



**DIA BRAS EXPLORATION INC.**  
(AN EXPLORATION-STAGE COMPANY)

**Interim Consolidated Financial Statements**

**Three-month period ended March 31, 2009**

(UNAUDITED)



**NOTICE TO READERS OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:**

The unaudited interim consolidated financial statements of Dia Bras Exploration Inc. for the three-month period ended March 31, 2009 have not been reviewed by the Company's external auditors.

A handwritten signature in black ink, appearing to read "E. Gonzalez", written over a horizontal line.

**EDUARDO GONZALEZ**, Director

A handwritten signature in blue ink, appearing to read "Arved Marin", written over a horizontal line.

**ARVED MARIN**, Financial Controller

Montréal, Québec  
May 29, 2009

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Balance Sheets

	As at March 31, 2009	As at December 31, 2008
	\$ (unaudited)	\$ (audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	983,426	1,097,569
Sales tax and other receivables	1,726,586	1,493,918
Income tax receivable	186,225	70,664
Inventories (note 6)	2,428,888	2,210,605
Temporary investment (note 7)	75,150	58,450
Prepaid expenses	246,899	401,871
	<u>5,647,174</u>	<u>5,333,077</u>
<b>Property, plant and equipment</b> (note 8)	140,890	159,933
<b>Mining assets</b> (note 10)	<u>15,780,340</u>	<u>16,033,857</u>
	<u>21,568,404</u>	<u>21,526,867</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	4,489,004	4,608,826
Trade payables (note 5)	2,894,971	3,948,891
Advance payable (note 9)	2,096,973	2,438,790
Mining concessions payable (note 10 (b))	1,766,158	1,796,727
Deferred tenant allowance	19,188	19,188
	<u>11,266,294</u>	<u>12,812,422</u>
<b>Long-term liabilities</b>		
Mining concessions payable (note 10 (b))	901,785	1,157,307
Deferred tenant allowance	44,771	49,568
	<u>12,212,850</u>	<u>14,019,297</u>
<b>Shareholders' Equity</b>		
Share capital (note 11)	57,876,962	54,966,786
Warrants and compensation options (note 12)	1,224,029	325,000
Contributed surplus (note 14)	8,337,640	8,295,044
Deficit	<u>(58,083,077)</u>	<u>(56,079,260)</u>
	<u>9,355,554</u>	<u>7,507,570</u>
	<u>21,568,404</u>	<u>21,526,867</u>
<b>Going concern assumption</b> (note 1)		
<b>Commitments and Contingency</b> (notes 21 and 22)		
<b>Subsequent Events</b> (note 24)		

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Statements of Operations and Comprehensive Loss

	<b>For the three-month period ended March 31, 2009</b>	<b>For the three-month period ended March 31, 2008</b>
	<u>\$</u>	<u>\$</u>
	(unaudited)	(unaudited) <b>Restated</b> (note 3)
Sales	2,876,064	6,656,841
Cost of sales (excluding amortization)	2,335,353	4,134,862
Amortization of property, plant and equipment	567,195	818,010
Sales, general and administrative expenses	1,246,033	1,543,344
Exploration and mine development expenditures	791,059	1,229,859
Stock-based compensation cost (note 13)	42,596	-
(Gain) loss on disposal of property, plant and equipment used in mining operations	(3,350)	4,453
Restructuring cost (note 15)	-	249,721
Interest expenses	87,607	3,613
Interest income	(1,512)	(43,705)
Net gain on variation of commodity market prices	(519,038)	(1,373,705)
(Gain) loss on change in value of temporary investment	(16,700)	66,800
(Gain) loss on currency exchange	269,394	(91,199)
<b>Profit (loss) before income taxes</b>	<u>(1,922,573)</u>	<u>114,788</u>
<b>Income tax provision</b> (note 17)		
Current	<u>5,920</u>	<u>67,529</u>
	<u>5,920</u>	<u>67,529</u>
<b>Profit (loss) and comprehensive profit (loss)</b>	<u>(1,928,493)</u>	<u>47,259</u>
<b>Basic and diluted loss per share</b>	<u>(0.01)</u>	<u>0.00</u>
<b>Basic and diluted weighted average number of outstanding shares</b>	<u>158,681,727</u>	<u>111,373,027</u>
<b>Going concern assumption</b> (note 1)		
<b>Commitments and Contingency</b> (notes 21 and 22)		
<b>Subsequent events</b> (note 24)		

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Statement of Deficit

	<b>For the three-month period ended March 31, 2009</b>	<b>For the three-month period ended March 31, 2008</b>
	\$ (unaudited)	\$ (unaudited) <b>Restated</b> (note 3)
<b>Deficit – Beginning of the period</b>		
As previously reported	(56,079,260)	(22,511,622)
Changes in accounting policies (note 3)	-	(10,826,458)
As restated	(56,079,260)	(33,338,080)
Share issue expenses	(75,324)	-
Profit (loss)	(1,928,493)	47,259
<b>Deficit – End of the period</b>	<b>(58,083,077)</b>	<b>(33,290,821)</b>

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Statements of Cash Flows

	For the three-month period ended March 31, 2009 \$ (unaudited)	For the three-month period ended March 31, 2008 \$ (unaudited) <b>Restated</b> (note 3)
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net income (loss)	(1,928,493)	47,259
Adjustments for		
Stock-based compensation costs (note 13)	42,596	-
Amortization of property, plant and equipment	567,195	818,010
Amortization of deferred tenant allowance	(4,797)	(4,797)
(Gain) loss on disposal of property, plant and equipment used in mining operations	(3,350)	4,453
Unrealized gain on variation of commodity market prices	(379,167)	(824,149)
(Gain) loss on change in value of temporary investment	(16,700)	66,800
Unrealized loss on currency exchange	62,228	-
Interest expense on mining concessions payable	49,743	-
	(1,610,745)	107,576
Changes in noncash working capital items (note 19)	(1,073,129)	(2,408,418)
	(2,683,874)	(2,300,842)
<b>Financing activities</b>		
Advance payable (note 9)	(404,045)	-
Issuance of share capital	3,809,205	12,000
Share issue expenses	(75,324)	-
	3,329,836	12,000
<b>Investing activities</b>		
Increase in mining assets (excluding property, plant and equipment used in mining operations)	(403,939)	(273,820)
Increase in property, plant and equipment and equipment used in mining operations	(375,479)	(406,652)
Disposal of property, plant and equipment used in mining operations	19,313	8,865
Acquisition of property, plant and equipment	-	(2,491)
	(760,105)	(674,098)
<b>Decrease in cash and cash equivalents during the period</b>	(114,143)	(2,962,940)
<b>Cash and cash equivalents – Beginning of the period</b>	1,097,569	6,700,016
<b>Cash and cash equivalents – End of the period (note 19)</b>	983,426	3,737,076
<b>Going concern assumption (note 1)</b>		
<b>Additional cash flow information (note 19)</b>		
<b>Commitments and Contingency (notes 21 and 22)</b>		
<b>Subsequent events (note 24)</b>		

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

For the three-month periods ended March 31, 2009 and 2008

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## 1 Nature of operations and going concern assumption

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

The Company, through its wholly owned Mexican subsidiary Dia Bras Mexicana, owns or controls several mining concessions located in the State of Chihuahua, Mexico, which are presently at the exploration stage. The economic viability of these mining properties has not yet been assessed. The recoverability of costs relating to the mining properties is dependent upon the discovery of economically recoverable reserves and resources, confirmation of the Company’s interest in the underlying mineral concessions, receipt of necessary permits and the ability of the Company to obtain the necessary financing to complete the development and construction of processing facilities, on-site where applicable, as well as future profitable production or, alternatively, upon disposal of such properties at an amount equal to the Company’s investment therein.

During 2009, the Company continued its pilot-mining program, initiated in 2005, at the Bolivar Mine property in order to gather information and data in view of a pre-feasibility study. However, the Company has not yet reached the commercial production stage.

In accordance with industry standards for properties at that stage of exploration, the Company is taking reasonable measures to ensure proper title to its properties. However, there is no guarantee that title to any of its properties will not be challenged or impugned. The Company’s properties may be subject to prior unregistered agreements or transfers, and title may be affected, among other things, by undetected defects (notes 10 and 22).

Although these interim consolidated financial statements have been prepared on a going concern basis in accordance with generally accepted accounting principles (“GAAP”), there is a significant doubt on the reasonableness of this assumption.

As of March 31, 2009, the Company has negative working capital of \$5,619,120 and an accumulated deficit of \$58,083,077, and has incurred a net loss of \$1,928,493 for the three-month period ended March 31, 2009. In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its existing commitments for exploration and development programs, property payments and for general and administrative expenses.

The Company is pursuing financing alternatives to fund its operations and to continue its activities as a going concern. Although there is no assurance that the Company will be successful in these actions, management is confident that it will be able to secure the necessary financing through the issuance of new equity and/or debts. The Company also plans to use part of the proceeds of the financing to fund the construction of a mill on site at Bolivar Mine that will reduce significantly direct operating cash costs.

There is significant doubt at March 31, 2009 as to the Company’s ability to meet its commitments and ongoing administrative and exploration activities. There can be no assurance that the Company will be able to execute on its plans and there are no guarantees that measures taken by management will be successful. Without new funding being available, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these interim consolidated financial statements.

These interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported amounts of revenues and expenses and the classification of balance sheet items, were the going concern assumption inappropriate, and these adjustments could be material.

# **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Interim Consolidated Financial Statements (unaudited)

For the three-month periods ended March 31, 2009 and 2008

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## **2 Significant accounting policies, new accounting standards and accounting standards issued but not yet adopted**

### **(a) Significant accounting policies**

#### *Basis of consolidation*

These interim consolidated financial statements include the accounts of the Company and its wholly owned foreign subsidiaries, Dia Bras Mexicana S.A. de C.V., Servicios de Minería de la Sierra S. de R.L. de C.V. and Bolivar Administradores S.A. de C.V.

Asesores Administrativos y Recursos Humanos S. de R.L. de C.V. is consolidated in the accounts of the Company as it is a variable interest entity (“VIE”) and the Company is the primary beneficiary of this entity.

The interim consolidated financial statements of the Company have been prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company as at December 31, 2008. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual audited consolidated financial statements and should be used in conjunction with the Company’s annual audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

### **(b) Accounting standards issued but not yet adopted**

#### *Section 1582, “Business Combinations”*

In January 2009, the CICA issued Section 1582, “Business Combinations”, which replaces Section 1581, “Business Combinations”. The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), “Business Combinations”. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

#### *Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-controlling Interests”*

In January 2009, the CICA issued Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests”, which together replace Section 1600, “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), “Consolidated and Separate Financial Statements”. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company is currently evaluating the impact of the adoption of these new sections on the consolidated financial statements.

# Dia Bras Exploration Inc.

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For the three-month periods ended March 31, 2009 and 2008

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## 3 Changes in accounting policies

### *Revenues and expenditures during the pre-operating period*

CICA Handbook Section 3064, “Goodwill and Intangible Assets”, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard requires expenditures incurred to provide future economic benefits to an entity in order to be capitalized as an intangible asset. On adoption of this new standard, EIC 27, “Revenues and Expenditures during the Pre-operating Period”, is withdrawn. As a result, start-up costs that were previously capitalized are required to be expensed as incurred unless these expenditures are included in the cost of an item of property, plant and equipment in accordance with Section 3061, “Property, Plant and Equipment”. The new standard applies to fiscal years beginning on or after October 1, 2008, and early adoption is encouraged.

In December 2008, the Company adopted this new standard with retrospective application. Accordingly, revenues and expenditures before commencement of commercial production at the Bolivar Mine that were previously capitalized to mining assets have been expensed as incurred. This change in accounting policy has been applied retroactively, and the financial statements for the year ended December 31, 2007 have been restated. The effect of this change decreases the deficit at the beginning of the year ended December 31, 2008 by \$14,831,711.

### *Exploration and mine development expenditures*

During the year ended December 31, 2008, the Company retrospectively changed its accounting policy regarding exploration and mine development expenditures to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended December 31, 2008, the Company capitalized such costs to mining assets and only wrote down capitalized costs when the property was abandoned or if the capitalized costs were not considered to be economically recoverable. Exploration and mine development expenditures are now charged to earnings as incurred until the exploration and mine development expenditures meet the definition of an asset, which is when the mineral property has mineralization identified as proven and probable reserves. Significant costs related to property acquisitions are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of exploration and mine development expenditures and is consistent with the industry practice for companies at a similar stage, making the Company’s consolidated financial statements more comparable. The effect of this change increases the deficit at the beginning of the year ended December 31, 2008 by \$25,658,169.

# Dia Bras Exploration Inc.

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Notes to the Interim Consolidated Financial Statements (unaudited)

For the three-month periods ended March 31, 2009 and 2008

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## 4 Financial instruments and risk management

### (a) Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. 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, receivable from pilot mining, accounts payable, advance payable and accrued liabilities is comparable to their carrying value due to the relative short period to maturity of the instruments.

The temporary investment and provision for final settlement are measured at their fair market value.

The fair value of mining concessions payable was measured at fair value at the initial recognition using prevailing market interest rates for a similar instrument with a similar credit rating as described in note 10 (b). The fair value is comparable to its carrying value due to the absence of significant change in the market interest rates for similar instruments.

### (b) Risk management policies and hedging activities

The Company is sensitive to changes in commodity prices, foreign exchange and interest rates. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Although the Company has the ability to address its price-related exposures through the use of options, future and forward contracts, it does not generally enter into such arrangements. Similarly, derivative financial instruments are not used to reduce these financial risks.

#### *Interest rate risk*

The Company's trade receivables (payables), accounts payable and accrued liabilities and mining concessions payable are non-interest bearing. The advance payable bears interest at the 3-month LIBOR rate plus 4%. Cash and cash equivalents bear interest at variable and fixed rates as mentioned in note 19.

On an annual basis, a 1% decrease in interest rates would have an impact on the loss for the three-month period ended March 31, 2009 as follows based on the balances as at March 31, 2009:

	<b>As at March 31, 2009</b>	<b>Decrease of loss</b>
	<u>\$</u>	<u>\$</u>
Short-term deposits	115,186	1,152
Advance payable	2,096,973	20,970

#### *Foreign exchange risk*

The Company's sales of concentrates and part of its purchases are denominated in foreign currencies, primarily in U.S. dollars and Mexican pesos. Consequently, certain assets and liabilities namely cash and cash equivalents, trade receivables and payables, sales tax and other receivables, income tax receivable and payable, accounts payable and accrued liabilities, advance payable, mining concessions payable, as well as revenues and certain expenses, include amounts that are exposed to currency fluctuations.

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For the three-month periods ended March 31, 2009 and 2008

As at March 31, 2009, the following balance sheet items included amounts in foreign currencies as follows:

	<b>As at March 31, 2009</b>	
	<b>US\$</b>	<b>MX\$</b>
Cash and cash equivalents	52,855	2,890,713
Sales tax and other receivables	-	14,905,747
Accounts payable and accrued liabilities and income tax receivable and payable	(138,441)	(43,080,508)
Trade payables	(2,297,237)	-
Mining concessions payable	(2,117,078)	-
Advance payable	(1,664,000)	-
Net balance	<u>(6,163,901)</u>	<u>(25,284,048)</u>
Equivalent in Canadian dollars	<u>(7,767,748)</u>	<u>(2,241,692)</u>
		<b>As at December 31, 2008</b>
	<b>US\$</b>	<b>MX\$</b>
Cash and cash equivalents	297,053	2,100,475
Sales tax and other receivables	-	16,874,700
Accounts payable and accrued liabilities and income tax receivable and payable	(64,133)	(43,586,113)
Mining concessions payable	(2,412,244)	-
Advance payable	(2,000,000)	-
Trade payables	(3,224,637)	-
Net balance	<u>(7,403,961)</u>	<u>(24,610,938)</u>
Equivalent in Canadian dollars	<u>(9,066,890)</u>	<u>(2,178,808)</u>

Assuming that all the other variables are constant, a decrease of 10% in the U.S. dollar exchange rate based on the balances as of March 31, 2009 would generate a decrease of \$776,705 on the loss for the three-month period ended March 31, 2009. A decrease of 10% in the Mexican peso exchange rate based on the balances as of March 31, 2009 would generate a decrease of \$224,169 on the loss for the three-month period ended March 31, 2009.

### *Credit risk*

The Company is subject to concentrations of credit risk through cash and cash equivalents, trade receivables (payables), and other receivables. The Company maintains substantially all of its cash and cash equivalents with major financial institutions in Canada and in Mexico. Therefore, according to management, credit risk of counterparty non-performance is remote. The totality of the Company's trade receivables (payables) is

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(an exploration-stage company)

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For the three-month periods ended March 31, 2009 and 2008

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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 also represents a normal credit risk.

As at March 31, 2009, management considers none of the accounts receivable doubtful and therefore no allowance has been registered.

## *Commodity price risk*

The Company is exposed to commodity price risk for variations in concentrate prices for sales for which the prices are not fixed, as final prices are determined by quoted market price in a period subsequent to the date of sale. As a result, the values of the unsettled sales of concentrate change as the underlying commodity market prices vary. This component of the contract is an embedded derivative, which is recorded at fair value with changes in fair value recorded in net earnings. The Company has the ability to address its price-related exposure through the limited use of options, future and forward contracts. At the date of the balance sheet, the Company does not use derivative instruments to mitigate this risk.

The following table represents the effect on the loss of a 10% increase to commodity prices for the three-month period ended March 31, 2009, based only on the open positions balances for which prices are not fixed and on the weighted average forward prices on shipments that had not reached the final settlement stage as at March 31, 2009:

	<u>Open positions (tonnes)</u>	<u>Expected settlement periods</u>	<u>Weighted average forward price on March 31, 2009 US\$</u>	<u>Decrease of loss for the three-month period ended March 31, 2009 CA\$</u>
Zinc	514	April 2009	0.59	40,908
Lead	71	July 2009	0.57	3,581

## *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due. The Company does not believe it has sufficient liquidity to meet these obligations and will consider securing additional funds through equity or debt transactions. The Company is seeking financing in the near future to fund the construction of a mill on site at Bolivar Mine that will reduce significantly direct operating costs.

The Company's results are significantly affected by the market price of base and precious metals which are cyclical and subject to substantial price fluctuations. Metal prices will continue to be the most significant factor influencing the Company's operation going forward. The Company's revenues are particularly sensitive to the change in the market prices of zinc, copper, lead and silver. Market prices can be affected by numerous factors beyond the Company's control, including levels of supply and demand for a broad range of industrial products, expectations with respect to the rate of inflation, the relative strength of the U.S. dollar and of certain other currencies, interest rates, global or regional political or economic crises and sales of precious and base metals by holders in response to such factors. The price of zinc, copper and other metals has fluctuated widely in recent months. It is difficult to forecast the expected duration of the current

# Dia Bras Exploration Inc.

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Notes to the Interim Consolidated Financial Statements (unaudited)

For the three-month periods ended March 31, 2009 and 2008

down-cycle for metal prices as it is being driven by both slowing economic growth and negative sentiment in the commodity markets. Future price declines may materially reduce the Company's cash flow and the Company may consider putting the mines on care and maintenance or ceasing operation at the mines and plant, all of which could reduce the Company's cash flow from operations and may also be required to look for alternatives other than cash flow to maintain its liquidity.

The contractual commitments for financial liabilities as at March 31, 2009 are as follows:

	<b>Total</b>	<b>Less than 6 months</b>	<b>Between 6 and 12 months</b>	<b>More than 1 year</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	4,356,576	4,356,576	-	-
Advance payable including interest	2,229,401	2,229,401	-	-
Mining concessions payable	2,746,764	920,734	869,538	956,492
Trade payables	2,894,971	2,894,971	-	-
	<b>12,227,712</b>	<b>10,401,682</b>	<b>869,538</b>	<b>956,492</b>

## 5 Trade receivables (payables)

The Company's trade receivables (payables) are detailed as follows:

	<b>As at March 31, 2009</b>	<b>As at December 31, 2008</b>
	<b>\$</b>	<b>\$</b>
Final settlement payable	-	(785,002)
Provision for final settlement*	(2,894,971)	(3,163,889)
	<b>(2,894,971)</b>	<b>(3,948,891)</b>

\*The provision for final settlement represents the estimated amount that would be recovered or paid back as at March 31, 2009 on shipments of concentrates for which the Company received provisional payments of approximately 90% of the shipment value at the date of shipment. As at March 31, 2009, shipments that had not reached the final settlement stage comprised approximately 1,948 tonnes of zinc concentrate (2,456,438 lbs. payable), 4,842 tonnes of copper concentrate (2,991,068 lbs. payable) and 71 tonnes of lead concentrate (54,868 lbs. payable) (9,169 tonnes (11,613,145 lbs. payable), 3,717 tonnes (2,316,141 lbs. payable) and 276 tonnes (261,448 lbs. payable) for zinc, copper and lead concentrates, respectively, as at December 31, 2008). Final settlement value will be determined at the quotational period under the terms of the arrangement and may vary significantly from the current provisional amount.

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## 6 Inventories

	As at March 31, 2009	As at December 31, 2008
	\$	\$
Broken material	72,737	225,564
Concentrates	693,001	625,527
Supplies and spare parts	1,663,150	1,359,514
	<u>2,428,888</u>	<u>2,210,605</u>

The sum of the cost of sales and of the quasi totality of amortization of property, plant and equipment used in mining operations as presented in the consolidated statement of operations represents the cost of inventories recognized as expenses.

As at March 31, 2009, the amortization of property, plant and equipment used in mining operations charged to inventories amounts to \$132,986 (\$195,327 in 2008).

During the three-month period ended March 31, 2009, the Company recognized in the cost of production a reversal of the write-down of inventory of \$156,905 which was initially provided for in December 2008 due to the sharp decline in copper and zinc prices at year end.

## 7 Temporary investment

	As at March 31, 2009	As at December 31, 2008
	\$	\$
Pershimco Resources Inc. ("Pershimco") 835,000 common shares – at quoted market value (December 31, 2007 – 835,000 common shares at quoted market value)	<u>75,150</u>	<u>58,450</u>

The change in the temporary investment value during the three-month period ended March 31, 2009 was due to a decrease in the fair value of the common shares for a total amount of \$16,700.

## 8 Property, plant and equipment

	Cost	Accumulated amortization	As at March 31, 2009 Net
	\$	\$	\$
Computer equipment	87,037	63,910	23,127
Office equipment	71,133	52,432	18,701
Leasehold improvements	160,976	61,914	99,062
	<u>319,146</u>	<u>178,256</u>	<u>140,890</u>

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			As at December 31, 2008
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	87,037	58,225	28,812
Office equipment	71,133	46,504	24,629
Leasehold improvements	160,976	54,484	106,492
	<u>319,146</u>	<u>159,213</u>	<u>159,933</u>

### 9 Advance payable

On July 14, 2008, the Company's wholly owned subsidiary Dia Bras Mexicana S.A. de C.V. entered into a \$2,012,200 (US\$ 2,000,000) working capital loan facility with MRI Trading AG ("MRI"), which is also the sole client of the Company. This advance credit facility bears interest at the 3-month LIBOR rate plus 4% payable monthly over an 18-month period starting 6 months after the reception of the funds. Such reimbursement shall be made of 17 monthly instalments of \$137,155 (US\$112,000) and a final instalment of \$117,562 (US\$96,000).

To secure the repayment of advances made under this advance credit facility, the Company signed a letter of credit as a guarantee in favour of Credit Agricole (Suisse) S.A. (the "Bank"). The letter is governed by Swiss law and gives the right to the Bank to take legal action against the Company before any other competent court or jurisdiction. In addition, the Company made a commitment to sell exclusively to MRI its future production of zinc, copper and lead concentrates up until mid-2010. Along with this agreement, the Company agreed to deliver to MRI monthly lots estimated at approximately 1,500 - 1,750 metric tonnes of zinc, 500 - 700 metric tonnes of copper and 150 - 200 metric tonnes of lead-silver concentrates. If MRI terms and conditions cannot be met, Dia Bras may have to reimburse the loan facility in its entirety or in part, upon first demand.

As of March 31, 2009, the Company was in default of delivering such quantities of concentrate to MRI and could therefore be required to repay the loan facility in its entirety or in part, upon first demand. Therefore, the advance payable of \$2,096,973 is shown under current liabilities.

### 10 Mining assets

	As at March 31, 2009	As at December 31, 2008
	\$	\$
Mining concessions (a)	7,509,172	7,441,067
Property, plant and equipment used in mining operations (c)	8,271,168	8,592,790
	<u>15,780,340</u>	<u>16,033,857</u>

The ongoing challenging conditions in financial and commodity markets and the related uncertainty prompted management to write down its mining assets by \$4,049,541 to reflect the results of its impairment analysis. The Company reviewed the capitalized costs on its mining assets and recognized impairment in value based upon

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significant adverse changes in the business climate and a significant decrease in the Company's market capitalization compared to the carrying value of its net assets. The Company determined the fair value of the mining assets as at December 31, 2008 using the market approach and the market capitalization method. The impairment amount was applied to mining assets and allocated to various properties on the basis of their importance and the Company's plan for their development in the near future.

### (a) Mining concessions

			As at March 31, 2009	As at December 31, 2008
	Costs	Impairment	Net	Costs
	\$	\$	\$	\$
<b>Mexico (State of Chihuahua)</b>				
Bolívar projects				
Bolívar III and IV (Bolívar Mine property) ((iv) and note 22)	1,913,563	404,601	1,508,962	1,463,591
La Chaparrita (ii)	88,481	19,157	69,324	69,297
Bolívar (iii)	88,948	19,133	69,815	69,211
Piedras Verdes	390,895	84,631	306,264	306,140
Other	111,111	22,851	88,260	82,661
Cusi projects (vi)				
India and Marisa (a)	241,855	52,231	189,624	188,937
Holguin and San Juan (b)	1,460,718	350,375	1,110,343	1,110,046
San Miguel – La Bamba (c) (option)	222,665	48,099	174,566	173,990
Minera Cusi – Santa Eduwiges/San Nicolas (d) (option)	5,053,607	1,092,386	3,961,221	3,951,568
Other	37,877	7,084	30,793	25,626
	<u>9,609,720</u>	<u>2,100,548</u>	<u>7,509,172</u>	<u>7,441,067</u>

### (i) La Engañososa

In February 2008, the Company entered into an option agreement with Arnoldo Castañeda Martínez and Consorcio Minero Latinoamericano, S.A. de C.V. ("Martinez-Consorcio Minero") whereby it could earn a 100% interest in the La Engañososa property by paying a total amount of \$1,289,134 (US\$1,265,000) over a three-year period including \$66,814 (US\$65,000) paid at the date of signing and by incurring minimum exploration expenditures of \$378,060<sup>(1)</sup> (US\$300,000) per year over the same three-year period.

In August 2008, after the first phase of exploration, management decided not to pursue this option further. Therefore, the Company abandoned the project, and all costs in the amount of \$68,536 were written off during the third quarter of 2008.

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(ii) La Chaparrita

In January 2008, the Company entered into a purchase agreement with Minera Senda de Plata regarding the La Chaparrita property for a total amount of \$87,372 (US\$85,000) to be paid as follows:

- \$15,419 (US\$15,000) at the date of signing (paid),
- \$15,279 (US\$15,000) in July 2008 (paid),
- \$67,353 (US\$55,000) in January 2009 (paid).

(iii) Bolivar

In January 2008, the Company entered into a purchase agreement with the Fernandez Group regarding the Bolivar property for a total amount of \$87,372 (US\$85,000) to be paid as follows:

- \$15,419 (US\$15,000) at the date of signing (paid),
- \$15,279 (US\$15,000) in July 2008 (paid),
- \$67,353 (US\$55,000) in January 2009 (paid).

(iv) Bolivar III and IV (the "Bolivar Mine property")

In August 2004, the Company entered into a commercial agreement with the owners of the Bolivar III and Bolivar IV ("Bolivar Mine property"). The agreement provides for the acquisition by the Company of 100% of these two concessions for a consideration of US\$1,200,000 payable over a two-year period. The last payment scheduled in 2006 was delayed due to legal issues (note 22).

In October 2007, the Company entered into a termination and transfer of rights agreement in reference to the commercial agreement and, upon signature, made a payment of \$164,272 (US\$166,250). As at March 31, 2009, an amount of \$35,443<sup>(1)</sup> (US\$28,125) remains to be paid and is included in mining concessions payable.

(v) San José properties

In July 2003, the Company entered into an option agreement with El Paso Partners, Ltd. ("EPP") and its wholly owned subsidiary Polo y Ron Minerales S.A. de C.V. to acquire a cumulative interest of up to 100% in the San José silver and base metal properties, in the State of Chihuahua, Mexico, for a total consideration of US\$349,500 and exploration expenditures of US\$1,638,000 until July 2009. The remaining payment of \$38,546 (US\$37,500) for the San José properties was made in February 2008.

On May 30, 2008, the Company decided to abandon the San José properties. Consequently, all costs accumulated on the related mining concessions as at that date, amounting to \$245,076, were written off in the second quarter of 2008. EPP has yet to officially accept the Company's option termination letter.

(vi) Cusi Project

In May and June 2006, the Company staked ground and entered into different agreements in order to earn interest in contiguous mining concessions (the "Cusi Properties") in the Cusihiuriachic ("Cusi") silver district in Chihuahua State, Mexico, located within 40 kilometres of the Company's Malpaso mill, as follows:

- (a) La India and La Marisa properties are subject to a 1.5% NSR of up to a maximum of \$1,890,300<sup>(1)</sup> (US\$1,500,000) with a \$1,260,200<sup>(1)</sup> (US\$1,000,000) buy-back option.

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- (b) The Holguin properties, including the San Juan property, are subject to a 1.5% NSR of up to a maximum of \$1,890,300<sup>(1)</sup> (US\$1,500,000). The NSR can be purchased for \$1,260,200<sup>(1)</sup> (US\$1,000,000). As at March 31, 2009, an amount of \$15,753<sup>(1)</sup> (US\$12,500) remains to be paid. This amount is included in mining concessions payable. The majority of the property titles have been transferred to the Company and only 50% of one of the property titles remains to be transferred.
- (c) On May 31, 2006, the Company entered into an option agreement with Pershimco Resources Inc. ("Pershimco") to earn a 50% interest in the San Miguel-La Bamba properties.

In June 2008, the Company and Pershimco Resources Inc. entered into a joint venture agreement ("JVA") for the San Miguel and La Bamba properties. Pursuant to the terms of the JVA, Pershimco must incur \$1,890,300<sup>(1)</sup> (US\$1,500,000) of expenditures on the properties before having the right to acquire an additional 20% interest on the properties at a cost of \$1,260,200<sup>(1)</sup> (US\$1,000,000). The JVA provides for Pershimco being the operator for all exploration and development of the properties which will be managed through a jointly owned Mexican subsidiary. Pershimco and Dia Bras each hold a 50% interest in the properties. The properties are subject to a 2% NSR of which 1% may be bought back for \$1,260,200<sup>(1)</sup> (US\$1,000,000). As at March 31, 2009, the jointly owned Mexican subsidiary has not been constituted.

As at March 31, 2009, the transfer of 50% of the property title of San Miguel had not been completed due to a legal issue that Pershimco has on the ownership of the property.

- (d) On June 14, 2006, the Company signed a letter of intent to enter into an option agreement to earn a 100% interest in several mining concessions with Compañía Minera Cusi ("Minera Cusi"), a private Mexican company, for \$5,561,000 (US\$5,000,000) payable over three years.

In April 2008, the Company negotiated new terms of agreement with Minera Cusi in order to redefine the schedule of payments. The new agreement represents a purchase agreement for a total amount of \$3,102,473 (US\$3,060,000) to be paid as follows: \$506,940 (US\$500,000) (paid at the date of signing), \$609,150 (US\$500,000) in November 2008 (paid on December 11, 2008) and four quarterly instalments of \$649,003<sup>(1)</sup> (US\$515,000) in March, June, September and December 2009. As at March 31, 2009, an amount of \$2,343,972<sup>(1)</sup> (US\$1,860,000) is included in mining concessions payable.

In January 2009, the Company negotiated new terms with Minera Cusi in order to redefine the schedule of payments as follows: \$126,020<sup>(1)</sup> (US\$100,000) (paid on the date of signature of the new terms), 19 monthly payments of \$126,020<sup>(1)</sup> (US\$100,000) and a final payment of \$75,612<sup>(1)</sup> (US\$60,000) for a total purchase price of \$2,596,012<sup>(1)</sup> (US\$2,060,000).

The properties are subject to a sliding scale royalty in favour of Minera Cusi as follows: 2% NSR if the price of silver is equal to a maximum of \$13.86<sup>(1)</sup> (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$13.86<sup>(1)</sup> (US\$11.00) per ounce.

The Company is in the process of completing the transfer of four property titles following the signature of the purchase agreement.

<sup>(1)</sup> Converted at the rate of exchange in effect as at March 31, 2009.

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(b) *Mining concessions payable*

The total mining concessions payable are included in the financial statements as follows:

	As at March 31, 2009	As at December 31, 2008	As at March 31, 2009	As at December 31, 2008
	US\$	US\$	\$	\$
Mining concessions	2,117,078	2,412,244	2,667,943	2,954,034
Less: short-term portion	1,401,489	1,467,195	1,766,158	1,796,727
Long-term portion	<u>715,589</u>	<u>945,049</u>	<u>901,785</u>	<u>1,157,307</u>

Since mining concessions payable are non-interest bearing, the mining concession (note 10 (a) (vi) (d)) and the financial liability have been measured at fair value at the initial recognition based on an estimate of the present value of all future cash outflows discounted using prevailing market rates as interest for a similar instrument with a similar credit rating representing an effective interest rate of 11.94%.

(c) *Property, plant and equipment used in mining operations*

	Cost	Accumulated amortization	Impairment	As at March 31, 2009 Net
	\$	\$	\$	\$
Land	518,848	-	59,516	459,332
Buildings				
Plant	2,122,620	609,591	261,166	1,251,863
Camp	420,520	215,262	47,903	157,355
Machinery and equipment	13,506,745	7,111,509	1,248,134	5,147,102
Computers and office furniture	1,084,019	697,728	108,251	278,040
Rolling stock	3,281,202	2,086,843	224,023	970,336
Work in progress – Bolivar plant	7,140	-	-	7,140
	<u>20,941,094</u>	<u>10,720,933</u>	<u>1,948,993</u>	<u>8,271,168</u>

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				As at December 31, 2008
	Cost	Accumulated amortization	Impairment	Net
	\$	\$	\$	\$
Land	273,813	-	59,516	214,297
Buildings				
Plant	2,122,620	578,924	261,166	1,282,530
Camp	420,520	200,134	47,903	172,483
Machinery and equipment	13,380,289	6,641,207	1,248,134	5,490,948
Computers and office furniture	1,090,541	636,640	108,251	345,650
Rolling stock	3,326,519	2,015,614	224,023	1,086,882
	<u>20,614,302</u>	<u>10,072,519</u>	<u>1,948,993</u>	<u>8,592,790</u>

## 11 Share capital

Authorized

An unlimited number of common shares without par value

Issued

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

	For the three-month period ended March 31, 2009		For the year ended December 31, 2008	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of the period	136,501,269	54,966,786	111,371,269	53,218,198
Issued and paid in cash <sup>(i) (ii) (iii)</sup>	66,462,818	3,809,205	25,000,000	2,000,000
Less: value of warrants <sup>(i) (ii) (iii)</sup>	-	(899,029)	-	(325,000)
Issued following exercise of stock options (notes 13 and 14)	-	-	130,000	73,588
Balance – End of the period	<u>202,964,087</u>	<u>57,876,962</u>	<u>136,501,269</u>	<u>54,966,786</u>

- <sup>(i)</sup> On March 27, 2009, the Company closed a private placement of \$1.96 million and issued 35,712,818 units at \$0.055 per unit. Each unit is composed of one common share and one purchase warrant. Each warrant entitles the holder thereof to subscribe to one common share of the Company at a price of \$0.11 for a period of twelve months expiring on March 25, 2010. The net proceeds are used for general corporate purposes.

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The fair value of the common share purchase warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield – 0%, volatility – 100%, risk-free interest rate – 1.10%, expected life – 1 year. As a result, the fair value was estimated at \$428,554 (note 12).

- (ii) On February 17, 2009, the Company closed a private placement of \$1.845 million and issued 30,750,000 units at \$0.06 per unit. Each unit is composed of one common share and one purchase warrant. Each warrant entitles the holder thereof to subscribe to one common share of the Company at a price of \$0.15 for a period of 18 months. The proceeds are used for the engineering study for the construction of the Bolivar mill and for general corporate and working capital purposes. The private placement resulted in the creation of a new control person, which was approved by a majority of the disinterested shareholders at a special meeting held on February 16, 2009.

The fair value of the common share purchase warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield – 0%, volatility – 105.96%, risk-free interest rate – 1.39%, expected life – 18 months. As a result, the fair value was estimated at \$470,475 (note 12).

- (iii) On November 20, 2008, the Company closed a private placement of \$2 million and issued 25,000,000 units at \$0.08 per unit. Each unit is composed of one common share and one purchase warrant. Each warrant entitles the holder thereof to subscribe to one common share of the Company at a price of \$0.20 for a period of two years. The net proceeds will be used for general corporate purposes.

The fair value of the common share purchase warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield – 0%, volatility – 85.22%, risk-free interest rate – 2.03 %, expected life – 2 years. As a result, the fair value was estimated at \$325,000 (note 12).

## 12 Warrants and compensation options

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

	<b>For the three-month period ended March 31, 2009</b>		<b>For the year ended December 31, 2008</b>	
	<b>Number of warrants</b>	<b>Amount \$</b>	<b>Number of compensation options</b>	<b>Amount \$</b>
Balance – Beginning of the period	25,000,000	325,000	-	-
Issued (note 11)	66,462,818	899,029	25,000,000	325,000
Balance – End of the period	91,462,818	1,224,029	25,000,000	325,000

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A summary of outstanding warrants, entitling their holders to subscribe for an equivalent number of common shares, as at March 31, 2009, is as follows:

Exercise price	Number of warrants	Expiry date
\$		
0.20	25,000,000	November 2010
0.15	30,750,000	August 2010
0.11	35,712,818	March 2010

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## 13 Stock option plan

The Company maintains a stock option plan (the “Plan”) whereby the Board of Directors may, from time to time, grant to employees, officers, directors or consultants options to acquire common shares of the Company on such terms and at such exercise prices as may be determined by the Board. As at March 31, 2009, the Plan provides that: i) the maximum number of common shares in the capital of the Company that may be reserved for issuance under the Plan shall be equal to 10,900,000 (as of December 31, 2008 – 10,900,000) common shares, and ii) that the maximum number of common shares that may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of grant.

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. Beginning September 2006, up until November 2007, options granted were entirely vested at the date of grant. All options granted after November 2007 have a vesting period of two years as follows: 33 1/3% on the grant of the options, 33 1/3% one year after the grant and 33 1/3% two years after the grant of the options.

On March 25, 2009, the Board granted a total of 1,000,000 options to purchase common shares of the Company to its Chief Executive Officer. The options are exercisable until March 25, 2010 at a price of \$0.15, from March 26, 2010 to March 25, 2011 at a price of \$0.20 and from March 26, 2011 until the expiry date on March 25, 2014 at a price of \$0.25.

On November 25, 2008, the Board granted a total of 540,000 options to purchase common shares of the Company to its officers and employees. The options are exercisable at a price of \$0.10 until November 2013.

On August 28, 2008, the Board granted a total of 50,000 options to purchase common shares of the Company to an officer. The options are exercisable at a price of \$0.30 until August 2013.

On June 11, 2008, the Board granted a total of 300,000 options to purchase common shares of the Company to its new directors and a consultant. The options are exercisable at a price of \$0.45 until June 2013.

On April 14, 2008, the Board granted a total of 330,000 options to purchase common shares of the Company to a director and officer, an officer and an employee. The options are exercisable at a price of \$0.61 until April 2013.

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

	<b>For the three-month period ended March 31, 2009</b>		<b>For the year ended December 31, 2008</b>	
	<b>Number of options</b>	<b>Average exercise price \$</b>	<b>Number of options</b>	<b>Average exercise price \$</b>
Beginning of the period	9,568,333	0.64	10,318,333	0.72
Granted	1,000,000	0.20	1,220,000	0.33
Exercised (note 11)	-	-	(130,000)	0.34
Cancelled	-	-	(600,000)	0.85
Expired	(2,618,333)	0.66	(1,240,000)	0.93
End of the period	<u>7,950,000</u>	<u>0.57</u>	<u>9,568,333</u>	<u>0.64</u>

A summary of options outstanding and exercisable as at March 31, 2009 is presented below:

<b>Exercise price \$</b>	<b>Number of options</b>		<b>Expiry date</b>
	<b>Outstanding</b>	<b>Exercisable</b>	
0.75	500,000	500,000	August 2009
0.75	250,000	250,000	February 2010
0.30	920,000	920,000	September 2010
0.22	100,000	100,000	February 2010
0.40	1,575,000	1,575,000	February 2011
0.90	735,000	735,000	September 2011
1.10	1,100,000	1,100,000	April 2012
1.28	100,000	100,000	June 2012
1.25	150,000	150,000	July 2012
0.89	300,000	300,000	October 2012
0.61	330,000	110,000	April 2013
0.45	300,000	100,000	June 2013
0.30	50,000	16,667	August 2013
0.10	540,000	180,000	November 2013
0.15-0.20-0.25	1,000,000	333,333	March 2014
	<u>7,950,000</u>	<u>6,470,000</u>	

For the three-month period ended March 31, 2009, stock-based compensation costs amounted to \$42,596 compared with nil for the three-month period ended March 31, 2008.

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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:

	<b>For the three-month period ended March 31, 2009</b>
Average dividend per share	Nil
Estimated volatility	87.76%
Risk-free interest rate	1.69%
Expected life of options granted	4 years
1,000,000 options granted which exercise price exceeds the market price of the stock on the grant date:	
Estimated fair value of option	\$0.03
Exercise price	\$0.15-\$0.20-\$0.25
Stock price at date of grant	\$0.07

## 14 Contributed surplus

	<b>For the three-month period ended March 31, 2009</b>	<b>For the year ended December 31, 2008</b>
	\$	\$
Balance – Beginning of the period	8,295,044	8,169,052
Stock-based compensation costs (note 13)	42,596	155,580
Exercise of options (note 11)	-	(29,588)
Balance – End of the period	<u>8,337,640</u>	<u>8,295,044</u>

## 15 Restructuring cost

As a result of the impact current economic conditions had on commodity market prices, the Company started a cost improvement program during 2008 that affected all areas. The amount charged to the loss for the three-month period ended March 31, 2008 of \$249,721 is related to termination costs mainly in Mexico. As of March 31, 2009, an amount of \$38,416 remains to be paid.

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## 16 Capital disclosure

In the definition of capital the Company includes: shareholders' equity and advance payable, net of temporary investment and cash and cash equivalents.

The Company's objectives when managing capital are as follows:

- (a) To safeguard its ability to continue as a going concern, and
- (b) To secure sufficient capital to be able to develop its mining projects and potentially bring them to the commercial production stage.

The Company monitors capital on an ongoing process by keeping close control over expenditures and adjusting when necessary its exploration and development program at it progresses.

As at March 31, 2009, the Company was not subject to any externally imposed capital requirements other than the advance payable as described in note 9.

	<b>As at March 31, 2009</b>	<b>As at December 31, 2008</b>
	<u>\$</u>	<u>\$</u>
Advance payable	2,096,973	2,438,790
Less:		
Cash and cash equivalents	(983,426)	(1,097,569)
Temporary investment	(75,150)	(58,450)
	<u>1,038,397</u>	<u>1,282,771</u>
Shareholders' equity	<u>9,355,554</u>	<u>7,507,570</u>
	<u>10,393,951</u>	<u>8,790,341</u>

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## 17 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:

	<b>For the three-month period ended March 31, 2009</b>	<b>For the three-month period ended March 31, 2008</b>
	\$	\$
		<b>Restated (note 3)</b>
Gain (loss) before income taxes	(1,922,573)	114,788
Combined federal and provincial income tax (benefit) expense at 31.9% (31.9 % in 2008)	(594,075)	36,618
Income tax rate differential in Mexico	45,061	(21,238)
Expired tax losses	37,624	64,757
Stock-based compensation costs	13,162	-
Increase in the valuation allowance	497,270	52,461
Foreign exchange loss deductible in Mexico	12,101	50,995
Exchange re-evaluation of future income tax assets	(14,259)	(154,644)
Inflation taxable on losses and net financial liabilities in Mexico	31,965	22,785
Non-deductible (non-taxable) items in Mexico	(28,358)	14,161
Other	5,429	1,634
	<u>5,920</u>	<u>67,529</u>

## 18 Asset retirement obligations

As at March 31, 2009, based on its review of the status of its operations under the current Mexican environmental legislation, the Company determined it does not carry any asset retirement obligation and, therefore, has not recognised such an obligation.

The Company will commission an environmental impact study at the Bolivar project from which asset retirement obligations may arise.

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

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## 19 Statements of cash flows

	<b>For the three-month period ended March 31, 2009</b>	<b>For the three-month period ended March 31, 2008</b>
	<u>\$</u>	<u>\$</u> <b>Restated</b> (note 3)
(a) The changes in noncash working capital items are as follows:		
Trade payables	(674,753)	(1,903,504)
Sales tax and other receivables	(232,668)	(466,052)
Inventories	(85,297)	(476,502)
Prepaid expenses	154,972	(124,897)
Accounts payable and accrued liabilities	(119,822)	663,560
Income tax receivable/payable	(115,561)	(101,023)
	<u>(1,073,129)</u>	<u>(2,408,418)</u>
	\$	\$
(b) Additional information – noncash transactions		
Amortization of property, plant and equipment used in mining operations charged to inventories	132,986	20,540
Sales tax receivable for the acquisition of mining concessions	351,596	-
	\$	\$
(c) Interest and income taxes		
Interest paid	34,929	3,613
Income taxes paid	5,920	49,425
	<u>For the three-month period ended March 31, 2009</u>	<u>For the three-month period ended March 31, 2008</u>
	\$	\$
(d) Cash and cash equivalents		
Cash	868,240	590,808
Short-term deposits (interest rates 1.75% - 3.75%)	115,186	3,146,268
	<u>983,426</u>	<u>3,737,076</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

For the three-month periods ended March 31, 2009 and 2008

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## 20 Related party transactions

Some officers of the Company provide their services as officers through companies they control. During the three-month period ended March 31, 2009, companies controlled by officers of the Company charged consulting fees amounting to \$71,277 (for the three-month period ended March 31, 2008 – \$104,377). As at March 31, 2009, the balance due these companies amounted to \$14,955 (as at March 31, 2008 – nil).

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.

## 21 Commitments

- (a) In January 2008, the Company entered into a promise to purchase agreement with the state of Chihuahua to purchase the land at the Malpaso milling facility for a total amount of approximately \$270,000 (MX\$2,874,144). Payments will be over a two-year period including 50% at the signature of the sale agreement. The sale agreement was signed in February 2009.
- (b) The Company has elaborated an environmental capital expenditure program estimated at \$350,000 in order to secure an appropriate area for the management of its tailings at the Malpaso mill facility. The costs related to this program will be capitalized as they are incurred. Therefore, as at March 31, 2009, no provision is recorded in accounts payable and accrued liabilities.
- (c) In December 2006, the Company signed a five-year lease for office premises. The annual rent is approximately \$60,000.
- (d) In February 2004, the Company and two other companies jointly signed a five-year lease for the former office premises. The annual rent was approximately \$150,000 and was divided on a pro rata basis among the three companies. The Company's annual gross commitment was approximately \$50,000. In 2008, the Company and the other interested parties entered into a full sublease agreement over the remainder of the original lease period. The lease expired in February 2009.
- (e) On March 16, 2009, the Company's wholly owned subsidiary Dia Bras Mexicana S.A. de C.V. entered into a lease agreement (the "Lease") with the owners of the surface rights (ejido) for a long-term lease of the surface land that will be used to accommodate the Bolivar mill and a new tailings dam adjacent to the Bolivar mill to be located approximately 5 kilometres from the Bolivar Mine. The Lease covers 50 hectares and provides for annual payments of \$16,644 (MX\$188,000) over a 30-year term renewable without approval for another 30 years.

## 22 Contingency

In 2005, a personal action was filed in Mexico against one of the Company's subsidiaries, Dia Bras Mexicana, S.A. de C.V. ("DBM"), by an individual claiming the annulment and revocation of the purchase contracts of two mining concessions, Bolivar III and IV (see note 10 (a) (iv)), entered into between DBM and Mr. Javier Octavio Bencomo Muñoz and Minera Senda de Plata, S.A. de C.V. Following the notification of said claim against DBM, a defense was filed based on the questionable legal standing of the claimant to file a lawsuit on behalf of the former owner. Although there can be no assurance regarding the outcome of such proceeding, management and its external legal advisors believe that, as the claimant purports the annulment and revocation of the purchase contracts, it will have no significant effects in the financial condition or results of operation of DBM. The remote success of such legal proceedings could result in an impairment of the value of the Bolivar Mine property.

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On January 22, 2009, a Civil Court in the District of Chihuahua in Mexico decided in favour of DBM in the legal dispute regarding Bolivar III and IV. The decision rendered by a Civil Court in the District of Chihuahua stipulated that the claim was unfounded.

On February 12, 2009, the claimant appealed the decision.

## **23 Comparative figures**

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

## **24 Subsequent events**

- (a) As metal prices remained low during the first quarter of 2009, the Company was unable to meet its obligation with the providers of transportation services during the month of May 2009. Therefore, the transportation of mineralized rock from the Bolivar Mine to the Malpaso mill was suspended during the past 10 days. The Company is actively negotiating payments of the outstanding debt and new terms with its transportation service providers to restore the service. Management is confident this situation will be resolved during June 2009.

Pilot-mining activities, such as mining, development and exploration, are still continuing. Consequently, management revised its production forecast for Bolivar pilot-mining production to approximately 100,000 tonnes at average grades of 1.47% Cu and 9.16% Zn for 2009.

- (b) In light of historically low valuations for exploration stage mining companies, the Company, with the support of a major shareholder, has been evaluating the opportunity for potential acquisitions. This process includes discussions with parties interested in considering a potential transaction with the Company, including parties that have entered into confidentiality agreements. There can be no assurance that these discussions or due diligence investigations will result in a transaction.
- (c) Management decided to postpone the Rights Offering later this year mainly because the Company is currently investigating a number of alternatives to raise sufficient capital with lenders or potential investors to fund construction of the Bolivar mill and to repay accrued liabilities. There is no assurance that sufficient funds can or will be raised. Accordingly, there can be no assurance once a decision is made with respect to future activities that the Company will be able to execute its plans.