

# **Dia Bras Exploration Inc.**

Consolidated Financial Statements  
**March 31, 2005 and 2004**

July 22, 2005

## **Auditors' Report**

### **To the Shareholders of Dia Bras Exploration Inc.**

We have audited the consolidated balance sheets of **Dia Bras Exploration Inc.** as at March 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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 March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# Dia Bras Exploration Inc.

## Consolidated Balance Sheets

As at March 31, 2005 and 2004

	2005 \$	2004 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,954,870	4,707,091
Short-term deposit, maturing August 31, 2005, bearing interest at 1.5% per annum (2004 – August 2, 2004 and 2.3%)	15,000	3,500,000
Sales tax and other receivables	1,011,872	112,580
Concentrate inventory	220,600	-
Temporary investment (note 5)	246,667	-
Prepaid expenses	8,819	26,887
	<hr/>	<hr/>
	4,457,828	8,346,558
<b>Property, plant and equipment</b> (note 6)	14,027	-
<b>Mining assets</b> (note 7)	15,819,615	3,214,065
<b>Deferred costs – Advance on royalty payment</b> (note 8)	350,000	350,000
<b>Intangible asset – Licence</b> (note 9)	27,102	-
	<hr/>	<hr/>
	20,668,572	11,910,623
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	289,749	206,575
Obligation related to asset under capital lease	518,300	-
	<hr/>	<hr/>
	808,049	206,575
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 10)	20,782,703	13,570,277
<b>Warrants</b> (note 11)	6,165,776	3,433,838
<b>Deficit</b>	(8,468,556)	(5,780,742)
<b>Contributed surplus</b> (note 13)	1,380,600	480,675
	<hr/>	<hr/>
	19,860,523	11,704,048
	<hr/>	<hr/>
	20,668,572	11,910,623
<b>Approved by the Board of Directors</b>		

(s) Réjean Gosselin Director

(s) Philip Renaud Director

# Dia Bras Exploration Inc.

## Consolidated Statements of Operations and Deficit For the years ended March 31, 2005 and 2004

	2005 \$	2004 \$
<b>Income</b>		
Agent income – sub-licencing fee (note 5)	92,500	-
Interest income	114,440	30,872
	<u>206,940</u>	<u>30,872</u>
<b>Expenses</b>		
Administrative expenses	490,108	160,194
Professional and consulting fees	192,012	153,414
Information to shareholders and trustee fees	169,106	102,046
Promotion expenses	372,442	472,391
Stock-based compensation costs (note 12)	489,790	293,500
Amortization of property, plant and equipment	6,730	-
Amortization of intangible asset – licence	22,898	-
Write-off of mining assets (note 7(a)(vi) and (vii))	481,706	-
Write-down of temporary investment	45,833	-
Loss on currency exchange	32,119	26,029
	<u>2,302,744</u>	<u>1,207,574</u>
<b>Net loss for the year</b>	(2,095,804)	(1,176,702)
<b>Deficit – Beginning of year</b>	(5,780,742)	(3,529,419)
<b>Share and warrant issue expenses</b>	(592,010)	(1,074,621)
<b>Deficit – End of year</b>	<u>(8,468,556)</u>	<u>(5,780,742)</u>
<b>Basic and diluted net loss per share</b>	<u>(0.05)</u>	<u>(0.05)</u>
<b>Basic and diluted weighted average number of outstanding shares</b>	<u>42,261,582</u>	<u>21,644,794</u>

**Dia Bras Exploration Inc.**  
Consolidated Statements of Cash Flows  
For the years ended March 31, 2005 and 2004

	2005 \$	2004 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net loss for the year	(2,095,804)	(1,176,702)
Adjustments for		
Agent income – sub-licencing fee	(92,500)	-
Stock-based compensation costs	489,790	293,500
Amortization of property, plant and equipment	6,730	-
Amortization of intangible asset – licence	22,898	-
Write-off of mining assets	481,706	-
Write-down of temporary investment	45,833	-
Unrealized loss on currency exchange	32,119	-
	(1,109,228)	(883,202)
Changes in non-cash working capital items (note 16)	(1,023,745)	2,602
	(2,132,973)	(880,600)
<b>Financing activities</b>		
Share capital issued (note 10)	6,838,868	9,341,757
Warrants issued (note 11)	2,880,496	3,454,698
Share and warrant issue expenses	(592,010)	(549,621)
	9,127,354	12,246,834
<b>Investing activities</b>		
Decrease (increase) in short-term deposit	3,485,000	(3,500,000)
Business acquisition (note 4)	(150,000)	-
Acquisition of property, plant and equipment	(20,757)	-
Increase in deferred costs – Advance on royalty payment	-	(350,000)
Purchase of intangible asset – licence	(50,000)	-
Increase in mining assets	(11,783,821)	(2,905,890)
Acquisition of temporary investment	(200,000)	-
	(8,719,578)	(6,755,890)
<b>Translation adjustments on cash and cash equivalents</b>	(27,024)	-
<b>Increase (decrease) in cash and cash equivalents during the year</b>	(1,752,221)	4,610,344
<b>Cash and cash equivalents – Beginning of year</b>	4,707,091	96,747
<b>Cash and cash equivalents – End of year</b>	2,954,870	4,707,091

# **Dia Bras Exploration Inc.**

Notes to Consolidated Financial Statements

**March 31, 2005 and 2004**

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## **1 Nature of operations**

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

The Company has options to acquire interests in mining properties located in the Chihuahua District of Mexico which are presently at the exploration stage. 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, 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, 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 is doing some pilot mining as part of a prefeasibility study.

The Company has taken reasonable measures, in accordance with industry standards for properties at that stage of exploration, 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.

## **2 Significant accounting policies**

### **Basis of consolidation**

The consolidated financial statements of the Company include the accounts of the Company and of 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., Asesores Administrativos y Recursos Humanos S. de R.L. de C.V. and Perforaciones Mineras Ram S.A.

### **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. Actual results could differ from those estimates and such differences could be material.

# **Dia Bras Exploration Inc.**

Notes to Consolidated Financial Statements

**March 31, 2005 and 2004**

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## **Cash and cash equivalents**

Cash and cash equivalents include 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.

## **Concentrate inventory**

Concentrate inventory is recorded at the lower of cost and net realizable value.

## **Property, plant and equipment**

Office equipment is recorded at cost and depreciated 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.

### *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.

Concentrate inventory produced from pilot mining before commencement of commercial production is shown as a reduction of related deferred exploration expenses.

# Dia Bras Exploration Inc.

## Notes to Consolidated Financial Statements

March 31, 2005 and 2004

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### *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:

	<b>Method</b>	<b>Rate/Period</b>
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.

### **Intangible asset – Licence**

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

### **Stock option plan and stock-based compensation costs**

Effective April 1, 2003, the Company applied 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.

# **Dia Bras Exploration Inc.**

## Notes to Consolidated Financial Statements

**March 31, 2005 and 2004**

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### Foreign operations

The Company's subsidiaries are considered to be integrated. As a result, the subsidiaries' accounts 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 date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the average rate for the period. Gains and losses resulting from remeasurement are reflected in the consolidated statement of operations.

### 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 expenses 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.

### 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 depreciated over its remaining useful life. The liability is accreted using a credit adjusted risk-free interest rate.

# **Dia Bras Exploration Inc.**

Notes to Consolidated Financial Statements

**March 31, 2005 and 2004**

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## **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, short-term deposit, 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 sales tax and other receivables and accounts payable and accrued liabilities are non-interest bearing. Cash and cash equivalents bear interest at variable rates.

## **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.

# Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

March 31, 2005 and 2004

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## 5 Temporary investment

	2005	2004
	\$	\$
Ecu Silver Mining Inc. ("Ecu Silver")		
916,666 Common shares		
(quoted market value of \$246,667)	246,667	-

Acting as sub-licensing agent for Nichromet Extraction Inc. ("Nichromet") in Mexico (note 8), in October 2004 the Company signed an agreement with Ecu Silver for the acquisition by Ecu Silver 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. As such, only 250,000 common shares have been recorded as income in the amount of \$92,500 in the consolidated statement of operations using the fair market value, at the transaction date, 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. The proceeds of the private placement will be used by Ecu Silver for the installation of a metallurgical laboratory to test samples using the Nichromet technology. Moreover, the Company will have the right to use the metallurgical laboratory, and any pilot plant that may be built subsequently, at cost plus 10%.

## 6 Property, plant and equipment

	2005		2004	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
<b>Canada</b>				
Office equipment	20,757	6,730	14,027	-

**Dia Bras Exploration Inc.**  
Notes to Consolidated Financial Statements  
**March 31, 2005 and 2004**

**7 Mining assets**

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Costs and deferred exploration expenses (a)	10,197,775	2,552,001
Exploration building and equipment (b)	4,561,913	662,064
Supplies inventory	773,960	-
Deposits on future mining assets	285,967	-
	<u>15,819,615</u>	<u>3,214,065</u>

a) Cost and deferred exploration expenses

	<b>Cost</b>		<b>Deferred exploration expenses</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Mexico (Chihuahua District)</b>						
Bolivar project (options)						
Bolivar mine (i)	1,223,855	-	4,505,523	-	5,729,378	-
Piedras Verdes (ii)	226,175	132,130	2,072,362	1,013,515	2,298,537	1,145,645
Santa María (iii)	133,495	128,172	269,657	206,965	403,152	335,137
San José (iii)	74,864	71,420	271,504	119,026	346,368	190,446
El Cumbre	43,449	38,099	110,987	112,569	154,436	150,668
Mezquital	23,336	18,048	99,105	94,236	122,441	112,284
El Oro (vi)	-	14,544	-	170,082	-	184,626
La Cascada	8,282	4,267	133,577	92,440	141,859	96,707
Val	2,560	-	100,928	-	103,488	-
Other	23,682	3,235	33,714	52,675	57,396	55,910
Promontorio Project (options)						
Promontorio and Hidalgo (iv)	61,147	-	718,832	-	779,979	-
El Magistral (v)	60,741	-	-	-	60,741	-
	<u>1,881,586</u>	<u>409,915</u>	<u>8,316,189</u>	<u>1,861,508</u>	<u>10,197,775</u>	<u>2,271,423</u>
<b>Canada</b>						
Wawa (option) (vii)	-	159,907	-	120,671	-	280,578
	<u>1,881,586</u>	<u>569,822</u>	<u>8,316,189</u>	<u>1,982,179</u>	<u>10,197,775</u>	<u>2,552,001</u>

# Dia Bras Exploration Inc.

## Notes to Consolidated Financial Statements

March 31, 2005 and 2004

	2005 \$	2004 \$
Balance – Beginning of year	2,552,001	28,000
Costs and deferred exploration expenses		
Property acquisition and related costs	1,493,588	564,822
Sampling	415,509	75,890
Geology consulting and management	633,696	506,402
Geophysical survey	122,515	637,893
Drilling	2,665,572	255,742
Pilot mining development	335,393	-
Supervision and local administrative costs	647,934	74,035
Transportation	946,510	184,467
Road	187,761	37,575
Camp costs	133,306	-
Capitalized amortization of exploration building and equipment	356,161	-
Stock compensation costs (note 12)	410,135	187,175
	8,348,080	2,524,001
Write-off of mining assets ((vi) and (vii))	(481,706)	-
Concentrate inventory	(220,600)	-
	7,645,774	2,524,001
Balance – End of year	10,197,775	2,552,001

### 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\$
September 2005	162,500
March 2006	162,500
September 2006	162,500

# Dia Bras Exploration Inc.

## Notes to Consolidated Financial Statements

March 31, 2005 and 2004

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ii) Piedras Verdes

During the year ended March 31, 2004, the Company entered into an option agreement whereby the Company 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 payments are as follows:

	US\$
December 2005	65,000
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 and making additional cumulative payments of up to US\$340,000 as follows:

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

Starting July 2008, the Company would pay a yearly advance royalty payment of US\$62,500 and US\$75,500 for the Santa Maria and San José properties respectively.

During the year ended March 31, 2005, the Company signed an addendum to the purchase 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 10).

During the year ended March 31, 2004 (note 10), 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.

# Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

March 31, 2005 and 2004

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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 to the vendors a total of US\$3,000,000. The remaining payments are as follows:

	US\$
June 2005	60,000
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 2005	75,000
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.

# Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

March 31, 2005 and 2004

## Canada

### vii) Wawa

During the year, 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

			<u>2005</u>	<u>2004</u>
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>	<b>Net</b>
	\$	amortization	\$	\$
		\$		
<b>Mexico</b>				
<b>Building</b>				
Plant under capital lease	907,077	-	907,077	-
Camp	397,346	32,773	364,573	168,667
Machinery and equipment	2,112,084	173,118	1,938,966	359,635
Rolling stock	1,311,347	123,106	1,188,241	100,724
Computers and office furniture	190,220	27,164	163,056	33,038
	<u>4,918,074</u>	<u>356,161</u>	<u>4,561,913</u>	<u>662,064</u>

The plant under capital lease was operational as at year-end; therefore, no amortization was recorded in 2005.

## 8 Deferred costs – Advance on royalty payment

On August 26, 2003, the Company acquired from Nichromet 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 right to the Company 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.

# Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

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## 9 Intangible asset – Licence

			2005	2004
	Cost \$	Accumulated amortization	Net \$	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 is \$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.

# Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

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## 10 Share capital

Authorized

An unlimited number of common shares without par value

Issued

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

	2005		2004	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of year	35,714,991	13,546,277	10,846,011	3,589,660
Issued and paid in cash (i)	12,002,068	9,001,551	20,313,997	12,095,551
Less: Value of warrants (i)	-	(2,880,496)	-	(3,454,698)
Issued following exercise of stock options	37,084	5,563	621,041	118,658
Issued following exercise of warrants	3,203,334	860,808	2,987,332	603,106
Issued for acquisition of mining assets (note 7(a)(iii))	200,000	24,000	650,000	69,000
Issued to repurchase royalties (note 7(a)(iii))	300,000	225,000	-	-
Issued as commission (i)	-	-	296,610	525,000
Balance – End of year	51,457,477	20,782,703	35,714,991	13,546,277
To be issued				
For acquisition of mining assets (note 7(a)(iii))	-	-	200,000	24,000
Balance issued and to be issued	51,457,477	20,782,703	35,914,991	13,570,277

- i) 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 comprises 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 11).

# **Dia Bras Exploration Inc.**

## Notes to Consolidated Financial Statements

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In December 2003, the Company completed private placements of 4,919,969 units at a price of \$1.57 per unit for total proceeds of \$7,724,351. Each unit comprises one common share and one purchase warrant entitling its holder to purchase one common share at a price of \$2.50 until December 2005. The Company issued 296,610 common shares as a commission on the placement at a price of \$1.77 per common share for a total consideration of \$525,000.

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 – 116%, risk-free interest rate – 3.5%, and an expected life of two years. As a result, the fair value was estimated at \$2,050,464.

In November 2003, the Company completed private placements of 2,987,778 units at a price of \$0.72 per unit for total proceeds of \$2,151,200. Each unit comprises one common share and one purchase warrant entitling its holder to purchase one common share at a price of \$0.94 until November 2005.

The fair value of the purchase warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield – 0%, volatility – 116%, risk-free interest rate – 3.5%, and an expected life of two years. As a result, the fair value was estimated at \$675,786.

In October 2003, the Company completed private placements of 1,406,250 units at a price of \$0.64 per unit for total proceeds of \$900,000. Each unit comprises one common share and one purchase warrant entitling its holder to purchase one common share at a price of \$0.84 until October 2005.

The fair value of the purchase warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield – 0%, volatility – 114%, risk-free interest rate – 3.5%, and expected life of two years. As a result, the fair value was estimated at \$276,155.

In September 2003, the Company completed private placements of 11,000,000 units at a price of \$0.12 per unit for total proceeds of \$1,320,000. Each unit comprises one common share and one purchase warrant entitling its holder to purchase one common share at a price of \$0.17 until September 2005.

The fair value of the purchase warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield – 0%, volatility – 118%, risk-free interest rate – 3.5%, and an expected life of two years. As a result, the fair value was estimated at \$452,293.

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Notes to Consolidated Financial Statements

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## 11 Warrants

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

	2005		2004	
	Number of warrants	Amount \$	Number of warrants	Amount \$
Balance – Beginning of year	20,326,665	3,433,838	3,000,000	-
Issued as part of private placement of units (note 10(i))	12,002,068	2,880,496	20,313,997	3,454,698
Exercised	(3,203,334)	(148,558)	(2,987,332)	(20,860)
Balance – End of year	29,125,399	6,165,776	20,326,665	3,433,838

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

Exercise price \$	Number of warrants	Expiry date
0.17	8,017,667	September 2005
0.84	1,406,250	October 2005
0.94	2,779,445	November 2005
2.50	4,919,969	December 2005
0.90	12,002,068	November 2006
	<u>29,125,399</u>	

## 12 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. 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 3,700,000 (2004 – 2,295,000) 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.

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.

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

	<b>2005</b>		<b>2004</b>	
	<b>Number of options</b>	<b>Average exercise price \$</b>	<b>Number of options</b>	<b>Average exercise price \$</b>
Beginning of year	1,283,959	0.81	680,000	0.16
Granted	1,870,000	0.76	1,235,000	0.85
Exercised	(37,084)	0.15	(621,041)	0.19
Expired or cancelled	(70,625)	0.41	(10,000)	0.20
End of year	<b>3,046,250</b>	<b>0.79</b>	<b>1,283,959</b>	<b>0.81</b>

<b>Exercise price \$</b>	<b>Number of options</b>		<b>Expiry date</b>
	<b>Outstanding</b>	<b>Exercisable</b>	
0.15	6,250	6,250	February 2008
0.85	1,180,000	1,032,500	October 2008
1.30	40,000	25,000	January 2009
0.75	1,320,000	660,000	August 2009
0.75	500,000	125,000	February 2010
	<b>3,046,250</b>	<b>1,848,750</b>	

In accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, the Company accounted for options granted in the years ended March 31, 2005 and 2004 using the fair value method. Total stock-based compensation costs for the year amount to \$899,925 (2004 – \$480,675) (note 13), including \$410,135 (2004 – \$187,175) 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 \$489,790 (2004 – \$293,500) was expensed in the statement of operations.

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

	<b>2005</b>	<b>2004</b>
Average dividend per share	nil	nil
Estimated volatility	105%	75%
Risk-free interest rate	3.8%	3.5%
Expected life of options granted	4 years	5 years
Option price	\$0.75	\$0.85
Weighted average of estimated fair value of each option granted	\$0.53	\$0.54

# Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

March 31, 2005 and 2004

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## 13 Contributed surplus

	2005 \$	2004 \$
Balance – Beginning of year	480,675	-
Stock-based compensation cost (note 12)	899,925	480,675
	<hr/>	<hr/>
Balance – End of year	1,380,600	480,675
	<hr/>	<hr/>

## 14 Income taxes

The future income tax balances are summarized as follows:

	2005 \$	2004 \$
Current future income tax assets		
Non-capital losses	26,000	23,000
Share issue costs	105,000	72,000
	<hr/>	<hr/>
	131,000	95,000
	<hr/>	<hr/>
Long-term future income tax assets		
Property, plant and equipment	25,000	-
Mining assets	421,000	403,000
Non-capital losses	3,398,000	1,027,000
Share issue costs	245,000	215,000
Other	226,000	109,000
	<hr/>	<hr/>
	4,315,000	1,754,000
	<hr/>	<hr/>
Total future income tax assets	4,446,000	1,849,000
	<hr/>	<hr/>
Long-term future income tax liabilities		
Mining assets	(2,723,000)	-
	<hr/>	<hr/>
Total net future income tax assets	1,723,000	1,849,000
Less: Valuation allowance	(1,723,000)	(1,849,000)
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# Dia Bras Exploration Inc.

## Notes to Consolidated Financial Statements

March 31, 2005 and 2004

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As at March 31, 2005, the cost for income tax purposes of the mining assets totalled approximately \$7,092,000. The difference between this cost and the amount capitalized in the financial statements arises mainly as a result of the write-off of some of the mining assets and 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. This cost may be applied to reduce future taxable income over an unlimited period of time.

The Company has accumulated non-capital losses of approximately \$11,955,000. These losses will expire from 2006 to 2015 as follows:

	\$
Years ending March 31, 2006	82,000
2007	184,000
2008	203,000
2009	154,000
2010	151,000
2011	622,000
2012	1,044,000
2015	9,515,000

The unamortized balance for tax purposes of share issue expenses amounting to approximately \$1,124,000 will be deductible over the next four years.

The potential net tax effects of these items are not reflected in these consolidated financial statements since it is more likely than not that the income tax asset will not be realized.

### 15 Asset retirement obligations

As of March 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

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## 16 Statements of cash flows

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

	2005 \$	2004 \$
Sales tax and other receivables	(906,014)	(78,163)
Concentrate inventory	(220,600)	-
Prepaid expenses	18,068	(22,887)
Accounts payable and accrued liabilities	84,801	103,652
	<u>(1,023,745)</u>	<u>2,602</u>

## 17 Related party transactions

During the year, companies controlled by officers of the Company charged consulting fees amounting to \$627,371 (2004 – \$263,982), including \$463,168 capitalized to deferred exploration costs (2004 – \$203,527). As at March 31, 2005, the balance due to these officers amounted to \$12,000 (2004 – \$26,763).

In November 2004, directors and officers of the Company participated in private placements of units (see terms described in note 10(i)) for a total consideration of \$773,300.

During the year, a company controlled by a director charged sampling and analysis costs amounting to \$14,724 which were capitalized to mining assets (2004 – \$64,875).

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.

## 18 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 equally among the three companies.

## 19 Comparative figures

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