



DIA BRAS EXPLORATION INC.

Restated Interim Consolidated Financial Statements

First Quarter ended March 31, 2006

(UNAUDITED)

Dia Bras Exploration Inc.

Consolidated Balance Sheets (unaudited)

	As at March 31, 2006 \$ (restated, note 19)	As at December 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	3,920,853	3,541,961
Short-term deposits, maturing between August 29, 2006 and March 2, 2007, bearing interest at a rate between 1.5% and 2.7% per annum (as at March 31, 2005 – maturing August 31, 2005 and bearing interest at 1.5%)	25,000	15,000
Receivable	658,000	327,000
Sales tax and other receivables	1,421,798	1,037,122
Inventories from pilot mining program (note 4)	28,964	142,239
Temporary investment (note 5)	-	42
Prepaid expenses	75,000	94,048
	<u>6,129,615</u>	<u>5,157,412</u>
Mining assets (note 6)	18,870,853	19,912,804
Deferred costs – Advance on royalty payment (note 7)	<u>350,000</u>	<u>350,000</u>
	<u>25,350,468</u>	<u>25,420,216</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	741,824	749,676
Current portion of obligation related to assets under capital lease (note 8)	95,512	90,904
Income taxes payable	-	45,000
	<u>837,336</u>	<u>885,580</u>
Obligation related to assets under capital lease (note 8)	109,442	137,947
Future income tax liabilities	<u>287,000</u>	<u>397,600</u>
	<u>1,233,778</u>	<u>1,421,127</u>
Shareholders' Equity		
Share capital (note 9)	26,974,891	26,921,601
Warrants (note 10)	2,880,496	2,880,496
Contributed surplus (note 12)	5,246,418	4,802,240
Deficit	<u>(10,985,115)</u>	<u>(10,605,248)</u>
	<u>24,116,690</u>	<u>23,999,089</u>
	<u>25,350,468</u>	<u>25,420,216</u>

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, 2006 \$ (restated, note 19)	For the three-month ended March 31, 2005 \$
Income		
Interest income and other	18,875	-
Gain on disposal of temporary investment (note 5)	152,800	38,285
Gain on currency exchange	-	51,902
	<u>171,675</u>	<u>90,187</u>
Expenses		
Administrative expenses	139,186	66,513
Professional and consulting fees	83,607	62,548
Information to shareholders and trustee fees	73,334	33,064
Business development	61,610	54,113
Stock-based compensation costs (note 11)	234,685	115,466
Amortization and write-off of property, plant and equipment	-	1,729
Amortization and write-off of intangible asset – Licence	-	6,249
Write-off of mining assets – Costs and deferred exploration expenses (note 6(a)(iii) and (vii))	-	201,128
Write-down of temporary investment	-	45,833
Loss on currency exchange	69,720	-
	<u>662,142</u>	<u>586,643</u>
Loss before income taxes for the period	490,467	496,456
Future income taxes recovery (note 13)	<u>(110,600)</u>	<u>-</u>
Loss for the period	379,867	496,456
Deficit – Beginning of period	<u>(10,605,248)</u>	<u>(7,972,100)</u>
Deficit – End of period	<u>(10,985,115)</u>	<u>(8,468,556)</u>
Basic and diluted cumulative loss per share	<u>0,01</u>	<u>0,01</u>
Basic and diluted weighted average number of outstanding shares	<u>81,739,639</u>	<u>51,161,921</u>

Dia Bras Exploration Inc.

Consolidated Statements of Cash Flows (unaudited)

	For the three-month period ended March 31, 2006 \$ (restated, note 19)	For the three-month period ended March 31, 2005 \$
Cash flows from		
Operating activities		
Loss for the period	(379,867)	(496,456)
Adjustments for		
Future income taxes (note 13)	(110,600)	-
Stock-based compensation costs	234,685	115,466
Gain on disposal of temporary investment (note 5)	(152,800)	-
Amortization and write-off of property, plant and equipment	-	1,729
Amortization and write-off of intangible asset – Licence	-	6,249
Write-off of mining assets – Costs and deferred exploration expenses (note 6 (a)(vii))	-	201,128
Write-down of temporary investment	-	45,833
Unrealized gain on currency exchange	(3,724)	(51,902)
	<u>(412,306)</u>	<u>(177,953)</u>
Changes in non-cash working capital items (note 15)	<u>(326,912)</u>	<u>(618,083)</u>
	<u>(739,218)</u>	<u>(796,036)</u>
Financing activities		
Payment of obligation related to asset under capital lease	(20,173)	-
Share capital issued (note 9)	33,937	114,750
	<u>13,764</u>	<u>114,750</u>
Investing activities		
Increase in mining assets	(4,836,777)	(2,748,456)
Proceeds from sales of concentrate	5,798,281	-
Purchase of short-term deposits	(10,000)	-
Acquisition of temporary investment (note 5)	(260,000)	-
Disposal of temporary investment (note 5)	412,842	-
Purchase of property, plant and equipment	-	(20,757)
	<u>1,104,346</u>	<u>(2,769,213)</u>
Translation adjustments on cash and cash equivalents	<u>-</u>	<u>(27,021)</u>
Increase (decrease) in cash and cash equivalents during the period	378,892	(3,477,520)
Cash and cash equivalents – Beginning of period	<u>3,541,961</u>	<u>6,432,390</u>
Cash and cash equivalents – End of period	<u>3,920,853</u>	<u>2,954,870</u>
Supplemental disclosure of cash flow information		
Interest paid	11,504	-
Income tax paid	45,000	-

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 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 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.

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

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 has 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 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 Consolidated Financial Statements (restated)

As at March 31, 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 ore and concentrate located at the plant which are recorded at the lower of cost and net realizable value.

Property, plant and equipment

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

Mining assets

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

Costs and deferred exploration expenses

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

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (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 expects commercial production on the Bolivar project to commence not later than 2009 year end. Commercial production has been defined as being the stage were the Company had reached a production level of 65% for a consecutive period of 90 days with a maximum time period of six months. The production level will be calculated on the rated capacity of a mill on mine site which can process approximately 2,000 tonnes per day. The development of the mine and the construction of the mill on mine site are planned to start 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.

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.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

Stock option plan and stock-based compensation costs

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

Foreign currency translation

Foreign currency

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

Foreign operations

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

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the accounting and tax bases of assets and liabilities using 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 year in which they are incurred and recorded as an increase in deficit in the year in which the shares are issued.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 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, the short-term deposits, the 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. The short term deposits and the obligation related to the asset under capital lease bear interest at a fixed rate.

Foreign exchange risk

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

Credit Risk

The Company is exposed to credit risk to the extent that its debtors may be unable to repay amounts owing to the Company. The totality of the Company receivable is with a sole client and is subject to normal credit risks.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

The totality of sales tax receivable is with the Government of Mexico and as such management believe it does not represent a significant credit risk.

4 Inventories from pilot mining program

	As at March 31, 2006 \$	As at December 31, 2005 \$
Ore	5,017	83,921
Concentrate	23,947	58,318
	<u>28,964</u>	<u>142,239</u>

5 Temporary investment

	As at March 31, 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)	-	42

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 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.

6 Mining assets

	As at March 31, 2006 \$	As at December 31, 2005 \$
Costs and deferred exploration expenses (a)	12,388,535	13,537,347
Exploration building and equipment (b)	4,982,723	4,979,639
Supplies inventory	1,020,821	1,119,116
Deposits on future mining assets	478,774	276,702
	<u>18,870,853</u>	<u>19,912,804</u>

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

a) Cost and deferred exploration expenses

	Cost		Deferred exploration expenses		Total	
	As at March 31, 2006 \$	As at December 31, 2005 \$	As at March 31, 2006 \$	As at December 31, 2005 \$	As at March 31, 2006 \$	As at December 31, 2005 \$
Mexico (State of Chihuahua)						
Bolívar projects (options)						
Bolívar mine (i)	1,622,465	1,433,381	6,439,331	7,858,922	8,061,796	9,292,303
Piedras Verdes (ii)	301,895	301,828	2,072,362	2,072,362	2,374,257	2,374,190
San José (iii)	100,082	74,864	271,504	271,504	371,586	346,368
Mezquital	26,173	24,495	99,105	99,105	125,278	123,600
La Cascada	9,226	8,282	133,577	133,577	142,803	141,859
Val	2,624	2,560	100,928	100,928	103,552	103,488
Other	27,748	27,158	33,714	33,714	61,462	60,872
Promontorio projects (options)						
Promontorio and Hidalgo (iv)	136,181	135,702	863,985	811,330	1,000,166	947,032
El Magistral (v)	147,635	147,635	-	-	147,635	147,635
	<u>2,374,029</u>	<u>2,155,905</u>	<u>10,014,506</u>	<u>11,381,442</u>	<u>12,388,535</u>	<u>13,537,347</u>

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

	For the three-month period ended March 31, 2006 \$	For the nine-month ended December 31, 2005 \$
Balance – Beginning of period	13,537,347	10,197,775
Costs and deferred exploration expenses		
Property acquisition and related costs	218,124	451,263
Sampling	74,686	179,671
Geology consulting and management	265,957	660,598
Geophysical survey	6,646	27,927
Drilling and mining development	1,235,151	1,352,627
Pilot milling	576,532	1,570,210
Supervision and local administrative costs	301,388	1,056,287
Transportation of ore and concentrate	1,445,026	2,530,748
Road	-	41,725
Camp costs and food	305,739	550,053
Capitalized amortization of exploration building and equipment	322,374	833,442
Stock based compensation costs (note 11)	228,846	205,011
	4,980,469	9,459,562
Write-off of mining assets – Costs and deferred exploration expenses ((iii) and (vi))	-	(557,588)
Sales of concentrate	(6,129,281)	(5,562,402)
	(1,148,812)	3,339,572
Balance – End of period	12,388,535	13,537,347

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 is as follows:

	US\$
September 2006	162,500

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

During the three-month period ended March 31, 2006, the Company continued its pilot mining program on the Bolivar mine property. During that period, the Company sold copper and zinc concentrate in the amount of \$6,129,281 (nil for the three-month period ended March 31, 2005). In accordance with its accounting policy, the amount of sales of concentrate before commencement of commercial production is accounted as a reduction of the deferred exploration expenses.

ii) Piedras Verdes

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

	US\$
December 2006	20,000

iii) Santa María and San José projects

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

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

The remaining payments for the San Jose project as at March 31st, 2006 are as follows:

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

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (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. The remaining payments are as follows:

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

v) El Magistral

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

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

The remaining payments are as follows:

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

vi) El 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.

vii) El Oro and PC 1135 properties

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

b) Exploration building and equipment

	As at March 31, 2006		
	Cost \$	Accumulated amortization \$	Net \$
Mexico			
Building			
Plant ⁽¹⁾	1,230,255	123,639	1,106,616
Camp	397,346	68,948	328,398
Machinery and equipment	3,092,029	732,163	2,359,866
Computers and office furniture	295,799	113,193	182,606
Rolling stock	1,243,705	452,633	791,072
Rolling stock under capital lease	235,566	21,401	214,165
	<u>6,494,700</u>	<u>1,511,977</u>	<u>4,982,723</u>

	As at December 31, 2005		
	Cost \$	Accumulated amortization \$	Net \$
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
	<u>6,169,242</u>	<u>1,189,603</u>	<u>4,979,639</u>

⁽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 ore and produce its concentrate. During the nine-month period ended December 31, 2005, the Company, through an agent, obtained control of the common shares in CMMM. Furthermore, it was concluded that CMMM is a VIE and that the Company is the primary beneficiary of this VIE because the Company operates and uses all the production capacity of the mill which is the only significant asset of CMMM and assumes all the financial risks of CMMM. Accordingly, CMMM has been consolidated in the financial statements of the Company since September 2005 under the guidance of AcG-15. Consequently the capital lease obligation was eliminated.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

In exchange for the control obtained of the common shares in CMMM, the Company advanced to an agent an amount of \$504,171 and committed itself to an additional amount of \$145,875 (US\$125,000). This latter consideration is included in accounts payable and accrued liabilities as at March 31, 2006. (As at December 31, 2005, \$233,180 (US\$ 200,000)).

7 Deferred costs – Advance on royalty payment

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

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

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

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 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 March 31, 2006 \$	As at December 31, 2005 \$
Years ending December 31, 2006 (remainder)	96,867	130,166
2007	95,088	96,599
2008	64,858	66,569
	<hr/>	<hr/>
	256,813	293,334
Less: Interest	51,859	64,483
	<hr/>	<hr/>
Total liability (note 8 (b))	204,954	228,851
Less: Current portion	95,512	90,904
	<hr/>	<hr/>
	109,442	137,947
	<hr/>	<hr/>

- b) Included in the amount of \$204,954 (\$228,851 as at December 31, 2005) is approximately \$58,717 payable in U.S. dollars (US\$50,311)(\$68,259-US\$59,355 as at December 31, 2005) and \$146,237 MP\$1,365,835 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 24%. Interest expense for the three-month period ended March 31, 2006 amounted to \$11,504 (nil for the three-month period ended March 31, 2005).

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 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:

	<u>For the three-month period ended March 31, 2006</u>		<u>For the nine-month period ended December 31, 2005</u>	
	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)	-	-	22,500,000	4,500,000
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	<u>81,847,686</u>	<u>26,974,891</u>	<u>81,724,769</u>	<u>26,921,601</u>

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

10 Warrants

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

	<u>For the three-month period ended March 31, 2006</u>		<u>For the nine-month period ended December 31, 2005</u>	
	Number of warrants	Amount \$	Number of warrants	Amount \$
Balance – Beginning of period	12,002,068	2,880,496	29,125,399	6,165,776
Exercised (note 9 (ii))	-	-	(7,767,292)	(318,459)
Expired (note 12)	-	-	(9,356,039)	(2,966,821)
Balance – End of period	<u>12,002,068</u>	<u>2,880,496</u>	<u>12,002,068</u>	<u>2,880,496</u>

Outstanding common share purchase warrants, entitling their holders to subscribe to an equivalent number of common shares, were as follows as of March 31, 2006:

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

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 March 31st, 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 8,100,000 (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. The options have a vesting period of 18 months: 25% at the date of grant and 12.5% for the following six quarters.

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.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

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

	For the three-month period ended March 31, 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	2,700,000	0.40	1,940,000	0.29
Exercised	(122,917)	0.28	-	-
Expired or cancelled	(231,000)	0.80	(200,000)	0.85
End of period	7,132,333	0.52	4,786,250	0.59

A summary of options outstanding and exercisable as at March 31, 2006 is presented below:

Exercise Price \$	Number of options		Expiry date
	Outstanding	Exercisable	
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	375,000	February 2010
0.30	1,695,333	847,667	September 2010
0.22	125,000	62,500	September 2010
0.40	2,700,000	675,000	February 2011
	7,132,333	4,072,167	

In accordance with the Canadian Institute of Chartered Accountants Handbook Section 3870, the Company accounted for options granted in the three-month period ended March 31, 2006 and the three-month period ended March 31, 2005 using the fair value method. Total stock based compensation costs for the three-month period ended March 31, 2006 amount to \$463,531 (note 12) (for the three-month period ended March 31, 2005 – \$173,225), including \$228,846 (for the three-month period ended March 31, 2005-\$57,759) 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 \$234,685 (for the three-month period ended March 31, 2005 – \$115,466) was recorded in the consolidated statements of operations and deficit.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

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, 2006	For the three-month period ended March 31, 2005
Average dividend per share	Nil	Nil
Estimated volatility	98%	108%
Risk-free interest rate	4.06%	4.5%
Expected life of options granted	4 years	4 years
Option price	\$0.40	\$0.75
Weighted average of estimated fair value of each option granted	\$0.28	\$0.51

12 Contributed surplus

	For the three-month period ended March 31, 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)	463,531	454,819
Exercise of options (note 11)	(19,353)	-
Warrants expired (note 10)	-	2,966,821
Balance – End of period	<u>5,246,418</u>	<u>4,802,240</u>

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

13 Income taxes

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

	For the three-month period ended March 31, 2006 \$	For the three-month period ended March 31, 2005 \$
Income tax benefit using statutory income tax rates	(156,437)	(154,497)
Income tax rate differential in Mexico	2,117	6 277
Stock-based compensation costs	75,146	35 933
Non taxable portion of capital gain	(24,463)	-
Increase in the valuation allowance	95,700	190 200
Foreign exchange loss recoverable in Mexico	(156,041)	(87 000)
Inflation taxable on net financial liabilities in Mexico	40,263	-
Non-deductible items in Mexico	19,442	-
Other	(6,327)	9 087
	<hr/>	<hr/>
	(110,600)	-

14 Asset retirement obligations

As at March 31, 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 (restated)

As at March 31, 2006 (unaudited)

15 Statements of cash flows

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

	For the three-month period ended March 31, 2006 \$	For the three-month period ended March 31, 2005 \$
Sales tax and other receivables	(384,676)	(349,395)
Inventories from pilot mining program	113,275	(220,600)
Prepaid expenses	19,048	28,461
Accounts payable and accrued liabilities	(29,559)	(76,549)
Income taxes payable	(45,000)	-
	<hr/>	<hr/>
	(326,912)	(618,083)

- a) Changes in non-cash receivable items totalling \$331,000 (nil for the three-month period ended March 31, 2005) related to the sale of concentrate are included in investing activities.
- b) Changes in contributed surplus for an amount of \$228,846 (for the three-month period ended March 31, 2005-\$57,759) related to stock based compensation costs capitalized into mining assets are included in investing activities.

16 Related party transactions

- a) During the three-month period ended March 31, 2006, companies controlled by officers of the Company charged consulting fees amounting to \$141,509 (for the three month period ended March 31, 2005 – \$127,044), including \$77,019 capitalized to deferred exploration costs (for the three month period ended March 31, 2005 – \$63,293). As at March 31, 2006, the balance due to these officers amounted to \$18,667 (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 (None during the three-month period ended March 31, 2006).

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

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

17 Commitment

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

18 Contingency

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

19 Restatement

The Consolidated Statement of Operations and Deficit, the Consolidated Balance Sheet and the Consolidated Statement of Cash Flows had been restated to properly account for the future income taxes of the Company's subsidiaries in Mexico. The restatement resulted in an increase in the future income tax recovery by \$110,600 and a corresponding decrease in the loss of the period. The basic and diluted loss per share has been restated from nil to \$0.01. Furthermore certain reclassifications were recorded in the Consolidated Balance Sheet and the Consolidated Statement of Cash Flows.

20 Comparative figures

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

21 Subsequent events

- a) In May and June, 2006, the Company entered into agreements and staked ground in order to gain 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 (the "Cusi District"), located within 40 kilometres of the Malpaso mill of the Company.

Acquisitions, are the following:

On May 2, 2006, the Company entered into a purchase agreement with Manuel Holguin Aragonz ("Aragonz") to acquire properties covering 1,676 hectares for a cash payment of US\$740,000, of which US\$100,000 has been paid, and the issue by the Company of 1,000,000 common shares of the Company which has been issued. The properties are subject to a 1.5% NSR of up to a maximum of US\$1,500,000 in favor of Aragonz. The NSR can be purchased for US\$1,000,000.

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 which has been paid in full and the issue by the Company of 200,000 common shares

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements (restated)

As at March 31, 2006 (unaudited)

of the Company which has 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.

The acquisition by the Company of the following properties is subject to the execution of definitive agreements:

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, of which US\$200,000 has been paid. The properties are subject to a sliding scale royalty as follows: 2% NSR if the price of silver is equal to a maximum 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.

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, a cash payment of US\$200,000, to be paid. In addition, pursuant to the provisions of the Pershimco Agreement, the Company agreed to acquire US\$300,000 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. 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.

- b) On May 17, 2006, the Company signed a service agreement with Canmex. diamond drill S.A. de C.V. to outsource its drilling activities, using however its own drill equipment. The agreement is for 25,000 meters at a cost of US\$ 92.50 per meter. The company will have to give a deposit of US\$231,250 representing 10% of the total contract.