i) Bolivar mine

In August 2004, the Company entered into a commercial agreement with the owners of the Bolivar mine property (Bolivar III and Bolivar IV (iii)). The agreement provides for the acquisition by the Company of 100% of the Bolivar mine property for a consideration of US\$1.2 million payable over a two-year period. The remaining payments are as follows:

	US\$
March 2006	162,500
September 2006	162,500

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

During the nine-month period ended December 31, 2005, the Company continued its pilot mining program on the Bolivar mine property. During that period, the Company sold copper and zinc concentrate in the amount of \$5,562,402. In accordance with its accounting policy, the amount of sales of concentrate before commencement of commercial production is accounted as a reduction of the deferred exploration expenses.

ii) Piedras Verdes

During the year ended March 31, 2004, the Company entered into an option agreement whereby it would acquire a 100% interest in the Piedras Verdes property for a cash consideration of US\$200,000 payable over a two-year period. The remaining payment is as follows:

	US\$
December 2006	20,000

iii) Santa María and San José projects

In July 2003, the Company entered into an option agreement with El Paso Partners, Ltd. ("EPP") whereby the Company can acquire a cumulative interest of up to 100% in certain gold, silver and base metal properties by incurring exploration expenditures of US\$4,000,000.

During the year ended March 31, 2005, the Company signed an addendum to the option agreement with EPP. Under the terms of the agreement, a 3% NSR and other additional payments (bonanza clause) were applicable to all properties in a defined area of interest. The addendum provides for the exclusion of the Bolivar, Bolivar III, Bolivar IV, La Charaparrita and Piedras Verdes properties from the defined area of interest. The Company therefore repurchased the 3% NSR and the bonanza clause applicable to the above-mentioned properties in consideration for the issuance of 300,000 common shares to EPP (note 12).

As at December 31, 2005, the Company decided to abandon the Santa María project. Therefore, the scheduled January 2006 payment for the Santa María project was not made and no further payment will be made. Consequently, the Company recorded a write-off of mining asset of \$403,152.

The remaining payments as at December 31, 2005 are as follows:

	San José US\$
January 2006	20,000
July 2006	37,500
January 2007	37,500
July 2007	37,500
January 2008	37,500

Starting July 2008, the Company would pay a yearly advance royalty payment of US\$62,500.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

During the year ended March 31, 2004, the Company paid a finder's fee of \$10,000 in cash and agreed to issue 400,000 common shares of its capital stock, of which a remaining 200,000 common shares were issued during the year ended March 31, 2005 (note 12).

iv) Promontorio and Hidalgo properties

In May 2004, the Company entered into a purchase option agreement whereby it could earn a 100% interest in the Promontorio and Hidalgo properties by paying the vendors a total of US\$3,000,000. The remaining payments are as follows:

	US\$
June 2006	100,000
June 2007	150,000
June 2008	150,000
June 2009	2,500,000

v) El Magistral

In November 2004, the Company entered into a purchase option agreement whereby the Company can purchase a 100% interest in the El Magistral property by paying US\$1,000,000, including US\$50,000 at the signing of the agreement.

The property is subject to a 1.5% NSR, up to a maximum of US\$1,500,000.

The remaining payments are as follows:

	US\$
November 2006	75,000
November 2007	100,000
November 2008	200,000
November 2009	500,000

vi) El Oro and PC 1135 properties

As part of the agreement to acquire the El Oro and PC 1135 properties, the Company was to issue 500,000 common shares to the vendor. Following the initial exploration programs on the properties, the Company tried to renegotiate the terms of agreement but without success. Therefore, these projects have been abandoned and consequently, the 500,000 common shares will not be issued. All costs and deferred exploration expenses allocated to those projects amounting to \$201,128 were written off during the year ended March 31, 2005.

vii) El Cumbre

All costs and deferred exploration expenses allocated to those projects amounting to \$154,436 were written off during the nine-month period ended December 31, 2005.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

Canada

viii) Wawa

During the year ended March 31, 2005, the Company abandoned its option on the MacKaskill and Magpie properties in the Wawa region where work obligations had not been met. Accordingly, the Company recorded a write-off of mining assets amounting to \$280,578.

b) Exploration building and equipment

	As at December 31, 2005		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Mexico			
Building			
Plant ⁽¹⁾	1,236,886	92,729	1,144,157
Camp	397,346	59,725	337,621
Machinery and equipment	2,801,458	579,361	2,222,097
Computers and office furniture	268,828	90,919	177,909
Rolling stock	1,246,615	361,417	885,198
Rolling stock under capital lease	218,109	5,452	212,657
	6,169,242	1,189,603	4,979,639
As at March 31, 2005			
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Mexico			
Building			
Plant under capital lease ⁽¹⁾	907,077	-	907,077
Camp	397,346	32,773	364,573
Machinery and equipment	2,112,084	173,118	1,938,966
Computers and office furniture	190,220	27,164	163,056
Rolling stock	1,311,347	123,106	1,188,241
	4,918,074	356,161	4,561,913

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

- ⁽¹⁾ During the year ended March 31, 2005, the Company entered into an agreement with Compañía Minera Metalúrgica Malpaso S. de R.L. de M.I. (“CMMM”) to purchase a mill under a capital lease. The mill is located in the province of Chihuahua and is used by the Company to process its ore and produce its concentrate. During the nine-month period ended December 31, 2005, the Company, through an agent, obtained control of the common shares in CMMM. Furthermore, it was concluded that CMMM is a VIE and that the Company is the primary beneficiary of this VIE because the Company operates and uses all the production capacity of the mill which is the only significant asset of CMMM and assumes all the financial risks of CMMM. Accordingly, CMMM has been consolidated in the financial statements of the Company since September 2005 under the guidance of AcG-15. Consequently, the capital lease obligation was eliminated.

In exchange for the control obtained of the common shares in CMMM, the Company advanced to an agent an amount of \$417,409 and committed itself to an additional amount of \$233,180 (US\$200,000). This latter consideration to be paid as at December 31, 2005 is included in accounts payable and accrued liabilities.

9 Deferred costs – Advance on royalty payment

On August 26, 2003, the Company acquired from Nichromet, an unrelated entity, the rights of a licence for the use and marketing of a metallurgical extractive technology for Mexico in consideration for a 1% NSR payment on all mineral production using the technology from any of the Company’s Mexican properties. As part of the agreement, the Company made a non-refundable royalty advance of \$350,000. If the technology covered by the Nichromet licence is lost for non-performance, the deferred costs will be written off.

In addition, the agreement gives the Company the right to act as an agent for the purpose of sourcing the licence to third parties in Mexico. Any consideration received will be shared equally with Nichromet.

During the term, Nichromet has agreed to extend the expiry date of the Nichromet licence to July 29, 2008 on the following basis:

- i) If Nichromet builds a pilot plant in Thetford Mines, Quebec, the Company will sell to Nichromet 1,000 tonnes of copper concentrate and 1,000 tonnes of zinc concentrate. The concentrates will be delivered at the Company’s expense to the Nichromet plant for processing and Nichromet will pay the Company the same price as that received by the Company when it sells similar concentrates in Mexico.
- ii) The Company will be responsible for and pay all costs of the feasibility study to be conducted in connection with processing the concentrates at the Nichromet plant.
- iii) After completing the feasibility study, in the event that the Company builds, prior to the expiry date of the Nichromet licence, a commercial plant with a minimum capacity of 100 tonnes per day, the Company will be entitled to a licence with an indefinite term.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

10 Intangible asset – Licence

	As at March 31, 2005		
	Cost \$	Accumulated a \$	Net \$
Licence	50,000	22,898	27,102

In April 2004, the Company entered into a two-year licensing agreement with Diagnos Inc., the owner of a proprietary software (the “Technology”) used in the field of data mining and which provides interpretations of databases generated by geophysical surveys, satellite imagery and geochemical analysis. The cost of the licence was \$50,000 for the territory of Mexico. The licence gives the Company access to the Technology in order to apply it to data generated from its Mexican properties. As the Company did not consider it had any additional advantage related to the licence, it decided to write off the intangible asset as at December 31, 2005.

11 Obligation related to assets under capital lease

- a) Future minimum payments required to satisfy payment terms under a capital lease in each of the next three years are as follows:

	\$
Years ending December 31, 2006	130,166
2007	96,599
2008	66,569
	<hr/>
	293,334
Less: Interest	86,071
	<hr/>
Total liability (note 11(b))	207,263
Less: Current portion	49,335
	<hr/>
	157,928
	<hr/>

- b) Included in the amount of \$207,263 is approximately \$49,334 payable in U.S. dollars (US\$42,900) and \$157,929 payable in Mexican pesos (MP\$1,437,131).

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

12 Share capital

Authorized

An unlimited number of common shares without par value

Issued

Changes in the Company's share capital were as follows:

	<u>For the nine-month period ended December 31, 2005</u>		<u>For the year ended March 31, 2005</u>	
	<u>Number of shares</u>	<u>Amount \$</u>	<u>Number of shares</u>	<u>Amount \$</u>
Balance – Beginning of period	51,457,477	20,782,703	35,714,991	13,546,277
Issued and paid in cash (i)	22,500,000	4,500,000	12,002,068	9,001,551
Less: Value of warrants (i)	-	-	-	(2,880,496)
Issued following exercise of warrants (ii)	7,767,292	1,638,898	3,203,334	860,808
Issued for acquisition of mining assets (note 8(a)(iii))	-	-	200,000	24,000
Issued to repurchase royalties (note 8(a)(iii))	-	-	300,000	225,000
Issued following exercise of stock options	-	-	37,084	5,563
Balance – End of period	<u>81,724,769</u>	<u>26,921,601</u>	<u>51,457,477</u>	<u>20,782,703</u>

- i) In November 2005, the Company completed a series of private placements of common shares whereby the Company issued a total of 22,500,000 common shares at a price of \$0.20 per share for a total consideration of \$4,500,000.

In November 2004, the Company completed private placements of 12,002,068 units at a price of \$0.75 per unit for total proceeds of \$9,001,551. Each unit comprised one common share and one common share purchase warrant entitling its holder to purchase one common share at a price of \$0.90 until November 2006. Finder's fees totalling \$568,102 were paid in cash.

The fair value of the common share purchase warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield – 0%, volatility – 119%, risk-free interest rate – 4.5%, and an expected life of two years. As a result, the fair value was estimated at \$2,880,496 (note 13).

- ii) In September 2005, a total of 7,767,292 warrants entitling their holders to purchase 7,767,292 common shares at a price of \$0.17 per share were exercised for a total amount of \$1,320,439 (for the year ended March 31, 2005, an amount of 3,203,334 purchase warrants was exercised for \$712,250).

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

13 Warrants

Changes in the Company's outstanding common share purchase warrants were as follows:

	For the nine-month period ended December 31, 2005		For the year ended March 31, 2005	
	Number of warrants	Amount \$	Number of warrants	Amount \$
Balance – Beginning of period	29,125,399	6,165,776	20,326,665	3,433,838
Issued as part of private placement of units (note 12(i))	-	-	12,002,068	2,880,496
Exercised (note 12(ii))	(7,767,292)	(318,459)	(3,203,334)	(148,558)
Expired (note 15)	(9,356,039)	(2,966,821)	-	-
Balance – End of period	12,002,068	2,880,496	29,125,399	6,165,776

Outstanding common share purchase warrants, entitling their holders to subscribe to an equivalent number of common shares, were as follows as at December 31, 2005:

Exercise price \$	Number of warrants	Expiry date
0.90	<u>12,002,068</u>	November 2006

14 Stock option plan

The Company maintains a stock option plan (the "Plan") whereby the Board of Directors may, from time to time, grant to employees, officers, directors or consultants options to acquire common shares of the Company on such terms and at such exercise prices as may be determined by the Board. As at December 31, 2005, the Plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance under the Plan shall be equal to 5,900,000 (3,700,000 as at March 31, 2005) common shares and that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of grant (note 22).

The options must be exercised within five years of grant. The exercise price may not be lower than the market price of the common shares at the time of grant. The options have a vesting period of 18 months: 25% at the date of grant and 12.5% for the following six quarters.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

A summary of changes in the Company's stock options outstanding is presented below:

	For the nine-month period ended December 31, 2005		For the year ended March 31, 2005	
	Number of options	Average exercise price \$	Number of options	Average exercise price \$
Beginning of period	3,046,250	0.79	1,283,959	0.81
Granted	1,940,000	0.29	1,870,000	0.76
Exercised	-	-	(37,084)	0.15
Expired or cancelled	(200,000)	0.85	(70,625)	0.41
End of period	4,786,250	0.59	3,046,250	0.79

A summary of options outstanding and exercisable as at December 31, 2005 is presented below:

Exercise price \$	Number of options		Expiry date
	Outstanding	Exercisable	
0.15	6,250	6,250	February 2008
0.85	980,000	980,000	October 2008
1.30	40,000	40,000	January 2009
0.75	1,320,000	1,155,000	August 2009
0.75	500,000	312,000	February 2010
0.30	1,790,000	671,250	September 2010
0.22	150,000	56,250	September 2010
	4,786,250	3,220,750	

In accordance with the Canadian Institute of Chartered Accountants Handbook Section 3870, the Company accounted for options granted in the nine-month period ended December 31, 2005 and the year ended March 31, 2005 using the fair value method. Total stock-based compensation costs for the nine-month period ended December 31, 2005 amount to \$454,819 (for the year ended March 31, 2005 – \$899,925) (note 15), including \$205,011 (as at March 31, 2005 – \$410,135) capitalized to mining assets as part of the Chihuahua project costs on the basis that the options were granted to officers and consultants involved exclusively in the exploration program in Mexico. The balance of \$249,808 (for the year ended March 31, 2005 – \$489,790) was recorded in the consolidated statements of operations and deficit.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

The weighted average of estimated fair value of each option granted was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	For the nine-month period ended December 31, 2005 \$	For the year ended March 31, 2005 \$
Average dividend per share	nil	nil
Estimated volatility	102%	105%
Risk-free interest rate	3.5%	3.8%
Expected life of options granted	4 years	4 years
Option price	\$0.29	\$0.75
Weighted average of estimated fair value of each option granted	\$0.21	\$0.53

15 Contributed surplus

	For the nine-month period ended December 31, 2005 \$	For the year ended March 31, 2005 \$
Balance – Beginning of period	1,380,600	480,675
Stock-based compensation cost (note 14)	454,819	899,925
Warrants expired (note 13)	2,966,821	-
Balance – End of period	<u>4,802,240</u>	<u>1,380,600</u>

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

16 Income taxes

- a) The provision for income taxes is different from what would have resulted from applying the combined Canadian statutory tax rate as a result of the following:

	For the nine-month period ended December 31, 2005 \$	For the year ended March 31, 2005 \$
Income tax benefit using statutory income tax rates	(514,600)	(652,200)
Income tax rate differential in Mexico	12,000	(17,200)
Stock-based compensation costs	77,800	152,400
Increase (decrease) in the valuation allowance	234,100	(126,000)
Foreign exchange gains taxable in Mexico	295,000	530,000
Inflation taxable on net financial liabilities in Mexico	92,000	66,000
Non-deductible items in Mexico	227,000	47,000
Other	19,300	-
	<hr/>	<hr/>
	442,600	-
	<hr/>	<hr/>

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements December 31, 2005 and March 31, 2005

b) The future income tax balances are summarized as follows:

	As at December 31, 2005 \$	As at March 31, 2005 \$
Current future income tax assets		
Non-capital losses	26,000	26,000
Share issue costs	110,000	105,000
	<hr/> 136,000	<hr/> 131,000
Long-term future income tax assets		
Property, plant and equipment	32,000	25,000
Mining assets	118,000	421,000
Non-capital losses	3,991,600	3,398,000
Capital losses	90,300	-
Share and warrants issue expense	156,800	245,000
Other	210,000	226,000
	<hr/> 4,598,700	<hr/> 4,315,000
Total future income tax assets	4,734,700	4,446,000
Less: Valuation allowance	<hr/> 1,957,100	<hr/> 1,723,000
	2,777,600	2,723,000
Long-term future income tax liabilities		
Mining assets	<hr/> (3,175,200)	<hr/> (2,723,000)
Total net future income tax liability	<hr/> <hr/> (397,600)	<hr/> <hr/> -

c) As at December 31, 2005, the cost for income tax purposes of the property, plant and equipment, mining assets and other costs totalled approximately \$6,402,600. The difference between this cost and the amounts capitalized in the financial statements arises mainly as a result of the write-off of some of the mining assets, the election of the Company in Mexico to deduct, in the year incurred, the exploration expenses and costs of mining claims prior to the commencement of commercial operations of a mine, and this cost may be applied to reduce future taxable income over an unlimited period of time.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

- d) The Company has accumulated non-capital losses of approximately \$13,565,000. These losses will expire from 2006 to 2015 as follows:

	\$
Years ending December 31, 2006	82,000
2007	184,000
2008	203,000
2009	154,000
2010	151,000
2011	622,000
2014	5,120,000
2015	7,049,000

- e) The unamortized balance for tax purposes of share and warrant issue expenses amounting to approximately \$825,000 will be deductible over the next four years.
- f) The Company's balance of capital losses amounts to \$265,327 and can be carried forward indefinitely against capital gains.
- g) These tax values of assets and liabilities have not been agreed to by the relevant tax authorities nor have they been disputed.

17 Asset retirement obligations

As of December 31, 2005, the Company has not recognized any asset retirement obligation as it does not have sufficient information to determine a realistic obligation maturity schedule. A liability stemming from any asset retirement obligation will be recorded in the period in which there is sufficient information to establish an obligation maturity schedule.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements
December 31, 2005 and March 31, 2005

18 Statements of cash flows

The changes in non-cash working capital items are as follows:

	For the nine-month period ended December 31, 2005 \$	For the year ended March 31, 2005 \$
Sales tax and other receivables	(25,250)	(906,014)
Inventories from pilot mining program	78,361	(220,600)
Prepaid expenses	(85,229)	18,068
Accounts payable and accrued liabilities	(718,781)	(103,199)
Income taxes payable	45,000	-
	<u>(705,899)</u>	<u>(1,211,745)</u>

- a) Changes in non-cash items from accounts payable and accrued liabilities totalling \$671,150 related to acquisition of mining assets are included in investing activities.
- b) Changes in non-cash receivable items totalling \$327,000 related to the sale of concentrate are included in investing activities.

19 Related party transactions

- a) During the nine-month period ended December 31, 2005, companies controlled by officers of the Company charged consulting fees amounting to \$517,688 (for the year ended March 31, 2005 – \$627,371), including \$388,937 capitalized to deferred exploration costs (for the year ended March 31, 2005 – \$463,168). As at December 31, 2005, the balance due to these officers amounted to \$11,840 (for the year ended March 31, 2005 – \$12,000).
- b) During the nine-month period ended December 31, 2005, directors, companies controlled by directors and officers of the Company participated in private placements of common shares (see terms described in note 12(i)) for a total consideration of \$886,500 (for the year ended March 2005 – \$773,200 for private placements of units).
- c) For the year ended March 31, 2005, a company controlled by a director charged sampling and analysis costs amounting to \$14,724 which were capitalized to mining assets.

The related party transactions occurred in the normal course of business and were recorded at the exchange value, which is the consideration determined and agreed to by the related parties.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

December 31, 2005 and March 31, 2005

20 Commitment

In February 2004, the Company and two other companies jointly signed a five-year lease for office premises. The annual rent of approximately \$150,000 is divided on a pro rata basis among the three companies.

21 Contingency

In 2005, legal proceedings were filed in Mexico against one of the Company's subsidiary, Dia Bras Mexicana S. de R.L. de C.V. ("DBM"), by an individual claiming the annulment and revocation of the purchase contracts of the Bolivar mine property entered into between DBM and Mr. Javier Octavio Bencomo Munoz and Minera Senda de Plata, S.A. de C.V. Following the notification of said claim against DBM, a defence was filed. Management cannot predict the outcome of these proceedings. Management is confident that the results of the proceedings will have no adverse material effect on the Company.

22 Subsequent events

On February 2, 2006, the Board of Directors approved an increase in the number of common shares reserved for issuance under the Company's stock option plan from 5,900,000 to 8,100,000. The number of common shares reserved represents approximately 10% of the number of shares issued and outstanding. The increase was approved by regulatory authorities on February 13, 2006.

On February 2, 2006, the Board granted a total of 2,700,000 options to purchase common shares of the Company to its directors, officers and employees. The options are exercisable at a price of \$0.40 until February 2011.

23 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.