



DIA BRAS EXPLORATION INC.

Interim Consolidated Financial Statements
Third Quarter ended September 30, 2006
(UNAUDITED)



NOTICE TO READERS OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of Dia Bras Exploration Inc. for the nine-month period ended September 30, 2006 have not been reviewed by the Company's external auditors.

A handwritten signature in black ink, appearing to be "R. Gosselin", written over a light blue horizontal line.

RÉJEAN GOSSELIN, CHIEF EXECUTIVE OFFICER

A handwritten signature in blue ink, appearing to be "L. Teoli", written over a light blue horizontal line.

LEONARD TEOLI, CHIEF FINANCIAL OFFICER

**MONTRÉAL, QUÉBEC
NOVEMBER 28, 2006**

Dia Bras Exploration Inc.
Consolidated Balance Sheets (unaudited)

	As at September 30, 2006 \$	As at December 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	13,243,744	3,541,961
Short-term deposits	25,000	15,000
Receivable	2,681,642	327,000
Sales tax and other receivables	3,123,780	1,037,122
Inventories from pilot-mining program (note 4)	154,785	142,239
Temporary investment (note 5)	-	42
Prepaid expenses	46,628	94,048
	<u>19,275,579</u>	<u>5,157,412</u>
Mining assets (note 6)	19,671,349	19,912,804
Deferred costs – Advance on royalty payment (note 7)	350,000	350,000
	<u>39,296,928</u>	<u>25,420,216</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,276,845	749,676
Current portion of obligation related to assets under capital lease (note 8)	163,032	90,904
Income taxes payable	-	45,000
	<u>1,439,877</u>	<u>885,580</u>
Obligation related to assets under capital lease (note 8)	156,319	137,947
Excess cost recovery – pilot mining (note 6 (a) (i))	2,931,673	-
Future income tax liabilities	167,000	397,600
	<u>4,694,869</u>	<u>1,421,127</u>
Shareholders' Equity		
Share capital (note 9)	38,207,891	26,921,601
Warrants and compensation options (note 10)	3,074,099	2,880,496
Contributed surplus (note 12)	6,620,988	4,802,240
Deficit	<u>(13,300,919)</u>	<u>(10,605,248)</u>
	<u>34,602,059</u>	<u>23,999,089</u>
	<u>39,296,928</u>	<u>25,420,216</u>

Dia Bras Exploration Inc.

Consolidated Statements of Operations and Deficit (unaudited)

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2006 \$	2005 \$	2006 \$	2005 \$
Income				
Interest income	89,723	2,386	159,478	17,198
Gain on disposal of temporary investment (note 5)	-	10,861	152,800	10,861
Unrealized gain on exchange	250,473	-	-	-
Miscellaneous revenues	(15,322)	-	12,375	38,285
	324,874	13,247	324,653	66,344
Expenses				
Administrative expenses	186,736	128,131	514,863	304,330
Professional and consulting fees	108,311	83,344	248,693	148,778
Information to shareholders and trustee fees	34,809	71,439	180,307	142,858
Business development	76,378	7,653	223,892	84,808
Stock-based compensation costs (note 11)	445,185	140,885	761,917	310,825
Amortization of property, plant and equipment	-	6,148	-	9,607
Amortization of intangible asset – Licence	-	6,249	-	18,747
Other project cost	-	-	29,069	-
Write-off of mining assets – Costs and deferred exploration expenses (note 6(a) (iii) and (vi))	-	-	-	201,128
Write-down of temporary investment	-	-	-	64,167
Loss on currency exchange	-	40,899	92,463	86,485
	851,419	484,748	2,051,204	1,371,733
Loss before income taxes for the period	(526,545)	(471,501)	(1,726,551)	(1,305,389)
Future income tax recovery (note 13)	120,000	-	230,600	-
Loss for the period	(406,545)	(471,501)	(1,495,951)	(1,305,389)
Deficit – Beginning of period	(11,694,654)	(8,805,988)	(10,605,248)	(7,972,100)
Share issue expenses	(1,199,720)	-	(1,199,720)	-
Deficit – End of period	(13,300,919)	(9,277,489)	(13,300,919)	(9,277,489)
Basic and diluted cumulative loss per share	(0.01)	(0.01)	(0.02)	(0.02)
Basic and diluted weighted average number of outstanding shares	90,197,686	53,656,686	84,788,623	53,656,686

Dia Bras Exploration Inc.

Consolidated Statements of Cash Flows (unaudited)

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash flows from Operating activities				
Loss for the period	(406,545)	(471,501)	(1,495,951)	(1,305,389)
Adjustments for				
Future income taxes (note 13)	(120,000)	-	(230,600)	-
Stock-based compensation costs (note 11)	445,185	140,885	761,917	310,825
Gain on disposal of temporary investment (note 5)	-	(10,861)	(152,800)	(10,861)
Amortization and write-off of property, plant and equipment	-	6,148	-	9,607
Amortization and write-off of intangible asset – Licence	-	6,249	-	18,747
Write-off of mining assets – Costs and deferred exploration expenses (note 6 (a) (iii) and (vi))	-	-	-	201,128
Write-down of temporary investment	-	-	-	64,167
Unrealized (gain) loss on currency exchange	(51,349)	-	142,917	(51,902)
	<u>(132,709)</u>	<u>(329,080)</u>	<u>(974,517)</u>	<u>(763,678)</u>
Changes in non-cash working capital items (note 15)	(1,026,112)	54,005	(1,480,741)	(736,796)
	<u>(1,158,821)</u>	<u>(275,075)</u>	<u>(2,455,258)</u>	<u>(1,500,474)</u>
Financing activities				
Short-term loan	-	582,807	-	582,807
Obligation related to asset under capital lease	(16,051)	-	102,400	-
Share capital issued (note 9)	10,465,000	1,262,189	10,498,937	1,435,188
Share issue expenses	(1,006,117)	-	(1,006,117)	-
	<u>9,442,832</u>	<u>1,844,996</u>	<u>9,595,220</u>	<u>2,017,995</u>
Investing activities				
Increase in mining assets	(10,164,070)	(3,307,932)	(22,095,582)	(8,866,122)
Proceeds from sale of concentrate	10,583,404	1,140,354	24,669,378	2,339,877
Purchase of short-term deposits	-	-	(10,000)	-
Acquisition of temporary investment (note 5)	-	-	(260,000)	-
Disposal of temporary investment (note 5)	-	215,489	412,842	215,489
Purchase of property, plant and equipment	-	-	-	(20,757)
	<u>419,334</u>	<u>(1,952,089)</u>	<u>2,716,638</u>	<u>(6,331,513)</u>
Translation adjustments on cash and cash equivalents	68,685	2,294	(154,817)	(27,021)
Increase (decrease) in cash and cash equivalents during the period	8,772,030	(379,874)	9,701,783	(5,841,013)
Cash and cash equivalents – Beginning of period	4,471,714	971,251	3,541,961	6,432,390
Cash and cash equivalents –End of period	13,243,744	591,377	13,243,744	591,377
Supplemental disclosure of cash flow information				
Interest paid	16,249	-	44,967	-
Income tax paid	-	-	45,000	-

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

1 Nature of operations

The 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.

In 2005, in order to align its year-end with those of its Mexican subsidiaries, the Company changed its year-end from March 31st to December 31st.

2 Significant accounting policies

Basis of presentation

These interim consolidated financial statements 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, 2005 audited financial statements.

Basis of consolidation

These interim consolidated financial statements include the accounts of the Company and its directly or indirectly 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., which provides administrative resources to Dia Bras Mexicana, and Compañía Minera Metalúrgica Malpaso S. de R.L. de M.I., which is the owner of the Malpaso mill, 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 Consolidated Financial Statements

As at September 30, 2006 (unaudited)

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short-term liquid investments repurchasable at all times without penalties.

Temporary investment

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

Inventories from pilot mining

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

Property, plant and equipment

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

Mining assets

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

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 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.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

Revenue from the sale of concentrate from a 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.

Should there be an excess cost recovery during that period, then this excess will be disclosed in long-term liabilities until (i) the situation is reversed, or (ii) until commercial production has begun, 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% 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 that can process approximately 2,000 tonnes per day.

The development of the mine and the construction of the on-site mill are planned to commence in mid-2008 after reception of a bankable feasibility study to be commissioned in early 2007.

Exploration building and equipment

The exploration building and equipment are recorded at cost.

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

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

Supplies inventory

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

Deferred costs – Advance on royalty payment

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

Intangible asset – Licence

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

Stock option plan and stock-based compensation costs

The Company applies the fair value method to account for options granted to its employees, officers, directors and consultants. Any consideration paid on exercise of stock options is credited to share capital. The stock-based compensation cost is stated as per the periods of option vesting. 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 and deficit are translated at the rates of exchange in effect on each transaction date. Gains and losses on currency translation are included in income.

Foreign operations

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

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the accounting and tax bases of assets and liabilities using substantively 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, from available information, it is more likely than not that some or all of such assets will not be realized.

Share and warrant issue expenses

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

Loss per share

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

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

Asset retirement obligations

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

3 Financial instruments

Fair value

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

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

Interest rate risk

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

Foreign exchange risk

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

Credit Risk

The Company is exposed to credit risk to the extent that a debtor may be unable to repay amounts owing to the Company. The totality of the Company's receivable is with a sole client and is subject to normal credit risks. The totality of sales tax receivable is with the Government of Mexico, and, as such, management believes it does not represent a significant credit risk.

4 Inventories from the pilot-mining program

	As at September 30, 2006 \$	As at December 31, 2005 \$
Mineralization rock	22,067	83,921
Concentrate	132,630	58,318
	<u>154,697</u>	<u>142,239</u>

5 Temporary investment

	As at September 30, 2006 \$	As at December 31, 2005 \$
Ecu Silver Mining Inc. (as at December 31, 2005 – 166 common shares and 666,666 warrants and quoted market value \$73)	<u>-</u>	<u>42</u>

As at December 31, 2005, the Company owned 666,666 warrants of Ecu Silver exercisable at a price of \$0.39 per warrant. During the nine-month period ended September 30, 2006, the Company exercised all the warrants for \$260,000 and disposed of all the shares for a total consideration of \$412,842, thereby realizing a gain on disposal of \$152,800.

Dia Bras Exploration Inc.
Notes to Consolidated Financial Statements
As at September 30, 2006 (unaudited)

6 Mining assets

	As at September 30, 2006 \$	As at December 31, 2005 \$
Costs and deferred exploration expenses (a)	8,785,659	13,537,347
Exploration building and equipment (b)	8,282,577	4,979,639
Supplies inventory	1,449,036	1,119,116
Deposits on mining assets	1,154,077	276,702
	<u>19,671,349</u>	<u>19,912,804</u>

(a) Cost and deferred exploration expenses

	Cost		Deferred exploration expenses		Total	
	As at September 30, 2006 \$	As at December 31, 2005 \$	As at September 30, 2006 \$	As at December 31, 2005 \$	As at September 30, 2006 \$	As at December 31, 2005 \$
Mexico (State of Chihuahua)						
Bolívar projects (options)						
Bolívar Mine (i)	-	1,433,381	-	7,858,922	-	9,292,303
Piedras Verdes (ii)	313,102	301,828	2,073,771	2,072,362	2,386,873	2,374,190
San José (iii)	141,288	74,864	271,504	271,504	412,792	346,368
Mezquital	27,299	24,495	99,105	99,105	126,404	123,600
La Cascada	10,110	8,282	133,577	133,577	143,687	141,859
Val	2,684	2,560	100,928	100,928	103,612	103,488
Other	28,643	27,158	43,564	33,714	72,207	60,872
Promontorio projects (options)						
Promontorio and Hidalgo (iv)	249,425	135,702	947,955	811,330	1,197,380	947,032
El Magistral (v)	147,635	147,635	-	-	147,635	147,635
Cusi projects						
India – Marisa (vii) (a))	211,321	-	1,426,116	-	1,637,437	-
San Miguel (vii) (d))	221,285	-	129,107	-	350,392	-
Holguin (vii) (b))	1,006,206	-	-	-	1,006,206	-
Minera Cusi (vii) (c))	1,127,048	-	69,717	-	1,196,765	-
DBM	4,269	-	-	-	4,269	-
	<u>3,490,315</u>	<u>2,155,905</u>	<u>5,295,344</u>	<u>11,381,442</u>	<u>8,785,659</u>	<u>13,537,347</u>

Dia Bras Exploration Inc.
Notes to Consolidated Financial Statements
As at September 30, 2006 (unaudited)

	Bolivar \$	Cusi \$	Promontorio \$	For the nine-month period ended September 30, 2006 Total \$	For the nine-month period ended December 31, 2005 Total \$
Balance – Beginning of period	13,537,347	-	-	13,537,347	10,197,775
Costs and deferred exploration expenses					
Property acquisition and related costs	279,992	2,572,672	112,673	2,965,337	451,263
Sampling	117,290	118,674	12,779	248,743	179,671
Geology consulting and management	799,556	113,210	38,336	951,102	660,598
Geophysical survey	6,915	-	-	6,915	27,927
Drilling and mining development	2,566,524	688,764	40,891	3,296,179	1,352,627
Pilot milling	2,103,027	-	-	2,103,027	1,570,210
Supervision and local administrative costs	720,471	308,393	30,341	1,059,205	1,056,287
Transportation costs	4,918,002	72,217	6,389	4,996,608	2,530,748
Road	1,274	2,442	-	3,716	41,725
Camp costs and food	1,064,373	12,061	-	1,076,434	550,053
Capitalized amortization of exploration building and equipment	923,996	88,683	7,889	1,020,568	833,442
Stock-based compensation costs (note 11)	880,948	189,078	6,158	1,076,184	205,011
	14,382,368	4,166,194	255,456	18,804,018	9,459,562
Write-off of mining assets – Costs and deferred exploration expenses ((iii) and (vi))	-	-	-	-	(557,588)
Sales of concentrate	(26,487,379)	-	-	(26,487,379)	(5,562,402)
	(12,105,011)	4,166,194	255,456	(7,683,361)	3,339,572
Transfer to excess cost recovery – pilot mining	2,931,673	-	-	2,931,673	-
	(9,173,338)	4,166,194	255,456	(4,751,688)	-
Balance – End of period	4,364,009	4,166,194	255,456	8,785,659	13,537,347

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements
As at September 30, 2006 (unaudited)

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). 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 payment of \$180,375 (US\$162,500) has yet to be made.

During the nine-month period ended September 30, 2006, 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 \$26,487,379 (\$2,303,502 for the nine-month period ended September 30, 2005). In accordance with its accounting policy, the amount of sales of concentrate before commencement of commercial production is accounted for as a reduction of the deferred exploration expenses. As a result, there is an excess recovery of costs and deferred accumulated exploration expenses on the Bolivar Mine property in the amount of \$2,931,673, which is expressed as a long-term liability.

(ii) Piedras Verdes

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

	<u>US\$</u>
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 the Santa María and San José, silver and base metal properties by incurring exploration expenditures of US\$4,000,000.

In December 2005, the Company decided to abandon the Santa María project. Therefore, the scheduled January 2006 payment for the Santa María project was not made, and no further payment will be made. Consequently, the Company recorded during the nine-month period ended December 31, 2005, a write-off of mining assets of \$403,152.

Dia Bras Exploration Inc.
Notes to Consolidated Financial Statements
As at September 30, 2006 (unaudited)

The remaining payments for the San José project, as at September 30, 2006, are as follows:

	<u>San José</u> <u>US\$</u>
January 2007	37,500
July 2007	37,500
January 2008	37,500

Starting July 2008, the Company will pay a yearly advance royalty payment of 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>US\$</u>
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 for the sum of US\$1,000,000, payable over a five-year period.

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

The remaining payments are as follows:

	<u>US\$</u>
November 2006	75,000
November 2007	100,000
November 2008	200,000
November 2009	500,000

(vi) El Cumbre

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

(vii) Cusi Project

In May and June, 2006, the Company staked ground and entered into agreements in order to gain interest in more than 7,500 hectares of contiguous property (the "Cusi Properties"), including 12 former mines, in the Cusi District (Cusi) silver district in Chihuahua State, Mexico (the "Cusi District"), 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 which have been issued collectively. The property is subject to a 1.5% NSR of up to a maximum of US\$1,500,000 in favor of Villalobos and Rodriguez with a US\$1,000,000 buy-back option.
- (b) On May 2, 2006, the Company entered into a purchase agreement with Manuel Holguin Aragonese ("Aragonez") to acquire properties covering 1,676 hectares for a cash payment of US\$740,000, of which US\$350,000 has been paid as at September 30, 2006, and the issue by the Company of 1,000,000 common shares of the Company which have been issued. The properties are subject to a 1.5% NSR of up to a maximum of US\$1,500,000 in favor of Aragonese. The NSR can be purchased for US\$1,000,000.
- (c) 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. As at September 30, 2006, US\$1,000,000 had been paid, and US\$4,000,000 remains to be paid as follows: US\$2,000,000 in 2007 and US\$2,000,000 in 2008. The properties are subject to a sliding scale royalty as follows: 2% NSR if the price of silver is equal to a maximum of US\$11.00 per ounce or 3% NSR if the price of silver exceeds US\$11.00 per ounce. The royalty is in favor of Minera Cusi. The Company may withdraw from its purchase obligations under the proposed acquisition, over the three-year period, by simple notice to Minera Cusi and the forfeiture of payments.
- (d) On May 31, 2006, the Company entered into an agreement (the "Pershimco Agreement") with Pershimco Resources Inc. ("Pershimco") pursuant to which the Company acquired a 70% interest in a property (the "Pershimco Property") covering 36 hectares located in the Cusi District owned by Pershimco for a work commitment of US\$4,000,000 payable over a period of 30 months after the date of the Pershimco Agreement and a cash payment of US\$200,000, which was made during the quarter. In addition, pursuant to the provisions of the Pershimco Agreement, the Company agreed to acquire US\$300,000 worth of units of Pershimco at C\$0.40 per unit. Each unit is comprised of one common share of Pershimco and one common share purchase warrant entitling the holder thereof to subscribe one additional common share of Pershimco at a price of \$0.40 during a period of 12 months after the closing. This placement was made subsequent to September 30, 2006. The Pershimco Property is subject to a 2% NSR on the entire Pershimco Property in favor of Minera Homero S. de R.L. de C.V., a private Mexican company, of which 1% may be bought back for US\$1,000,000. The Company may forfeit its rights under the Pershimco Agreement by failing to expend US\$4,000,000 over the required 30-month period and lose the payments and expenditures paid in respect of the Pershimco Property.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements As at September 30, 2006 (unaudited)

(b) Exploration building and equipment

	As at September 30, 2006		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Mexico			
Building			
Plant ⁽¹⁾	1,235,028	183,159	1,051,869
Camp	397,346	82,145	315,201
Machinery and equipment	5,698,215	1,078,298	4,619,917
Computers and office furniture	496,046	165,318	330,728
Rolling stock	2,166,217	583,685	1,582,532
Rolling stock under capital lease	481,233	98,903	382,330
	10,474,085	2,191,508	8,282,577

	As at December 31, 2005		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Mexico			
Building			
Plant ⁽¹⁾	1,236,886	92,729	1,144,157
Camp	397,346	59,725	337,621
Machinery and equipment	2,801,458	579,361	2,222,097
Computers and office furniture	268,828	90,919	177,909
Rolling stock	1,229,158	361,417	867,741
Rolling stock under capital lease	235,566	5,452	230,114
	6,169,242	1,189,603	4,979,639

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

In exchange for control of the common shares of CMMM, the Company advanced an amount of \$614,921 to a nominee and is committed for an additional amount of \$27,500 (US\$25,000). This latter consideration is included in accounts payable and accrued liabilities as at September 30, 2006 (as at December 31, 2005 – \$233,180 (US\$200,000)).

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

7 Deferred costs – Advance on royalty payment

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

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

In 2005, Nichromet agreed to extend the expiry date of the Nichromet licence to July 29, 2008 on the following basis:

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

8 Obligation related to assets under capital lease

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

	As at September 30, 2006 \$	As at December 31, 2005 \$
Years ending December 31, 2006 (remainder)	56,601	130,166
2007	190,402	96,599
2008	138,869	66,569
	<u>385,872</u>	<u>293,334</u>
Less: Interest	<u>66,521</u>	<u>64,483</u>
Total liability (note 8 (b))	319,351	228,851
Less: Current portion	<u>163,032</u>	<u>90,904</u>
	<u>156,319</u>	<u>137,947</u>

- (b) The obligation in the amount of \$319,351 (\$228,851 as at December 31, 2005) includes \$79,816 payable in US dollars (US\$71,908) (\$68,259 (US\$59,355) as at December 31, 2005) and \$239,535 (MP\$2,357,060) payable in Mexican pesos (\$160,592 (MP\$1,461,369) as at December 31, 2005).
- (c) The weighed average interest rate for the obligations related to assets under capital lease is 16.5%. Interest expense for the nine-month period ended September 30, 2006 amounted to \$44,967 (nil for the nine-month period ended September 30, 2005).

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements As at September 30, 2006 (unaudited)

9 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 nine-month period ended September 30, 2006		For the nine-month period ended December 31, 2005	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of period	81,724,769	26,921,601	51,457,477	20,782,703
Issued and paid in cash (i)	14,950,000	10,465,000	22,500,000	4,500,000
Issued for the acquisition of mining assets (note 6 (vii))	1,200,000	768,000	-	-
Issued following exercise of warrants (ii)	-	-	7,767,292	1,638,898
Issued following exercise of stock options (note 11)	122,917	53,290	-	-
Balance – End of period	97,997,686	38,207,891	81,724,769	26,921,601

- (i) (a) On August 17, 2006, the Company announced that it had 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 pursuant to which the under-writers purchased 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. An underwriter fee of 7% of total gross proceeds was paid and a total of 1,046,500 compensation options (7% of total common shares issued) were issued in favor of the underwriters.
- (b) In November 2005, the Company completed a series of private placements of common shares whereby the Company issued a total of 22,500,000 common shares at a price of \$0.20 per share for a total consideration of \$4,500,000.
- (ii) In September 2005, a total of 7,767,292 warrants entitling their holders to purchase 7,767,292 common shares at a price of \$0.17 per share were exercised for a total amount of \$1,320,439 (note 10).

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Notes to Consolidated Financial Statements

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10 Warrants and compensation options

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

	For the nine-month period ended September 30, 2006			For the nine-month period ended December 31, 2005	
	Number of warrants	Number of compensation options	Amount \$	Number of warrants	Amount \$
Balance – Beginning of period	12,002,068	-	2,880,496	29,125,399	6,165,776
Issued	-	1,046,500	193,603		
Exercised (note 9 (ii))	-	-	-	(7,767,292)	(318,459)
Expired (note 12)	-	-	-	(9,356,039)	(2,966,821)
Balance – End of period	12,002,068	1,046,500	3,074,099	12,002,068	2,880,496

Outstanding common share purchase warrants and compensation options, entitling their holders to subscribe to an equivalent number of common shares, were as follows as at September 30, 2006:

Exercise price	Number of warrants	Number of Compensation options	Expiry date
\$0.90	12,002,068 ⁽ⁱ⁾	-	November 16, 2006
\$1.00	-	1,046,500	August 16, 2007
	<u>12,002,068</u>	<u>1,046,500</u>	

(i) See Subsequent events (note 20 (b)).

11 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 September 30, 2006, 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 9,700,000 (5,900,000 as of December 31st, 2005) common shares and that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of grant.

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% for the following six quarters. Beginning September 2006, options granted are entirely vested at the date of grant.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

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On September 28, 2006, the Board granted a total of 2,000,000 options to purchase common shares of the Company to its directors, officers and employees. The options are exercisable at a price of \$0.90 until September 2011 and are entirely vested.

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

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

	For the nine-month period ended September 30, 2006		For the nine-month period ended December 31, 2005	
	Number of options	Average exercise price \$	Number of options	Average exercise price \$
Beginning of period	4,786,250	0.59	3,046,250	0.79
Granted	4,700,000	0.61	1,940,000	0.29
Exercised	(122,917)	0.28	-	-
Expired or cancelled	(231,000)	0.76	(200,000)	0.85
End of period	<u>9,132,333</u>	<u>0.60</u>	<u>4,786,250</u>	<u>0.59</u>

A summary of options outstanding and exercisable as at September 30, 2006 is presented below:

<u>Exercise price</u>	<u>Number of options</u>		<u>Expiry date</u>
	<u>Outstanding</u>	<u>Exercisable</u>	
\$0.85	855,000	855,000	October 2008
\$1.30	40,000	40,000	January 2009
\$0.75	1,217,000	1,217,000	August 2009
\$0.75	500,000	500,000	February 2010
\$0.30	1,695,333	1,271,500	September 2010
\$0.22	125,000	93,750	September 2010
\$0.40	2,700,000	1,350,000	February 2011
\$0.90	2,000,000	2,000,000	September 2011
	<u>9,132,333</u>	<u>7,327,250</u>	

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

Total stock-based compensation costs for the nine-month period ended September 30, 2006 amount to \$1,838,101 (note 12) (for the nine-month period ended September 30, 2005 – \$528,583), including \$1,076,184 (for the nine-month period ended September 30, 2005 – \$217,758) 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 \$761,917 (for the nine-month period ended September 30, 2005 – \$310,825) 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 nine-month period ended September 30, 2006	For the nine-month period ended September 30, 2005
Average dividend per share	Nil	Nil
Estimated volatility	99.45%	104.95%
Risk-free interest rate	4.52%	4.00%
Expected life of options granted	4 years	4 years
Option price	\$0.60	\$0.52
 Weighted average of estimated fair value of each option granted	 \$0.42	 \$0.36

12 Contributed surplus

	For the nine-month period ended September 30, 2006	For the nine-month period ended December 31, 2005
	\$	\$
Balance – Beginning of period	4,802,240	1,380,600
Stock-based compensation cost (note 11)	1,838,101	454,819
Exercise of options (note 11)	(19,353)	-
Warrants expired (note 10)	-	2,966,821
Balance – End of period	<u>6,620,988</u>	<u>4,802,240</u>

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at September 30, 2006 (unaudited)

13 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 nine-month period ended September 30, 2006 \$	For the nine-month period ended September 30, 2005 \$
Income tax benefit using statutory income tax rates	(566,327)	(406,237)
Income tax rate differential in Mexico	2,591	12,000
Stock-based compensation costs	243,966	93,248
Non taxable portion of capital gain	(24,463)	-
Increase in the valuation allowance	333,592	156,067
Foreign exchange gain (loss) recoverable (deductible) in Mexico	(332,000)	98,333
Inflation taxable on net financial liabilities in Mexico	110,989	44,000
Non-deductible items in Mexico	14,684	31,333
Other	(13,632)	(28,744)
	<u>(230,600)</u>	<u>-</u>

14 Asset retirement obligations

As at September 30, 2006, 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

As at September 30, 2006 (unaudited)

15 Statements of cash flows

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

	For the nine-month period ended September 30, 2006 \$	For the nine-month period ended September 30, 2005 \$
Sales tax and other receivables	(2,086,658)	(700,921)
Inventories from pilot-mining program	(12,546)	(250,600)
Prepaid expenses	47,420	21,688
Accounts payable and accrued liabilities	616,043	193,037
Income taxes payable	(45,000)	-
	<u>(1,480,741)</u>	<u>(736,796)</u>

- (a) Changes in non-cash receivable items totalling \$2,354,642 (nil for the nine-month period ended September 30, 2005) related to the sale of concentrate are included in investing activities.
- (b) Changes in contributed surplus for an amount of \$1,076,184 (for the nine-month period ended September 30, 2005 – \$217,758) related to stock based compensation costs capitalized into mining assets are included in investing activities.

16 Related party transactions

- (a) During the nine-month period ended September 30, 2006, companies controlled by officers of the Company charged consulting fees amounting to \$789,297 (for the nine-month period ended September 30, 2005 – \$341,578), including \$541,552 capitalized to deferred exploration costs (for the nine-month period ended September 30, 2005 – \$203,633). As at September 30, 2006, the balance due to these officers amounted to \$20,052 (as at December 31, 2005 – \$11,840).
- (b) During the nine-month period ended December 31, 2005, directors, companies controlled by directors and officers of the Company participated in private placements of common shares (see terms described in note 9 (i)) for a total consideration of \$886,500 (nil during the nine-month period ended September 30, 2006).

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.

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Notes to Consolidated Financial Statements

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17 Commitments

On May 17, 2006, the Company signed a service agreement to outsource its drilling activities with Canmex Diamond Drill S.A. de C.V., which would, however, use the Company's own drilling equipment. The agreement is for 25,000 meters at a cost of US\$92.50 per meter.

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

18 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.

19 Comparative figures

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

20 Subsequent events

- a) Subsequent to September 2006, as per agreement, the Company purchased 850,000 units of Pershimco at \$0.40 per unit (note 6 (vii) (d)).
- b) Subsequent to the end of the quarter, 11,423,219 warrants were exercised at the price of \$0.90, for a total cash consideration of \$10,280,897. Consequently, the Company issued 11,423,219 common shares from its treasury (note 10).