



DIA BRAS EXPLORATION INC.

Interim Consolidated Financial Statements
Second Quarter ended June 30, 2006
(UNAUDITED)



NOTICE TO READERS OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS:

The unaudited interim financial statements of Dia Bras Exploration Inc. for the six-month period ended June 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 faint horizontal line.

RÉJEAN GOSSELIN, CHIEF EXECUTIVE OFFICER

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

LEONARD TEOLI, CHIEF OF FINANCIAL OPERATIONS

**MONTRÉAL, QUÉBEC
AUGUST 28, 2006**

Dia Bras Exploration Inc.

Consolidated Balance Sheets (unaudited)

	As at June 30, 2006 \$	As at December 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	4,471,714	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 June 30, 2005 – maturing August 31, 2005 and bearing interest at 1.5%)	25,000	15,000
Receivable	1,280,000	327,000
Sales tax and other receivables	2,187,875	1,037,122
Inventories from pilot mining program (note 4)	89,923	142,239
Temporary investment (note 5)	-	42
Prepaid expenses	80,316	94,048
	<u>8,134,828</u>	<u>5,157,412</u>
Mining assets (note 6)	17,671,436	19,912,804
Deferred costs – Advance on royalty payment (note 7)	350,000	350,000
	<u>26,156,264</u>	<u>25,420,216</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,214,906	749,676
Current portion of obligation related to assets under capital lease (note 8)	137,075	90,904
Income taxes payable	-	45,000
	<u>1,351,981</u>	<u>885,580</u>
Obligation related to assets under capital lease (note 8)	180,991	137,947
Future income tax liabilities	287,000	397,600
	<u>1,819,972</u>	<u>1,421,127</u>
Shareholders' Equity		
Share capital (note 9)	27,742,891	26,921,601
Warrants (note 10)	2,880,496	2,880,496
Contributed surplus (note 12)	5,407,559	4,802,240
Deficit	<u>(11,694,654)</u>	<u>(10,605,248)</u>
	<u>24,336,292</u>	<u>23,999,089</u>
	<u>26,156,264</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)

	Three-month period ended June 30,		Six-month period ended June 30,	
	2006 \$	2005 \$	2006 \$	2005 \$
Income				
Interest income	55,880	14,812	69,755	14,812
Gain on disposal of temporary investment (note 5)	-	-	152,800	38,285
Unrealized gain on exchange	-	-	-	51,902
Miscellaneous Revenues	22,697	-	27,697	-
	<u>78,577</u>	<u>14,812</u>	<u>250,252</u>	<u>104,999</u>
Expenses				
Administrative expenses	188,941	109,686	328,127	176,199
Professional and consulting fees	56,775	2,886	140,382	65,434
Information to shareholders and trustee fees	72,164	38,355	145,498	71,419
Business development	85,904	23,042	147,514	77,155
Stock based compensation costs (note 11)	82,047	54,474	316,732	169,940
Amortization and write-off of property, plant and equipment	-	1,730	-	3,459
Amortization and write-off of intangible asset – Licence	-	6,249	-	12,498
Other project cost	29,069	-	29,069	-
Write-off of mining assets – Costs and deferred exploration expenses (note 6(a)(iii) and (vii))	-	-	-	201,128
Write-down of temporary investment	-	18,334	-	64,167
Loss on currency exchange	273,216	97,488	342,936	97,488
	<u>788,116</u>	<u>352,244</u>	<u>1,450,258</u>	<u>938,887</u>
Loss before income taxes for the period	(709,539)	(337,432)	(1,200,006)	(833,888)
Future income taxes recovery (note 13)	-	-	(110,600)	-
Loss for the period	(709,539)	(337,432)	(1,089,406)	(833,888)
Deficit – Beginning of period	(10,985,115)	(8,468,556)	(10,605,248)	(7,972,100)
Deficit – End of period	(11,694,654)	(8,805,988)	(11,694,654)	(8,805,988)
Basic and diluted cumulative loss per share	(0.01)	(0.01)	(0.02)	(0.02)
Basic and diluted weighted average number of outstanding shares	82,335,598	51,571,790	82,039,265	51,291,300

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

	Three-month period ended June 30		Six-month period ended June 30	
	2006 \$	2005 \$	2006 \$	2005 \$
Cash flows from Operating activities				
Loss for the period	(709,539)	(337,432)	(1,089,406)	(833,888)
Adjustments for				
Future income taxes (note 13)	-	-	(110,600)	-
Stock-based compensation costs (note 11)	82,047	54,474	316,732	169,940
Gain on disposal of temporary investment (note 5)	-	-	(152,800)	-
Amortization and write-off of property, plant and equipment	-	1,730	-	3,459
Amortization and write-off of intangible asset – Licence	-	6,249	-	12,498
Write-off of mining assets – Costs and deferred exploration expenses (note 6 (a)(vii))	-	-	-	201,128
Write-down of temporary investment	-	18,334	-	64,167
Unrealized (gain) loss on currency exchange	(13,612)	-	(17,336)	(51,902)
	(641,104)	(256,645)	(1,053,410)	(434,598)
Changes in non-cash working capital items (note 15)	(127,717)	(172,718)	(454,629)	(790,801)
	(768,821)	(429,363)	(1,508,039)	(1,225,399)
Financing activities				
Obligation related to asset under capital lease	126,724	-	106,551	-
Share capital issued (note 9)	-	58,249	33,937	172,999
	126,724	58,249	140,488	172,999
Investing activities				
Increase in mining assets	(7,094,735)	(2,809,734)	(11,931,512)	(5,558,190)
Proceeds from sales of concentrate	8,287,693	1,199,523	14,085,974	1,199,523
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)
	1,192,958	(1,610,211)	2,297,304	(4,379,424)
Translation adjustments on cash and cash equivalents	-	(2,294)	-	(29,315)
Increase (decrease) in cash and cash equivalents during the period	550,861	(1,983,619)	929,753	(5,461,139)
Cash and cash equivalents – Beginning of period	3,920,853	2,954,870	3,541,961	6,432,390
Cash and cash equivalents –End of period	4,471,714	971,251	4,471,714	971,251
Supplemental disclosure of cash flow information				
Interest paid	11,504	-	28,718	-
Income tax paid	-	-	45,000	-

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 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 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 which serves to gather information and data in view 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 June 30 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.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 2006 (unaudited)

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., which provides administrative resources to DIB Mexicana in Chihuahua, 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.

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 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.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 2006 (unaudited)

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.

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 reach a production level of 65% for a consecutive period of 90 days 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.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 2006 (unaudited)

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.

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.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 2006 (unaudited)

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.

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.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 2006 (unaudited)

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. 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 June 30, 2006 \$	As at December 31, 2005 \$
Mineralization rock	89,923	83,921
Concentrate	-	58,318
	<hr/> 89,923	<hr/> 142,239

5 Temporary investment

	As at June 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)	-	42
	<hr/>	<hr/>

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 six-month period ended June 30, 2006, the company exercised all the warrants for \$260,000 and disposed of all the shares for a total consideration of \$412,842. The Company realized a gain on disposal of \$152,800.

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

6 Mining assets

	As at June 30, 2006 \$	As at December 31, 2005 \$
Costs and deferred exploration expenses (a)	8,892,064	13,537,347
Exploration building and equipment (b)	6,557,055	4,979,639
Supplies inventory	1,432,136	1,119,116
Deposits on future mining assets	790,181	276,702
	17,671,436	19,912,804

a) Cost and deferred exploration expenses

	Cost		Deferred exploration expenses		Total	
	As at June 30, 2006 \$	As at December 31, 2005 \$	As at June 30, 2006 \$	As at December 31, 2005 \$	As at June 30, 2006 \$	As at December 31, 2005 \$
Mexico (State of Chihuahua)						
Bolivar projects (options)						
Bolivar mine (i)	1,622,465	1,433,381	1,320,207	7,858,922	2,942,672	9,292,303
Piedras Verdes (ii)	313,039	301,828	2,073,771	2,072,362	2,386,810	2,374,190
San José (iii)	98,491	74,864	271,504	271,504	369,995	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	43,564	33,714	71,312	60,872
Promontorio projects (options)						
Promontorio and						
Hidalgo (iv)	247,616	135,702	946,942	811,330	1,194,558	947,032
El Magistral (v)	147,635	147,635	-	-	147,635	147,635
Cusi Projects						
India and Marisa(viii a))	183,154	-	-	-	183,154	-
Holguin(viii b))	1,009,733	-	-	-	1,009,733	-
Cusi Claims	4,269	-	210,293	-	214,562	-
	3,692,173	2,155,905	5,199,891	11,381,442	8,892,064	13,537,347

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 2006 (unaudited)

	For the six-month period ended June 30, 2006 \$	For the nine-month period ended December 31, 2005 \$
Balance – Beginning of period	13,537,347	10,197,775
Costs and deferred exploration expenses		
Property acquisition and related costs	1 536,268	451,263
Sampling	141,809	179,671
Geology consulting and management	540,454	660,598
Geophysical survey	6,915	27,927
Drilling and mining development	1 883,526	1,352,627
Pilot milling	1 292,010	1,570,210
Supervision and local administrative costs	493,554	1,056,287
Transportation costs	3,007,111	2,530,748
Road	1,274	41,725
Camp costs	618,701	550,053
Capitalized amortization of exploration building and equipment	564,129	833,442
Stock based compensation costs (note 11)	307,940	205,011
	10,393,691	9,459,562
Write-off of mining assets – Costs and deferred exploration expenses ((iii) and (vi))	-	(557,588)
Sales of concentrate	(15,038,974)	(5,562,402)
	(4,645,283)	3,339,572
Balance – End of period	8,892,064	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

As at June 30, 2006 (unaudited)

During the six-month period ended June 30, 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 (\$942,548 for the six-month period ended June 30, 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 June 30, 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

As at June 30, 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 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

As at June 30, 2006 (unaudited)

viii) 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 Cusihiuriachic (Cusi) silver district in Chihuahua State, Mexico (the "Cusi District"), located within 40 kilometres of the Malpaso mill of the Company 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 which \$50,000 has been paid as at June 30, 2006 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 Aragonéz ("Aragonéz") to acquire properties covering 1,676 hectares for a cash payment of US\$740,000, of which US\$340,000 as at June 30, 2006 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 Aragonéz. 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. 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.

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, 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. This placement was still not made as at June 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 \$US1,000,000. 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 June 30, 2006 (unaudited)

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

As at June 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 June 30, 2006 \$	As at December 31, 2005 \$
Years ending December 31, 2006 (remainder)	96,496	130,166
2007	158,925	96,599
2008	144,654	66,569
	<hr/>	<hr/>
Less: Interest	400,075	293,334
	<hr/>	<hr/>
Total liability (note 8 (b))	318,066	228,851
Less: Current portion	<hr/>	<hr/>
	137,075	90,904
	<hr/>	<hr/>
	180,991	137,947
	<hr/>	<hr/>

- b) Included in the amount of \$318,066 (\$228,851 as at December 31, 2005) is approximately \$52,723 payable in U.S. dollars (US\$47,499) (\$68,259-US\$59,355 as at December 31, 2005) and \$265,343 MP\$2,706,498 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 six-month period ended June 30, 2006 amounted to \$28,718 (nil for the six-month period ended June 30, 2005).

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 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:

	<u>For the six-month period ended June 30, 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 for the acquisition of mining assets (note 6 viii))	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	<u>83,047,686</u>	<u>27,742,891</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).

Refer to Note 20.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 2006 (unaudited)

10 Warrants

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

	For the six-month period ended June 30, 2006		For the nine-month period ended December 31, 2005	
	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	12,002,068	2,880,496	12,002,068	2,880,496

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	12,002,068	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 June 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 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

As at June 30, 2006 (unaudited)

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

	For the six-month period ended June 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	4,786,258	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	-	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 June 30, 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	437,500	February 2010
0.30	1,695,333	1,059,583	September 2010
0.22	125,000	78,125	September 2010
0.40	2,700,000	1,012,500	February 2011
	7,132,333	4,699,708	

In accordance with the Canadian Institute of Chartered Accountants Handbook Section 3870, the Company accounted for options granted in the six-month period ended June 30, 2006 and the six-month period ended June 30, 2005 using the fair value method. Total stock based compensation costs for the six-month period ended June 30, 2006 amount to \$624,672 (note 12) (for the six-month period ended June 30, 2005 – \$266,091), including \$307,940 (for the six-month period ended June 30, 2005-\$96,151) 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 \$316,732 (for the six-month period ended June 30, 2005 – \$169,940) was recorded in the consolidated statements of operations and deficit.

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 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 six-month period ended June 30, 2006	For the six-month period ended June 30, 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 six-month period ended June 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)	624,672	454,819
Exercise of options (note 11)	(19,353)	-
Warrants expired (note 10)	-	2,966,821
Balance – End of period	<u>5,407,559</u>	<u>4,802,240</u>

Dia Bras Exploration Inc.

Notes to Consolidated Financial Statements

As at June 30, 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 six-month period ended June 30, 2006 \$	For the six-month period ended June 30, 2005 \$
Income tax benefit using statutory income tax rates	(381,423)	(259,506)
Income tax rate differential in Mexico	9,771	11,991
Stock-based compensation costs	101,418	50,982
Non taxable portion of capital gain	(24,463)	-
Increase in the valuation allowance	224,700	78,033
Foreign exchange loss recoverable in Mexico	(264,760)	68,333
Inflation taxable on net financial liabilities in Mexico	78,881	22,000
Non-deductible items in Mexico	128,926	23,500
Other	16,952	4,666
	<hr/>	<hr/>
	(110,000)	-

14 Asset retirement obligations

As at June 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 June 30, 2006 (unaudited)

15 Statements of cash flows

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

	For the six-month period ended June 30, 2006 \$	For the six-month period ended June 30, 2005 \$
Sales tax and other receivables	(1,150,753)	(605,680)
Inventories from pilot mining program	52,316	(256,975)
Prepaid expenses	13,732	(6,453)
Accounts payable and accrued liabilities	675,076	78,307
Income taxes payable	(45,000)	-
	<hr/>	<hr/>
	(454,629)	(790,801)

- a) Changes in non-cash receivable items totalling (\$953,000) (nil for the six-month period ended June 30, 2005) related to the sale of concentrate are included in investing activities.
- b) Changes in contributed surplus for an amount of \$307,940 (for the six-month period ended June 30, 2005 - \$124,972) related to stock based compensation costs capitalized into mining assets are included in investing activities.

16 Related party transactions

- a) During the six-month period ended June 30, 2006, companies controlled by officers of the Company charged consulting fees amounting to \$293,796 (for the six month period ended June 30, 2005 – \$237,237), including \$162,598 capitalized to deferred exploration costs (for the six month period ended June 30, 2005 – \$165,293). As at June 30, 2006, the balance due to these officers amounted to \$18,370 (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 six-month period ended June 30, 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

As at June 30, 2006 (unaudited)

17 Commitment

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 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 Comparative figures

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

20 Subsequent events

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 underwriters purchased an additional 1,950,000 common shares of \$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 favour of the underwriters.