



DIA BRAS EXPLORATION INC.

Interim Consolidated Financial Statements
First Quarter ended March 31, 2007
(UNAUDITED)

Dia Bras Exploration Inc.
Consolidated Balance Sheets (unaudited)

	As at March 31, 2007 \$	As at December 31, 2006 \$
Assets		
Current assets		
Cash and cash equivalents	16,274,172	19,704,587
Receivables (note 4)	927,697	3,347,046
Sales tax and other receivables	3,254,632	3,981,826
Inventories from pilot-mining program (note 5)	696,648	471,981
Temporary investment (note 6)	850,000	340,000
Prepaid expenses	10,168	20,168
Future income tax assets	2,102,776	758,402
	<u>24,116,093</u>	<u>28,624,010</u>
Mining assets (note 7)	28,519,322	24,126,921
Property, plant and equipment	145,998	-
Deferred costs – Advance on royalty payment	<u>-</u>	<u>-</u>
	<u>52,781,413</u>	<u>52,750,931</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,352,900	830,978
Income taxes payable (note 12)	150,425	57,425
	<u>1,503,325</u>	<u>888,403</u>
Excess cost recovery – pilot mining (note 7 (a) (i))	6,048,069	6,770,293
Future income tax liabilities (note 12)	<u>1,613,139</u>	<u>727,765</u>
	<u>9,164,533</u>	<u>8,386,461</u>
Shareholders' Equity		
Share capital (note 8)	51,646,678	51,308,067
Warrants and compensation options (note 9)	193,603	193,603
Contributed surplus (note 11)	6,527,753	6,590,223
Deficit	<u>(14,751,154)</u>	<u>(13,727,423)</u>
	<u>43,616,880</u>	<u>44,364,470</u>
	<u>52,781,413</u>	<u>52,750,931</u>
Commitments and Contingency (notes 16 and 17)		

Approved by the Board of Directors

(s) Thomas L. Robyn

Director

(s) Philip Renaud

Dia Bras Exploration Inc.

Consolidated Statements of Operations and Deficit (unaudited)

	For the three-month period ended March 31, 2007	For the three-month period ended March 31, 2006
	\$	\$
Income		
Interest income and other	109,892	18,875
Gain on disposal of temporary investment (note 6)	-	152,800
Change in value of temporary investment (note 6)	110,500	-
	<u>220,392</u>	<u>171,675</u>
Expenses		
Administrative expenses	242,601	127,682
Professional and consulting fees	84,112	83,607
Information to shareholders and trustee fees	90,932	73,334
Investor relations and corporate development	99,607	61,610
Stock-based compensation costs (note 10)	41,994	234,685
Interest expenses	14,764	11,504
Amortization of property, plant and equipment	7,191	-
Loss on variation of commodity market prices	1,282,415	-
Loss on currency exchange	146,007	69,720
	<u>2,009,623</u>	<u>662,142</u>
Loss before income taxes for the period	(1,789,231)	(490,467)
Future income taxes provision (recovery) (note 12)		
Current	93,000	-
Future	(459,000)	(110,600)
	(366,000)	(110,600)
Loss for the period	(1,423,231)	(379,867)
Deficit – Beginning of period	(13,727,423)	(10,605,248)
Change in accounting policy related to financial instruments	399,500	-
Restated balance – beginning of period	(13,327,923)	(10,605,248)
Deficit – End of period	<u>(14,751,154)</u>	<u>(10,985,115)</u>
Basic and diluted loss per share	0,01	0,01
Basic and diluted weighted average number of outstanding shares	<u>109,663,346</u>	<u>81,739,639</u>

Dia Bras Exploration Inc.
Consolidated Statement of Comprehensive Income

**For the
three-month
period ended
March 31,
2007
\$**

Net loss	(1,423,231)
No other comprehensive income components	-
Comprehensive loss	(1,423,231)

Dia Bras Exploration Inc.

Consolidated Statements of Cash Flows (unaudited)

	For the three-month period ended March 31, 2007 \$	For the three-month period ended March 31, 2006 \$
Cash flows from		
Operating activities		
Loss for the period	(1,423,231)	(379,867)
Adjustments for		
Future income taxes (note 12)	(459,000)	(110,600)
Gain on disposal of temporary investment (note 6)	-	(152,800)
Stock-based compensation costs (note 10)	41,994	234,685
Change in value of temporary investment (note 6)	(110,500)	-
Amortization of property, plant and equipment	7,191	-
Loss on variation of commodity market prices	1,282,415	-
Loss (gain) on currency exchange	146,007	(3,724)
	<u>(515,124)</u>	<u>(412,306)</u>
Changes in non-cash working capital items (note 14)	1,364,488	(326,912)
	<u>849,364</u>	<u>(739,218)</u>
Financing activities		
Payment of obligation related to assets under capital lease	-	(20,173)
Issuance of share capital	218,000	-
	<u>218,000</u>	<u>13,764</u>
Investing activities		
Increase in mining assets	(9,698,695)	(4,836,777)
Sales of concentrate	5,354,105	5,798,281
Purchase of short-term deposits	-	(10,000)
Acquisition of temporary investment (note 6 (c))	-	(260,000)
Disposal of temporary investment (note 6 (c))	-	412,842
Acquisition of property, plant and equipment	(153,189)	-
	<u>(4,497,779)</u>	<u>1,104,346</u>
Increase in cash and cash equivalents during the period	(3,430,415)	378,892
Cash and cash equivalents – Beginning of period	19,704,587	3,541,961
Cash and cash equivalents – End of period	<u>16,274,172</u>	<u>3,920,853</u>

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

1 Nature of operations

Dia Bras Exploration Inc. (the “Company”), an exploration-stage company, was incorporated under the *Canada Business Corporations Act* on April 11, 1996.

The Company has mining rights and options to acquire interests in mining properties located in the State of Chihuahua, 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.

In 2005, the Company began a pilot-mining program at the Bolivar Mine property in order to gather information and data in view of a pre-feasibility study. However, the Company has not yet reached the commercial production stage.

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.

2 Interim financial information and basis of consolidation

Interim financial information

These interim consolidated financial statements for the three-month period ended March 31, 2007, have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the Company’s most recent annual financial statements. All disclosures required for annual financial statements have not been included in these financial statements. Therefore, these statements should be read in conjunction with the December 31, 2006 audited financial statements.

Basis of consolidation

These interim 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., and Nichromex S. de R.L. de C.V.

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.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

3 New accounting standards

Financial Instruments – Comprehensive income

Effective January 1, 2007, Dia Bras Exploration Inc. adopted the new Canadian Institute of Chartered Accountants (“CICA”) handbook sections accounting, related to Financial Instruments Section 1530, “Comprehensive income”, Section 3251 “Equity”, and Section 3855 “Financial instruments-Recognition and Measurement”.

Section 1530 “Comprehensive Income”

Section 1530 introduced a new requirement to present certain revenues, expenses, gains and losses arising from transactions and other events from non-owner sources, that otherwise would not be immediately recorded in income, in a comprehensive income statement which is now required to constitute a complete set of financial statements. The accumulated effect of comprehensive income or loss can now be found in equity of the Consolidated Balance Sheet as Accumulated Other Comprehensive Income.

Section 3855 “Financial Instruments-Recognition and Measurement”

One of the basic principles of Section 3855 is that fair value is the most relevant measure for financial instruments.

Financial assets must be classified into one of the four following categories:

- Held-to-maturity investments (measured at cost);
- Loans and receivables (measured at amortized cost);
- Held for trading assets (measured at fair value with changes in fair value recognized in earnings immediately);
- Available-for-sale assets, including investments in equity securities, held-to-maturity investments that an entity elects to designate as being available for sale and any financial asset that does not fit into any other category (measured at fair value with changes in fair value accumulated in Other Comprehensive Income until the asset is sold).

Financial liabilities, which include long-term debt and other similar instruments, must be accounted for at amortized cost, except for those classified as held for trading, which must be measured at fair value.

Sales of concentrate: Effective January 1, 2007 final settlement billings adjustments are recorded in the Consolidated Statements of Operations and Deficit instead of an adjustment to sales of concentrate which before commencement of commercial production is recorded as a reduction of the related deferred exploration expenses.

Variation in the value of the provision for final settlement due to commodity prices and exchange rate changes are also recorded in the Consolidated Statements of Operations and Deficit.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

Impact

On January 1, 2007 these changes in accounting policies required the following adjustments:

	Balance December 31, 2006 \$	Adjustments \$	Balance January 1, 2007 \$
Temporary investment (held for trading)	340,000	399,500	739,500

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 the 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 allowance for doubtful accounts, mining 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 bank balances and interest-bearing, short-term liquid investments repurchasable at all times without penalties.

Inventories from pilot mining

Inventories from pilot mining consist of material and concentrate located at the plant and are recorded at the lower of cost and net realizable value.

Mining assets

Mining assets include mining rights and options to acquire interests in mining properties, deferred exploration expenses, land, exploration buildings 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

Costs and exploration expenses are deferred until the economic viability of the project has been established, at which time costs are added to property, 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 Consolidated Statements of Operations and Deficit. In the case of a partial sale, if carrying costs exceed the proceeds, only the loss is reflected.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

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.

The Company's concentrate is sold under pricing arrangements whereby final settlement prices are determined by quoted market prices in a period subsequent to the date of sale. The concentrate is provisionally priced at the time of sale based on forward prices for the expected date of the final settlement. Subsequent variations of the price are recorded in the Consolidated Statement of Operations and Deficit.

If the accumulated revenue from sales of concentrate from the pilot-mining program exceeds the related costs and deferred exploration costs, then the excess cost recovery is included in long-term liabilities until (i) the situation is reversed, or (ii) commercial production has begun at which time it will be netted against construction costs, if any, of the new facilities, or (iii) the property is abandoned.

The Company expects commercial production on the Bolivar project to commence no later than the end of 2009. Commercial production has been defined as being the stage where the Company reaches a production level of 65% of mill capacity for a consecutive period of 90 days within a maximum period of six months. The production level will be calculated on the rated capacity of an on-site mill.

4 Receivables

The Company's receivables are detailed as follows:

	As at March 31, 2007 \$	As at December 31, 2006 \$
Receivables from pilot mining	1,189,461	1,568,683
Provision for final settlement ⁽ⁱ⁾	(261,764)	1,778,363
	<u>927,697</u>	<u>3,347,046</u>

⁽ⁱ⁾ The provision for final settlement represents the estimated amount which would be recovered or paid back as at March 31, 2007 on shipments of concentrate for which the Company received provisional payments of approximately 90% of the shipment value at the date of shipment. As at March 31, 2007, shipments which had not reached the final settlement stage comprised approximately 7,875 tonnes of zinc concentrate and 3,068 tonnes of copper concentrate (7,430 tonnes and 4,090 tonnes, respectively, as at December 31, 2006). Final settlement value will be determined at the fixed quotation date.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

5 Inventories from pilot-mining program

	As at March 31, 2007 \$	As at December 31, 2006 \$
Material	10,262	10,928
Concentrate	686,386	461,053
	<u>696,648</u>	<u>471,981</u>

6 Temporary investment

	As at March 31, 2007 \$	As at December 31, 2006 \$
Pershimco Resources Inc. ("Pershimco")		
850,000 common shares (a) – at quoted market value (December 31, 2006 – at cost)	569,500	306,000
850,000 warrants (b) exercisable at \$0.40 each until November 2007– Fair value (December 31, 2006 at cost)	280,500	34,000
	<u>850,000</u>	<u>340,000</u>

- (a) The Company has elected to consider its investment in common shares of Pershimco Resources Inc. as held for trading. Under this classification, any change in value between balance sheet dates is recorded in the Consolidated Statements of Operations and Deficit.
- (b) The Warrants held by the Company represent derivative instruments and are recorded for at fair value. Any change in fair value between balance sheet dates is recorded in the Consolidated Statements of Operations and Deficit.
- (c) As at December 31, 2005, the Company owned 166 common shares and 666,666 warrants, exercisable at a price of \$0.39 per warrant, of Ecu Silver Mining Inc. During the three-month period ended March 31, 2006, the company exercised all the warrants for \$260,000 and disposed of all the shares for a total consideration of \$412,842. The Company realized a gain on disposal of \$152,800.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

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

	For the three-month period ended March 31, 2007
Pershimco warrants	
Estimated volatility	98,0%
Risk-free interest rate	3,99%
Expected life of warrants	7,5 months
Related common share price	\$0,67
Warrant exercise price	\$0,40

Changes in the temporary investment value during the period were as follows:

	Common shares	Warrants	Total
	\$	\$	\$
Balance at beginning of the period	306,000	34,000	340,000
Restatement of opening balance due to Change in accounting standard	195,500	204,000	399,500
Restated balance at beginning of period	501,500	238,000	739,500
Increase in value during the period	68,000	42,500	110,500
Balance – end of period	569,500	280,500	850,000

7 Mining assets

	As at March 31, 2007	As at December 31, 2006
	\$	\$
Costs and deferred exploration expenses (a)	13,911,423	11,672,155
Land, exploration buildings and equipment (b)	12,430,829	10,446,092
Supplies inventory	1,656,801	1,366,801
Deposits on mining assets	520,269	641,873
	28,519,322	24,126,921

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

(c) Cost and deferred exploration expenses

	Costs		Deferred exploration expenses		Total	
	As at	As at	As at	As at	As at	As at
	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006
	\$	\$	\$	\$	\$	\$
Mexico (State of Chihuahua)						
Bolívar projects (options)						
Bolívar Mine* (i) (note 17)	-	-	-	-	-	-
Piedras Verdes (ii)	313,102	313,102	2,073,771	2,073,771	2,386,873	2,386,873
San José (iii)	185,428	141,288	271,504	271,504	456,932	412,792
Mezquital	27,299	27,299	99,105	99,105	126,404	126,404
La Cascada	10,110	10,110	133,577	133,577	143,687	143,687
Val	2,684	2,684	100,928	100,928	103,612	103,612
Other	68,860	68,860	43,564	43,564	112,424	112,424
Promontorio projects (options)						
Promontorio and Hidalgo (iv)	249,425	249,425	948,505	948,505	1,197,930	1,197,930
El Magistral (v)	-	-	-	-	-	-
Cusi projects (vii)						
India – Marisa (a)	239,997	239,997	1,705,650	1,667,335	1,945,647	2,002,617
Holguin – San Juan (b)	1,463,823	1,463,823	-	-	1,463,823	1,368,538
San Miguel – La Bamba (c) (option)	221,285	221,285	2,010,543	1,204,497	2,231,828	1,425,782
Minería Cusi – Santa Edwiges/San Nicolás (d) (option)	1,127,048	1,127,048	2,605,511	1,254,744	3,732,559	2,381,792
DBM	4,269	4,269	5,435	5,435	9,704	9,704
	3,913,330	3,869,190	9,998,093	7,802,965	13,911,423	11,672,155
*Bolívar Mine						
Costs and deferred exploration expenses	1,630,929	1,630,929	39,168,775	32,750,018	40,799,704	34,380,947
Less: Accumulated sales of concentrate	(1,630,929)	(1,630,929)	(45,216,844)	(39,520,311)	(46,847,773)	(41,151,240)
	-	-	(6,048,069)	(6,770,293)	(6,048,069)	(6,770,293)
Less: Transfer to excess cost recovery – pilot mining	-	-	6,048,069	6,770,293	6,048,069	6,770,293
	-	-	-	-	-	-

(i) Bolívar Mine

In August 2004, the Company entered into a commercial agreement with the owners of the Bolívar Mine property (Bolívar III and Bolívar IV). The agreement provides for the acquisition by the Company of 100% of the Bolívar Mine property for a consideration of US\$1,200,000 payable over a two-year period. The remaining payment of \$187,363⁽¹⁾ (US\$162,500) has yet to be made.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

During the three-month period ended March 31, 2007, the Company continued its pilot-mining program on the Bolivar Mine property. During that period, the Company sold zinc and copper concentrate in the amount of \$5,696,533 (for the three-month period ended March 31, 2006 – \$6,129,281). In accordance with the Company's accounting policy, the income from sales of concentrate prior to the commencement of commercial production is accounted for as a reduction of related costs and deferred exploration expenses. Consequently, the \$6,048,069 (as at December 31, 2006 – \$6,070,293) excess cost and deferred accumulated exploration expense recovery on the Bolivar Mine property is shown as a long-term liability on the Consolidated Balance Sheets.

(ii) Piedras Verdes

During the year ended March 31, 2004, the Company entered into an option agreement to 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 of \$23,060⁽¹⁾ (US\$20,000) will be made at the time of transfer of the property titles.

(iii) Santa María and San José projects

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

The remaining payments for the San José project, as at March 31, 2007, are as follows:

	<u>Equivalent in C\$</u>	<u>Payments in US\$</u>
July 2007	43,238 ⁽¹⁾	37,500
January 2008	43,238 ⁽¹⁾	37,500

Starting July 2008, the Company will pay a yearly advance royalty payment of \$72,063⁽¹⁾ (US\$62,500).

(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:

	<u>Equivalent in C\$</u>	<u>Payments in US\$</u>
June 2007	172,950 ⁽¹⁾	150,000
June 2008	172,950 ⁽¹⁾	150,000
June 2009	2,882,500 ⁽¹⁾	2,500,000

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

(v) El Magistral

In November 2004, the Company entered into a purchase option agreement whereby the Company could purchase a 100% interest in the El Magistral property for the sum of US\$1,000,000, payable over a five-year period, including US\$50,000 at the signing of the agreement.

In 2006, the Company decided to abandon the project and therefore did not make the November 2006 payment of US\$75,000. Consequently, the Company wrote off the accumulated costs incurred of \$147,635.

(vi) El Cumbre

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

ii) Cusi Project

In May and June, 2006, the Company staked ground and entered into agreements in order to earn interest in more than 7,500 hectares of contiguous property (the "Cusi Properties"), including 12 former mines, in the Cusihiuriachic ("Cusi") silver district in Chihuahua State, Mexico, located within 40 kilometres of the Company's Malpaso mill, as follows:

- (a) On May 2, 2006, the Company entered into a purchase agreement with Hector Sanchez Villalobos and Carmen Saenz Rodriguez ("Villalobos and Rodriguez") to acquire a property covering 21.08 hectares for a cash payment of US\$100,000 and the issue by the Company of 200,000 common shares of the Company at a price of \$0.64 per share for a total of \$128,000. The portion of the transaction payable in shares has been recorded at the fair value of the common shares issued, based on their quoted market value at the date of the transaction. The property is subject to a 1.5% NSR of up to a maximum of \$1,729,500⁽¹⁾ (US\$1,500,000) in favour of Villalobos and Rodriguez with a \$1,153,000⁽¹⁾ (US\$1,000,000) buy-back option.
- (b) On May 30, 2006, the Company entered into a purchase agreement with Manuel Holguin Aragon ("Holguin") to acquire properties covering 1,676 hectares for an aggregate cash payment of US\$740,000, and the issuance by the Company of 1,000,000 common shares of the Company at a price of \$0.64 per share for a total of \$640,000. The portion of the transaction payable in shares has been recorded at the fair value of the common shares issued, based on their quoted market value at the date of the transaction. The properties are subject to a 1.5% NSR of up to a maximum of \$1,729,500⁽¹⁾ (US\$1,500,000) in favour of Holguin. The NSR can be purchased for \$1,153,000⁽¹⁾ (US\$1,000,000). As at March 31, 2007, an amount of \$190,245⁽¹⁾ (US\$165,000) remains to be paid.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

- (c) On May 31, 2006, the Company entered into an option agreement with Pershimco Resources Inc. ("Pershimco") pursuant to which the Company could earn up to a 70% interest in the San Miguel-La Bamba property covering 36 hectares located in the Cusi District owned by Pershimco by making a cash payment of US\$200,000 and fulfilling work commitments as follows:

Equivalent in C\$	Work commitment in US\$	Cumulative interest earned %	Period
1,729,500 ⁽¹⁾	1,500,000	50	until May 31, 2007
2,882,500 ⁽¹⁾	2,500,000	20	until November 30, 2008
4,612,000	4,000,000	70	

The property is subject to a 2% NSR of which 1% may be bought back for \$1,153,000⁽¹⁾ (US\$1,000,000).

- (d) On June 14, 2006, the Company signed a letter of intent to enter into an option agreement to earn a 100% interest in several properties (883 hectares) with Compañía Minera Cusi ("Minera Cusi"), a private Mexican company, for US\$5,000,000 payable over three years. The properties are subject to a sliding scale royalty in favour of Minera Cusi as follows: 2% NSR if the price of silver is equal to a maximum of \$12.68⁽¹⁾ (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$12.68⁽¹⁾ (US\$11.00) per ounce. The royalty is in favour of Minera Cusi. The Company may withdraw from its option agreement under the proposed acquisition, over the three-year period, by simple notice to Minera Cusi and the forfeiture of payments.

Remaining option payments are as follows:

	Equivalent in C\$	Payments in US\$
August 2007	2,306,000 ⁽¹⁾	2,000,000
August 2008	2,306,000 ⁽¹⁾	2,000,000

⁽¹⁾ Converted at the rate of exchange in effect on March 31, 2007

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

(b) Exploration building and equipment

	As at March 31, 2007		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Land	273,813		273,813
Building			
Plant	1,677,595	259,814	1,417,781
Camp	397,346	96,647	300,699
Machinery and equipment	9,919,958	1,942,881	7,977,077
Computers and office furniture	602,125	248,031	354,094
Rolling stock	3,129,929	1,022,564	2,107,365
	<hr/>		
	16,000,766	3,569,937	12,430,829
	<hr/>		
	As at December 31, 2006		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Land	67,539	-	67,539
Buildings			
Plant	1,512,348	220,582	1,291,766
Camp	397,346	89,721	307,625
Machinery and equipment	7,781,876	1,478,437	6,303,439
Computers and office furniture	547,618	207,382	340,236
Rolling stock	2,993,482	857,995	2,135,487
	<hr/>		
	13,300,209	2,854,117	10,446,092
	<hr/>		

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements
As at March 31, 2007 (unaudited)

8 Share capital

Authorized

An unlimited number of common shares without par value

Issued

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

	For the three-month period ended March 31, 2007		For the year ended December 31, 2006	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of period	109,550,905	51,308,067	81,724,769	26,921,601
Issued and paid in cash (i)	-	-	14,950,000	10,465,000
Issued for the acquisition of mining assets (note 7 (vii) (a) (b))	-	-	1,200,000	768,000
Issued following exercise of warrants (ii) and note 9)	-	-	11,423,219	13,022,470
Issued following exercise of stock options (notes 10 and 11)	374,750	338,611	252,917	130,996
Balance – End of period	<u>109,925,655</u>	<u>51,646,678</u>	<u>109,550,905</u>	<u>51,308,067</u>

- (i) On August 17, 2006, the Company closed an offering on a bought-deal basis of 13,000,000 common shares at a price of \$0.70 per common share, for gross proceeds of \$9,100,000. The underwriters for the offering also exercised their over-allotment options to purchase an additional 1,950,000 common shares at \$0.70 per common share for additional gross proceeds of \$1,365,000, raising the total gross proceeds of the offering to \$10,465,000.

As a commission, the Company paid a cash consideration of \$732,550 and issued to the agent 1,046,500 compensation options evaluated at \$193,603 (note 9). This amount is included in share and warrant issue expenses in the Consolidated Statements of Operations and Deficit under share and warrant issue expenses. The compensation options entitle the holder to subscribe for the same number of common shares at a price of \$1.00 per share until August 16, 2007.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

The fair value of the compensation options was estimated using the Black-Scholes model based on the following assumptions:

Dividend yield	0%
Volatility	87.83%
Risk-free interest rate	4.33%
Expected life	1 year

As a result, the fair value of the compensation option was estimated at \$193,603.

- (ii) In November 2006, 11,423,219 warrants were exercised at the price of \$0.90, for a total cash consideration of \$10,280,897, including 1,100,067 warrants by directors and officers of the Company or company controlled by a director or officer of the Company for a total amount of \$990,060. Consequently, the Company issued 11,423,219 common shares.

9 Warrants and compensation options

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

	For the three months ended March 31, 2007			For the year ended December 31, 2006		
	Number of warrants	Number of compensation options	Amount \$	Number of warrants	Number of compensation options	Amount \$
Balance – Beginning of period	-	1,046,500	193,603	12,002,068	-	2,880,496
Issued (note 8 (i) (a))	-	-	-	-	1,046,500	193,603
Exercised (note 8 (ii))	-	-	-	(11,423,219)	-	(2,741,573)
Expired (note 11)	-	-	-	(578,849)	-	(138,923)
Balance – End of period	-	1,046,500	193,603	-	1,046,500	193,603

Outstanding compensation options, entitling their holders to subscribe to an equivalent number of common shares, were as follows as of March 31, 2007:

Exercise price \$	Number of compensation options	Expiry date
1.00	1,046,500	August 16, 2007

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

10 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 of March 31, 2007, the Plan provides that: i) 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 10,900,000 (as of December 31, 2006 – 9,700,000) common shares, and ii) that the maximum number of common shares that 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 18).

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. All options granted before September 2006 have a vesting period of 18 months: 25% at the date of grant and 12.5% in each of the following six quarters. Beginning September 2006, options granted are entirely vested at the date of grant.

On March 6, 2007, the Board of Directors approved an increase in the number of common shares reserved for issuance under the Company’s stock option plan from 9,700,000 to 10,900,000. The number of common shares reserved represents approximately 10% of the number of shares issued and outstanding.

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

	For the three-month period ended March 31, 2007		For the year ended December 31, 2006	
	Number of options	Average exercise price \$	Number of options	Average exercise price \$
Beginning of period	8,957,333	0.60	4,786,250	0.59
Granted	40,000	0.98	4,700,000	0.61
Exercised (note 8)	(374,750)	0.39	(252,917)	0.33
Expired or cancelled	(260,000)	1.14	(276,000)	0.72
End of period	8,362,583	0.60	8,957,333	0.60

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

A summary of options outstanding and exercisable as at March 31, 2007 is presented below:

Exercise Price \$	Number of options		Expiry date
	Outstanding	Exercisable	
0.85	715,000	715,000	October 2008
0.75	983,000	983,000	August 2009
0.75	500,000	500,000	February 2010
0.30	1,463,333	1,463,333	September 2010
0.22	125,000	125,000	September 2010
0.40	2,616,250	1,962,188	February 2011
0.90	1,920,000	1,920,000	September 2011
0.98	40,000	40,000	January 2012
	8,362,583	7,708,521	

Total stock-based compensation costs for the three-month period ended March 31, 2007 amount to \$58,141 (note 11) (for the three-month period ended March 31, 2006 – \$463,531), including \$16,147 (for the three-month period ended March 31, 2006 – \$228,846) 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 \$41,994 (for the three-month period ended March 31, 2006 – \$234,685) was recorded in the Consolidated Statements of Operations and Deficit.

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 three-month period ended March 31, 2007	For the three-month period ended March 31, 2006
Average dividend per share	Nil	Nil
Estimated volatility	98%	98%
Risk-free interest rate	4.06%	4.06%
Expected life of options granted	4 years	4 years
Options granted which exercise price equals the market price of the stock on the grant date:		
Estimated fair value of option	0.68	0.40
Exercise price	0.98	0.28

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements
As at March 31, 2007 (unaudited)

11 Contributed surplus

	For the three-month period ended March 31, 2007	For the year ended December 31, 2006
	\$	\$
Balance – Beginning of period	6,590,223	4,802,240
Stock-based compensation costs (note 10)	58,141	1,696,019
Exercise of options (note 8)	(120,611)	(46,959)
Warrants expired (note 9)	-	138,923
Balance – End of period	<u>6,527,753</u>	<u>6,590,223</u>

12 Income taxes

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 three-month period ended March 31, 2007	For the three-month period ended March 31, 2006
	\$	\$
Loss before income taxes	<u>(1,789,231)</u>	<u>-</u>
Combined federal and provincial income tax benefit at 32% (32% in 2006)	(572,554)	(156,437)
Income tax rate differential in Mexico	55,362	2,117
Stock-based compensation costs	13,522	75,146
Increase in temporary investment	(35,360)	-
Non-taxable portion of capital gain	-	(24,463)
Decrease (increase) in the valuation allowance	153,000	95,700
Foreign exchange gain (loss) taxable (deductible) in Mexico	(42,092)	(156,041)
Inflation taxable on net financial liabilities in Mexico	72,347	40,263
Permanent difference		
Inflation on tax losses	(2,046)	-
Non-deductible items in Mexico	10,918	19,442
Increase in taxable loss	(18,340)	-
Other	(757)	(6,327)
	<u>(366,000)</u>	<u>(110,600)</u>

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

13 Asset retirement obligations

As at March 31, 2007, based on its review of the status of its operations under the current Mexican environmental legislation, the Company determined it does not carry any asset retirement obligation and, therefore, has not recognised such an obligation.

A liability stemming from any asset retirement obligation will be recorded in the period in which such obligation arises.

14 Statements of cash flows

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

	For the three-month period ended March 31, 2007 \$	For the three-month period ended March 31, 2006 \$
Sales tax and other receivables	727,194	(384,676)
Inventories from pilot-mining program	(224,667)	113,275
Prepaid expenses	10,000	19,048
Accounts payable and accrued liabilities	758,961	(29,559)
Income taxes payable	93,000	(45,000)
	<u>1,364,488</u>	<u>(326,912)</u>

(b) Additional information – non-cash transactions

Issuance of shares for mining property	-	-
Stock-based compensation costs capitalized into mining assets (note 10)	16,147	228,846
Additions of mining assets included in accounts payable and accrued liabilities	237,039	393,003
Increase of accounts receivable included in sales of concentrate	2,419,349	331,000
Capitalized amortization of exploration building and equipment	715,820	322,374

(c) Interest and income taxes

Interest paid	14,764	11,504
Income taxes paid	-	45,000

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2007 (unaudited)

15 Related party transactions

During the three-month period ended March 31, 2007, companies controlled by officers of the Company charged consulting fees amounting to \$124,888 (for the three-month period ended March 31, 2006 – \$127,621), including \$66,000 capitalized to deferred exploration costs (for the three-month period ended March 31, 2006 – \$83,019). As at March 31, 2007, the balance due to these companies amounted to \$8,033 (as at March 31, 2006 – \$18,666).

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.

16 Commitments

In February 2004, the Company and two other companies jointly signed a five-year lease for office premises. The annual rent is approximately \$150,000 which is divided on a pro rata basis among the three companies. The Company's annual gross commitment is approximately \$50,000.

In December 2006, the Company signed a five-year lease for office premises. The annual rent is approximately \$60,000.

17 Contingency

In 2005, legal proceedings were filed in Mexico against one of the Company's subsidiaries, 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.

18 Subsequent events

On April 3, 2007, the Board granted a total of 1,775,000 options to purchase common shares of the Company to its directors, officers and employees. The options are exercisable at any time at a price of \$1.10 until April 3, 2012.

19 Comparative figures

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