



DIA BRAS EXPLORATION INC.

Interim Consolidated Financial Statements

**Six-month period ended June 30, 2007
(UNAUDITED)**

Dia Bras Exploration Inc.

Consolidated Balance Sheets (unaudited)

	As at June 30, 2007 \$	As at December 31, 2006 \$
Assets		
Current assets		
Cash and cash equivalents	11,489,403	19,704,587
Receivables (note 4)	1,015,228	3,347,046
Sales tax and other receivables	3,661,335	3,981,826
Inventories from pilot-mining program (note 5)	493,384	471,981
Temporary investment (note 6)	1,224,000	340,000
Prepaid expenses	36,233	20,168
	<u>17,919,583</u>	<u>27,865,608</u>
Mining assets (note 7)	31,243,358	24,126,921
Property, plant and equipment	262,602	-
Future income tax assets	<u>2,102,776</u>	<u>758,402</u>
	<u>51,528,319</u>	<u>52,750,931</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,691,945	830,978
Income taxes payable (note 12)	130,000	57,425
Deferred tenant allowance	19,188	-
	<u>1,841,133</u>	<u>888,403</u>
Excess cost recovery – pilot mining (note 7 (a) (i))	3,561,717	6,770,293
Deferred tenant allowance	78,350	-
Future income tax liabilities (note 12)	<u>2,327,139</u>	<u>727,765</u>
	<u>7,808,339</u>	<u>8,386,461</u>
Shareholders' Equity		
Share capital (note 8)	52,619,165	51,308,067
Warrants and compensation options (note 9)	69,266	193,603
Contributed surplus (note 11)	7,979,093	6,590,223
Deficit	<u>(16,947,544)</u>	<u>(13,727,423)</u>
	<u>43,719,980</u>	<u>44,364,470</u>
Commitments and Contingency (notes 16 and 17)	<u>51,528,319</u>	<u>52,750,931</u>

Dia Bras Exploration Inc.

Consolidated Statements of Operations and Deficit (unaudited)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Income				
Interest income and other	222,207	55,880	332,099	69,755
Gain on disposal of temporary investment (note 6 (c))	-	-	-	152,800
Change in value of temporary investment (note 6)	374,000	-	484,500	-
Net gain on variation of commodity market prices	951,763	-	-	-
Miscellaneous revenues	769	22,697	769	27,697
	<u>1,548,739</u>	<u>78,577</u>	<u>817,368</u>	<u>250,252</u>
Expenses				
Administrative expenses	463,257	403,784	980,509	761,521
Stock-based compensation costs (note 10)	726,152	82,047	768,146	316,732
Interest expenses	10,657	-	25,421	-
Amortization of property, plant and equipment and deferred tenant allowance	13,789	-	20,980	-
Write-off of mining assets (note 7 (iv))	1,199,891	-	1,199,891	-
Net loss on variation of commodity market prices	-	-	330,652	-
Other project costs	6,080	29,069	6,080	29,069
Loss on currency exchange	574,303	273,216	720,310	342,936
	<u>2,994,129</u>	<u>788,116</u>	<u>4,051,989</u>	<u>1,450,258</u>
Loss before income taxes for the period	(1,445,390)	(709,539)	(3,234,621)	(1,200,006)
Future income tax provision (recovery) (note 12)				
Current	37,000	-	130,000	-
Future	714,000	-	255,000	(110,600)
	<u>751,000</u>	<u>-</u>	<u>385,000</u>	<u>(110,600)</u>
Loss for the period	(2,196,390)	(709,539)	(3,619,621)	(1,089,406)
Deficit – Beginning of period	(14,751,154)	(10,985,115)	(13,727,423)	(10,605,248)
Change in accounting policy related to financial instruments	-	-	399,500	-
Restated deficit balance – beginning of period	(14,751,154)	(10,985,115)	(13,327,923)	(10,605,248)
Deficit – End of period	(16,947,544)	(11,694,654)	(16,947,544)	(11,694,654)
Basic and diluted loss per share	(0.02)	(0.01)	(0.03)	(0.02)
Basic and diluted weighted average number of outstanding shares	110,192,899	82,335,598	109,929,586	82,039,265

Dia Bras Exploration Inc.

Consolidated Statement of Comprehensive Income (unaudited)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net loss	(2,196,390)	(709,539)	(3,619,621)	(1,089,406)
No other comprehensive income components	-	-	-	-
Comprehensive loss	(2,196,390)	(709,539)	(3,619,621)	(1,089,406)

Dia Bras Exploration Inc.
Consolidated Statements of Cash Flows
(unaudited)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Loss for the period	(2,196,390)	(709,539)	(3,619,621)	(1,089,406)
Adjustments for				
Future income taxes (note 12)	714,000	-	255,000	(110,600)
Gain on disposal of temporary investment (note 6 (c))	-	-	-	(152,800)
Stock-based compensation costs (note 10)	726,152	82,047	768,146	316,732
Change in value of temporary investment (note 6)	(374,000)	-	(484,500)	-
Write-off of mining assets (note 7 (iv))	1,199,891	-	1,199,891	-
Amortization of property, plant and equipment and deferred tenant allowance	13,789	-	20,980	-
Loss (gain) on variation of commodity market prices	(951,763)	-	330,652	-
Loss (gain) on currency exchange	574,303	(13,612)	720,310	(17,336)
	(294,018)	(641,104)	(809,142)	(1,053,410)
Changes in non-cash working capital items (note 14)	(887,574)	(127,717)	476,914	(454,629)
	(1,181,592)	(768,821)	(332,228)	(1,508,039)
Financing activities				
Payment of obligation related to assets under capital lease	-	126,724	-	106,551
Issuance of share capital	816,587	-	1,034,587	33,937
	816,587	126,724	1,034,587	140,488
Investing activities				
Increase in mining assets	(10,716,842)	(7,094,735)	(22,159,511)	(11,931,512)
Proceeds from sales of concentrate	6,329,934	8,287,693	13,428,013	14,085,974
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	(32,856)	-	(186,045)	-
	(4,419,764)	1,192,958	(8,917,543)	2,297,304
(Decrease) Increase in cash and cash equivalents during the period	(4,784,769)	550,861	(8,215,184)	929,753
Cash and cash equivalents – Beginning of period	16,274,172	3,920,853	19,704,587	3,541,961
Cash and cash equivalents – End of period	11,489,403	4,471,714	11,489,403	4,471,714

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at June 30, 2007 (unaudited)

1 Nature of operations

Dia Bras Exploration Inc. (the “Company”), an exploration-stage company, incorporated under the *Canada Business Corporations Act* on April 11, 1996, is principally in the business of acquisition, exploration and development of mineral properties.

The Company, through its wholly owned Mexican subsidiary Dia Bras Mexicana, owns or controls several mining concessions 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 concessions, receipt of necessary permits and 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 is taking 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 six-month period ended June 30, 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. is consolidated in the accounts of the Company as it is a variable interest entity (“VIE”) and the Company is the primary beneficiary of this entity.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at June 30, 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 June 30, 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 broken material and concentrate located at the plant and are recorded at the lower of cost and net realizable value.

Mining assets

Mining assets include the cost to acquire mining concessions and options 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 June 30, 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 shipment on known prices at that time and thereafter adjusted to reflect changes using forward prices for the expected month of 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 assumes that commercial production on the Bolivar project will 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 June 30, 2007	As at December 31, 2006
	\$	\$
Receivables from pilot mining	-	1,568,683
Provision for final settlement ⁽ⁱ⁾	1,015,228	1,778,363
	<u>1,015,228</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 June 30, 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 June 30, 2007, shipments which had not reached the final settlement stage comprised approximately 7,558 tonnes of zinc concentrate (8.0 million lbs. payable) and 2,718 tonnes of copper concentrate (1.6 million lbs. payable) (7,430 tonnes and 4,090 tonnes, respectively, as at December 31, 2006). Final settlement value will be determined at the quotational period under the terms of the arrangement.

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at June 30, 2007 (unaudited)

5 Inventories from pilot-mining program

	As at June 30, 2007	As at December 31, 2006
	\$	\$
Broken material	163,087	10,928
Concentrate	330,297	461,053
	<u>493,384</u>	<u>471,981</u>

6 Temporary investment

	As at June 30, 2007	As at December 31, 2006
	\$	\$
Pershimco Resources Inc. (“Pershimco”)		
850,000 common shares (a) – at quoted market value (December 31, 2006 – at cost)	765,000	306,000
850,000 warrants (b) exercisable at \$0.40 each until November 2007– Fair value (December 31, 2006 – at cost)	459,000	34,000
	<u>1,224,000</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 six-month period ended June 30, 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.

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As at June 30, 2007 (unaudited)

The estimated fair value of each warrant of \$0.54, as at June 30, 2007, was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	For the six-month period ended June 30, 2007
Pershimco warrants	
Estimated volatility	130.38%
Risk-free interest rate	3.99%
Expected life of warrants	5 months
Related common share price	\$0.90
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 policy	195,500	204,000	399,500
Restated balance at beginning of period	501,500	238,000	739,500
Increase in value during the period	263,500	221,000	484,500
Balance – end of period	765,000	459,000	1,224,000

7 Mining assets

	As at June 30, 2007	As at December 31, 2006
	\$	\$
Costs and deferred exploration expenses (a)	15,109,092	11,672,155
Land, exploration buildings and equipment (b)	13,875,256	10,446,092
Supplies and spare parts inventory	1,766,455	1,366,801
Deposits on mining assets	492,555	641,873
	31,243,358	24,126,921

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at June 30, 2007 (unaudited)

(a) Cost and deferred exploration expenses

	Costs		Deferred exploration expenses		Total	
	As at June 30, 2007	As at December 31, 2006	As at June 30, 2007	As at December 31, 2006	As at June 30, 2007	As at December 31, 2006
	\$	\$	\$	\$	\$	\$
Mexico (State of Chihuahua)						
Bolivar projects (options)						
Bolivar Mine* (i) (note 17)	-	-	-	-	-	-
Piedras Verdes (ii)	313,238	313,102	2,073,771	2,073,771	2,387,009	2,386,873
San José (iii)	186,807	141,288	271,504	271,504	458,311	412,792
Mezquital	29,061	27,299	99,105	99,105	128,166	126,404
La Cascada	11,494	10,110	133,577	133,577	145,071	143,687
Val	2,779	2,684	100,928	100,928	103,707	103,612
Other	70,416	68,860	22,301	43,564	92,717	112,424
Promontorio projects (options)						
Promontorio and Hidalgo (iv)	-	249,425	-	948,505	-	1,197,930
El Magistral (v)	-	-	-	-	-	-
Cusi projects (vi)						
India – Marisa (a)	240,754	239,997	1,706,147	1,667,335	1,946,901	1,907,332
Holguin – San Juan (b)	1,526,486	1,463,823	6,966	-	1,533,452	1,463,823
San Miguel – La Bamba (c) (option)	221,285	221,285	2,504,216	1,204,497	2,725,501	1,425,782
Mineria Cusi – Santa Edwiges/San Nicolas (d) (option)	1,127,048	1,127,048	4,409,321	1,254,744	5,536,369	2,381,792
DBM	9,137	4,269	42,751	5,435	51,888	9,704
	<u>3,738,505</u>	<u>3,869,190</u>	<u>11,370,587</u>	<u>7,802,965</u>	<u>15,109,092</u>	<u>11,672,155</u>
*Bolivar Mine						
Costs and deferred exploration expenses	1,632,614	1,630,929	46,616,192	32,750,018	48,248,806	34,380,947
Less: sales of concentrate from pilot mining	<u>(1,632,614)</u>	<u>(1,630,929)</u>	<u>(50,177,909)</u>	<u>(39,520,311)</u>	<u>(51,810,523)</u>	<u>(41,151,240)</u>
	-	-	(3,561,717)	(6,770,293)	(3,561,717)	(6,770,293)
Less: Transfer to excess cost recovery – pilot mining	<u>-</u>	<u>-</u>	<u>3,561,717</u>	<u>6,770,293</u>	<u>3,561,717</u>	<u>6,770,293</u>
	-	-	-	-	-	-

Dia Bras Exploration Inc.

Notes to the Interim Consolidated Financial Statements

As at June 30, 2007 (unaudited)

¹⁾ Converted at the rate of exchange in effect as at June 30, 2007.

(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). The agreement provides for the acquisition by the Company of 100% of the Bolivar Mine property for a consideration of US\$1,200,000 payable over a two-year period. The remaining payment of \$172,803⁽¹⁾ (US\$162,500) is delayed due to legal issues.

During the six-month period ended June 30, 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 \$10,659,283 (for the six-month period ended June 30, 2006 – \$6,129,281). In accordance with the Company's accounting policy, revenue 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 \$3,561,717 (as at December 31, 2006 – \$6,770,293) of 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 \$21,268⁽¹⁾ (US\$20,000) will be made when official transfer of the property titles is completed.

(iii) San José project

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 San José silver and base metal properties by incurring exploration expenditures of US\$1,638,000.

The remaining payments for the San José project, as at June 30, 2007, are as follows:

	Equivalent in C\$	Payments in US\$
July 2007	39,878 ⁽¹⁾	37,500
January 2008	39,878 ⁽¹⁾	37,500

In July 2008 and July 2009, the Company will pay a yearly advance royalty payment of \$79,756⁽¹⁾ (US\$75,000).

Dia Bras Exploration Inc.

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As at June 30, 2007 (unaudited)

(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.

During the six-month period ended June 30, 2007, the Company decided to abandon the Promontorio project and therefore did not proceed with the US\$150,000 payment that was due in June 2007. Consequently, the Company wrote off the accumulated costs and deferred exploration expenses of \$1,199,891.

(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) 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 mining concessions (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 two properties 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 \$1,595,100⁽¹⁾ (US\$1,500,000) in favour of Villalobos and Rodriguez with a \$1,063,400⁽¹⁾ (US\$1,000,000) buy-back option.
- (b) On May 30, 2006, the Company entered into a purchase agreement with Manuel Holguin Aragonz ("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 \$1,595,100⁽¹⁾ (US\$1,500,000) in favour of Holguin. The NSR can be purchased for \$1,063,400⁽¹⁾ (US\$1,000,000). As at June 30, 2007, an amount of \$132,925⁽¹⁾ (US\$125,000) remains to be paid.

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Notes to the Interim Consolidated Financial Statements

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- (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:

<u>Work commitment</u> US\$	<u>Cumulative interest earned</u> %	<u>Period</u>
1,500,000	50	until May 31, 2007
<u>2,500,000</u>	<u>20</u>	until November 30, 2008
<u>4,000,000</u>	<u>70</u>	

The property is subject to a 2% NSR of which 1% may be bought back for \$1,063,400⁽¹⁾ (US\$1,000,000).

As at June 30, 2007, the Company had earned a 50% interest in the properties. Final legal documentation for the transfer of titles remains to be completed.

- (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 mining concessions (1,133.5 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 \$11.70⁽¹⁾ (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$11.70⁽¹⁾ (US\$11.00) per ounce. 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:

	<u>Equivalent in C\$</u>	<u>Payments in US\$</u>
August 2007*	2,126,800 ⁽¹⁾	2,000,000
August 2008	2,126,800 ⁽¹⁾	2,000,000

*In agreement with Minera Cusi, the August 2007 payment has been postponed as follows:

- \$1,063,400⁽¹⁾ (US\$1,000,000) to be paid in September 2007, and
- \$1,063,400⁽¹⁾ (US\$1,000,000) once some mining concession registration issues are settled.

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(b) Exploration land, building and equipment

	As at June 30, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	273,813	-	273,813
Building			
Plant	1,689,867	300,186	1,389,681
Camp	397,346	103,223	294,123
Machinery and equipment	11,975,035	2,545,028	9,430,007
Computers and office furniture	688,334	291,827	396,507
Rolling stock	3,273,867	1,182,742	2,091,125
	18,298,262	4,423,006	13,875,256

	As at December 31, 2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
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
	13,300,209	2,854,117	10,446,092

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Notes to the Interim Consolidated Financial Statements
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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 six-month period ended June 30, 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 compensation options or warrants (ii) and note 9)	672,088	796,424	11,423,219	13,022,470
Issued following exercise of stock options (notes 10 and 11)	562,750	514,674	252,917	130,996
Balance – End of period	110,785,743	52,619,165	109,550,905	51,308,067

- (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.

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 options was estimated at \$193,603.

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- (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 six-month period ended June 30, 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))	-	-	-	-	1,046,500	193,603
Exercised (note 8 (ii))	-	(672,088)	(124,337)	(11,423,219)	-	(2,741,573)
Expired (note 11)	-	-	-	(578,849)	-	(138,923)
Balance – End of period	-	374,412	69,266	-	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 June 30, 2007:

<u>Exercise price</u> \$	<u>Number of compensation options</u>	<u>Expiry date</u>
1.00	374,412	August 16, 2007

Subsequent to June 30, 2007, 324,276 compensation options have been exercised for a total cash consideration of \$324,276, leaving 50,136 compensation options to expire.

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 at June 30, 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.

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Notes to the Interim Consolidated Financial Statements

As at June 30, 2007 (unaudited)

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 June 7, 2007, the Board granted a total of 250,000 options to purchase common shares of the Company to its new directors. The options are exercisable at any time at a price of \$1.28 until June 12, 2012.

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.

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 six-month period ended June 30, 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	2,065,000	1.12	4,700,000	0.61
Exercised (note 8)	(562,750)	0.64	(252,917)	0.33
Expired or cancelled	(260,000)	0.88	(276,000)	0.72
End of period	<u>10,199,583</u>	<u>0.70</u>	<u>8,957,333</u>	<u>0.60</u>

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As at June 30, 2007 (unaudited)

A summary of options outstanding and exercisable as at June 30, 2007 is presented below:

Exercise price \$	Number of options		Expiry date
	Outstanding	Exercisable	
0.85	600,000	600,000	October 2008
0.75	930,000	930,000	August 2009
0.75	500,000	500,000	February 2010
0.30	1,453,333	1,453,333	September 2010
0.22	125,000	125,000	September 2010
0.40	2,606,250	2,280,469	February 2011
0.90	1,920,000	1,920,000	September 2011
0.98	40,000	40,000	January 2012
1.10	1,775,000	1,775,000	April 2012
1.28	250,000	250,000	June 2012
	<u>10,199,583</u>	<u>9,873,802</u>	

Total stock-based compensation costs for the six-month period ended June 30, 2007 amount to \$1,541,044 (note 11) (for the six-month period ended June 30, 2006 – \$624,672), including \$772,898 (for the six-month period ended June 30, 2006 – \$307,940) 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 \$768,146 (for the six-month period ended June 30, 2006 – \$316,732) 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 six-month period ended June 30, 2007	For the six-month period ended June 30, 2006
Average dividend per share	Nil	Nil
Estimated volatility	94%	98%
Risk-free interest rate	3.93%	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	\$0.75	\$0.40
Exercise price	\$1.12	\$0.28

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Notes to the Interim Consolidated Financial Statements

As at June 30, 2007 (unaudited)

11 Contributed surplus

	For the six-month period ended June 30, 2007	For the year ended December 31, 2006
	\$	\$
Balance – Beginning of period	6,590,223	4,802,240
Stock-based compensation costs (note 10)	1,541,044	1,696,019
Exercise of options	(152,174)	(46,959)
Warrants expired (note 9)	-	138,923
Balance – End of period	<u>7,979,093</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 six-month period ended June 30, 2007	For the six-month period ended June 30, 2006
	\$	\$
Loss before income taxes	<u>(3,234,621)</u>	<u>(1,200,006)</u>
Combined federal and provincial income tax benefit at 32% (32% in 2006)	(1,035,079)	(384,002)
Income tax rate differential in Mexico	86,058	9,771
Stock-based compensation costs	247,343	101,418
Increase in temporary investment	(155,040)	-
Write-off of mining properties	383,965	-
Non-taxable portion of capital gain	-	(24,463)
Decrease (increase) in the valuation allowance	255,000	224,700
Foreign exchange gain (loss) taxable (deductible) in Mexico	392,554	(264,760)
Inflation taxable on net financial liabilities in Mexico	168,172	78,881
Permanent difference		
Non-deductible items in Mexico	24,143	128,926
Increase in taxable loss	18,245	-
Other	(361)	18,929
	<u>385,000</u>	<u>(110,600)</u>

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13 Asset retirement obligations

As at June 30, 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

	For the six-month period ended June 30, 2007	For the six-month period ended June 30, 2006
	\$	\$
(a) The changes in non-cash working capital items are as follows:		
Sales tax and other receivables	320,491	(1,150,753)
Inventories from pilot-mining program	(21,403)	52,316
Prepaid expenses	(16,065)	13,732
Accounts payable and accrued liabilities	121,316	675,076
Income taxes payable	72,575	(45,000)
	<u>476,914</u>	<u>(454,629)</u>
	\$	\$
(b) Additional information – non-cash transactions		
Issuance of shares for mining property	-	768,000
Stock-based compensation costs capitalized into mining assets (note 10)	772,898	307,940
Additions of mining assets included in accounts payable and accrued liabilities	739,651	209,846
Decrease (Increase) of accounts receivable included in sales of concentrate	2,331,818	(953,000)
Capitalized amortization of exploration buildings and equipment	1,574,575	564,129
	\$	\$
(c) Interest and income taxes		
Interest paid	25,421	28,718
Income taxes paid	57,425	45,000

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Notes to the Interim Consolidated Financial Statements

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15 Related party transactions

During the six-month period ended June 30, 2007, companies controlled by officers of the Company charged consulting fees amounting to \$434,881 (for the six-month period ended June 30, 2006 – \$293,796), including \$329,102 capitalized to deferred exploration costs (for the six-month period ended June 30, 2006 – \$162,598). As at June 30, 2007, the balance due to these companies amounted to \$35,770 (as at June 30, 2006 – \$18,370).

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. However, management is confident that the results of the proceedings will have no adverse material effect on the Company.

18 Comparative figures

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