



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

Consolidated Financial Statements

Years ended December 31, 2008 and 2007



May 13, 2009

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the consolidated financial statements. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts based on estimates and judgments of management.

Management maintains accounting systems and internal control to produce reliable consolidated financial statements and provide reasonable assurance that assets are properly safeguarded.

PricewaterhouseCoopers LLP, Chartered Accountants, appointed by shareholders, conducted an audit of the Company's consolidated financial statements. Their report is included.

The board of directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting. The board of directors carries out this responsibility through its audit committee, which is composed of three members. The committee meets twice a year with the external auditors, with and without management being present, to review the financial statements and to discuss audit and internal control related matters.

The audit committee of the board of directors approved the Company's consolidated financial statements.

A handwritten signature in blue ink, appearing to read "Daniel Tellechea".

Daniel Tellechea,
President and Chief Executive Officer

A handwritten signature in blue ink, appearing to read "Arved Marin".

Arved Marin,
Financial Controller

Auditors' Report

**To the Shareholders
of Dia Bras Exploration Inc.**

We have audited the consolidated balance sheets of Dia Bras Exploration Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP¹

Montreal, Canada
May 13, 2009

¹ Chartered accountant auditor permit No. 20910

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Dia Bras Exploration Inc.

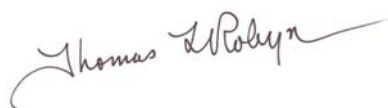
(an exploration-stage company)

Consolidated Balance Sheets

As at December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
	\$	\$
		Restated
		(note 3)
Assets		
Current assets		
Cash and cash equivalents	1,097,569	6,700,016
Sales tax and other receivables	1,493,918	1,715,907
Income tax receivable	70,664	722,515
Inventories (note 6)	2,210,605	2,421,209
Temporary investment (note 7)	58,450	167,000
Prepaid expenses	401,871	289,084
	<u>5,333,077</u>	<u>12,015,731</u>
Property, plant and equipment (note 8)	159,933	233,000
Mining assets (note 10)	<u>16,033,857</u>	<u>19,572,777</u>
	<u>21,526,867</u>	<u>31,821,508</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,608,826	2,237,010
Trade payables (note 5)	3,948,891	1,368,164
Advance payable (note 9)	2,438,790	-
Mining concessions payable (note 10 (b))	1,796,727	37,054
Income taxes payable	-	42,166
Deferred tenant allowance	19,188	19,188
	<u>12,812,422</u>	<u>3,703,582</u>
Long-term liabilities		
Mining concessions payable (note 10 (b))	1,157,307	-
Deferred tenant allowance	49,568	68,756
	<u>14,019,297</u>	<u>3,772,338</u>
Shareholders' Equity		
Share capital (note 11)	54,966,786	53,218,198
Warrants and compensation options (note 12)	325,000	-
Contributed surplus (note 14)	8,295,044	8,169,052
Deficit	<u>(56,079,260)</u>	<u>(33,338,080)</u>
	<u>7,507,570</u>	<u>28,049,170</u>
	<u>21,526,867</u>	<u>31,821,508</u>
Going concern assumption (note 1)		
Commitments and Contingency (notes 21 and 22)		
Subsequent Events (note 24)		

Approved by the Board of Directors,



Thomas L. Robyn, Director



Eduardo Gonzalez, Director

Dia Bras Exploration Inc.

(an exploration-stage company)

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
	\$	\$
		Restated
		(note 3)
Sales	21,306,788	23,785,334
Cost of sales (excluding amortization)	16,860,086	16,261,888
Amortization of property, plant and equipment	3,291,091	3,645,610
Sales, general and administrative expenses	7,642,472	7,854,822
Exploration and mine development expenditures	4,571,445	10,102,918
Write-down of mining assets (note 10)	4,049,541	-
Write-off of mining assets (note 10 (a) (i), (v) and (vi))	313,612	249,424
Stock-based compensation cost (note 13)	149,688	1,482,822
Loss on disposal of property, plant and equipment used in mining operations	2,782	18,458
Restructuring cost (note 15)	816,408	-
Interest expenses	263,246	39,180
Interest income	(74,275)	(508,750)
Net loss on variation of commodity market prices	4,568,265	3,395,514
Loss on change in value of temporary investment	108,550	413,601
Loss on currency exchange	1,414,047	1,059,206
	<u>43,976,958</u>	<u>44,014,693</u>
Loss before income taxes	(22,670,170)	(20,229,359)
Income tax provision (note 17 (a))		
Current	71,010	266,607
Future	-	30,637
	<u>71,010</u>	<u>297,244</u>
Loss and comprehensive loss	<u>(22,741,180)</u>	<u>(20,526,603)</u>
Basic and diluted loss per share	<u>(0.20)</u>	<u>(0.19)</u>
Basic and diluted weighted average number of outstanding shares	<u>114,264,274</u>	<u>110,528,551</u>
Going concern assumption (note 1)		
Commitments and Contingency (notes 21 and 22)		
Subsequent events (note 24)		

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Consolidated Statement of Deficit

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
	\$	\$
	Restated	Restated
	(note 3)	(note 3)
Deficit – Beginning of year		
As previously reported	(22,511,622)	(13,727,423)
Change in accounting policies (note 3)	<u>(10,826,458)</u>	<u>516,446</u>
As restated	(33,338,080)	(13,210,977)
Change in accounting policy for the financial instruments (note 2)	-	399,500
Loss	<u>(22,741,180)</u>	<u>(20,526,603)</u>
Deficit – End of year	<u>(56,079,260)</u>	<u>(33,338,080)</u>

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Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
		Restated (note 3)
Cash flows from		
Operating activities		
Loss	(22,741,180)	(20,526,603)
Adjustments for		
Stock-based compensation costs (note 13)	155,580	1,806,544
Write-down of mining assets (note 10)	4,049,541	-
Write-off of mining assets (note 10 (a) (i), (v) and (vi))	313,612	249,424
Amortization of property, plant and equipment	3,291,091	3,645,610
Amortization of deferred tenant allowance	(19,188)	(15,990)
Loss on disposal of property, plant and equipment used in mining operations	2,782	18,458
Unrealized loss on variation of commodity market prices	4,065,872	2,527,411
Loss on change in value of temporary investment	108,550	413,601
Future income taxes	-	30,637
Unrealized loss on currency exchange	426,590	-
Interest expense on mining concessions payable	145,389	-
	(10,201,361)	(11,850,908)
Changes in noncash working capital items (note 19)	2,389,890	5,178,039
	(7,811,471)	(6,672,869)
Financing activities		
Advance payable (note 9)	2,012,200	-
Issuance of share capital	2,044,000	1,488,813
	4,056,200	1,488,813
Investing activities		
Increase in mining assets (excluding property, plant and equipment used in mining operations)	(851,791)	(1,408,958)
Increase in property, plant and equipment and equipment used in mining operations	(1,022,575)	(6,396,889)
Acquisition of temporary investment (note 7)	-	(340,000)
Disposal of temporary investment (note 7)	-	498,899
Disposal of property, plant and equipment used in mining operations	30,106	19,730
Acquisition of property, plant and equipment	(2,916)	(193,297)
	(1,847,176)	(7,820,515)
Decrease in cash and cash equivalents during the year	(5,602,447)	(13,004,571)
Cash and cash equivalents – Beginning of year	6,700,016	19,704,587
Cash and cash equivalents – End of year (note 19)	1,097,569	6,700,016
Going concern assumption (note 1)		
Additional cash flow information (note 19)		
Commitments and Contingency (notes 21 and 22)		
Subsequent events (note 24)		

Dia Bras Exploration Inc.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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 2008, 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 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 December 31, 2008, the Company has negative working capital of \$7,479,345 and an accumulated deficit of \$56,079,260, and has incurred a net loss of \$22,741,180 for the year ended December 31, 2008. 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 December 31, 2008 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 consolidated financial statements.

These 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.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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

(a) Significant accounting policies

Basis of consolidation

These 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.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where management judgment is applied are allowance for doubtful accounts, valuation of embedded derivatives, fair value of temporary investments, mining asset valuations, contingent liabilities, future income taxes, valuation of warrants and stock-based compensation costs. Actual results could differ from those estimates, and such differences could be material.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances and interest-bearing, short-term liquid investments repurchasable at all times without penalties with original maturity of three months or less. Cash and cash equivalents are classified as held for trading and are measured at fair value with changes in fair values recorded in the Consolidated Statement of Operations.

Temporary investments

Temporary investments qualified as held-for-trading are measured at fair value with changes in fair values recorded in the Consolidated Statement of Operations.

Inventories

Inventories consist of concentrate, broken material, and supplies and spare parts inventories. Broken material includes materials for use at milling operations, and concentrates include stockpiled concentrates at milling operations or at warehouses. Concentrates and broken material are valued at the lower of average production cost and net realizable value. Concentrate and broken material inventory cost includes all direct costs incurred in production including direct labour and materials, freight and amortization, and directly attributable overhead costs. Joint-product costing was used for concentrate inventories. Joint costing is applied to primary products, where the profitability of the operation is dependent upon the production of a number of primary products. Joint costing allocates total production costs based on its relative net realizable value at the end of production.

The supplies and spare parts inventories will be used for exploration and production and are valued at lower of average cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs.

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For the years ended December 31, 2008 and 2007

By-products and waste rocks sold related to mine production are included in sales.

Property, plant and equipment

Property, plant and equipment represent assets located at the corporate head office and are recorded at the acquisition cost. Amortization is computed using the straight-line method based on the estimated useful life of the assets. The amortization of leasehold improvements is computed using the straight-line method over the term of the lease.

Mining assets

Mining assets include the cost to acquire mining concessions and options in mining properties, and property, plant and equipment used in mining operations. Until it is determined that the properties contain mineral reserves or resources that can be economically mined, they are classified as mining assets.

(a) Mining concessions

Costs are deferred until the economic viability of the project has been established, at which time costs are added to property, plant and equipment used in mining operations. Specific 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 in an area of interest over a period of three consecutive years or results from exploration work not warranting further investment. Areas of interest are defined by project.

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

(b) Property, plant and equipment used in mining operations

Property, plant and equipment used in mining operations are recorded at cost.

Amortization is computed using the following methods and rates or period:

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

Exploration and mine development expenditures

Exploration and mine development expenditures include engineering and metallurgical studies, drilling and other related costs to delineate an ore body, and the building of access ways, shafts, lateral access, drifts, ramps and other infrastructures at underground mines. Costs incurred before mineralization is classified as proven and probable reserves are expensed and classified as *Exploration and mine development expenditures* in the Consolidated Statement of Operations. Capitalization of exploration and mine development expenditures that meet the definition of an asset begins once mineralization is classified as proven and probable reserves. Drilling and related costs are capitalized for an ore body where proven and probable reserves exist and the activities are directed at obtaining additional information on the ore body or converting non-reserve mineralization to proven and probable reserves and the benefit is expected to be realized over a period beyond one year. All other drilling and related costs are expensed as incurred.

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For the years ended December 31, 2008 and 2007

Revenue recognition

Revenue from the sale of concentrates is recorded in the Consolidated Statement of Operations as sales and is recognized when the following conditions are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred under the terms of the arrangement;
- the price is fixed or determinable; and
- collection is reasonably assured.

The Company's concentrates are sold under pricing arrangements whereby final settlement prices are determined by quoted market prices in a period subsequent to the date of sale. The concentrates are provisionally priced at the time of shipment using forward prices for the expected month of final settlement. Subsequent variations of the price are recorded in the Consolidated Statement of Operations.

Stock option plan and stock-based compensation costs

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

Embedded derivatives

The Company measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value.

Foreign currency translation

Foreign currency

Monetary assets and liabilities in foreign currencies are measured into Canadian dollars at the exchange rates in effect at the balance sheet date. Other assets and liabilities as well as items from the Consolidated Statement of Operations are measured at the rates of exchange in effect on each transaction date. Gains and losses resulting from measurement are reflected in the Consolidated Statement of Operations.

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 measured into the functional currency using the temporal method. Under this method, monetary assets and liabilities are measured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are measured at the historical rates. Revenues and expenses are measured at the average rates for the periods. Gains and losses resulting from measurement are reflected in the Consolidated Statement of Operations.

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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 or enacted income tax rates expected to be in effect in the fiscal year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets when, from available information, it is more likely than not that some or all of such assets will not be realized.

Share and warrant issue expenses

Share and warrant issue expenses 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.

Earnings (loss) per share

Earnings (loss) per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share are 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 antidilutive effect of the stock options and other dilutive securities.

Asset retirement obligations

Asset retirement obligations are recognized at fair value in the year 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.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when changes in circumstances suggest their carrying value has become impaired. Where conditions suggest impairment, management assesses whether carrying value can be recovered by determining fair value without first performing a test for recoverability given that the Company has insufficient information about its mineral properties to estimate future cash flows. When it is determined that a long-lived asset is impaired, it is written down to its estimated fair value.

Deferred tenant allowance

Deferred tenant allowance is initially recorded at fair value and is amortized using the straight-line method over the term of the lease.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

Financial instruments

All financial assets are measured at fair value on initial recognition and certain financial assets are measured at fair value subsequent to initial recognition;

(i) Financial assets are classified into one of the four following categories:

- Held-to-maturity investments (measured at cost);
- Loans and receivables (measured at amortized cost);
- Held-for-trading assets (measured at fair value with changes in fair value recognized in earnings immediately);
- Available-for-sale assets, including investments in equity securities, held-to-maturity investments that an entity elects to designate as being available for sale and any financial asset that does not fit into any other category (measured at fair value with changes in fair value accumulated in Other Comprehensive Income until the asset is sold).

(ii) All financial liabilities are measured at fair value if they are classified as held-for-trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method.

(iii) All derivative financial instruments are measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

The Company has implemented the following classifications:

(a) The Company's investments in marketable securities and in warrants, which are derivative instruments, are classified as held for trading and are measured at fair value.

(b) Other financial liabilities comprise advance payable, mining concessions payable and accounts payable and accrued liabilities.

(c) The Company has recorded the following transition adjustments in its consolidated financial statements as at January 1, 2007, resulting from the adoption of Section 3855:

- (i) An increase of \$399,500 in temporary investments, representing a fair value adjustment of marketable securities and warrants.
- (ii) A decrease of \$399,500 in deficit representing the fair value adjustment to the value of marketable securities and warrants net of Canadian taxes of nil.

The Company elected to use April 1, 2003 as the transition date for embedded derivatives.

Transaction costs

The Company capitalizes transaction costs related to financial instruments.

(b) New accounting standards

As of January 1, 2008, the Company adopted the following CICA new Handbook Sections:

Section 3862, "Financial Instruments – Disclosures"

This section describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which entity is exposed and how the entity manages those risks. The disclosure requirements relating to this section are described in note 4.

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Notes to the Consolidated Financial Statements

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Section 3863, “Financial Instruments – Presentation”

This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, “Financial Instruments – Disclosure and Presentation”. The disclosure requirements relating to this section are described in note 4.

Section 1535, “Capital Disclosures”

This section establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure of the entity’s objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The disclosure requirements relating to this section are described in note 16.

Section 1400, “General Standards of Financial Statement Presentation”

Section 1400 was amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. These new requirements did not have any impact on the consolidated financial statements as the Company is already assessing its ability to continue as a going concern and adequate disclosure requirements are described in note 1.

Section 3031, “Inventories”

This section replaces the existing section 3030. Under the new section, inventories are required to be measured at the “lower of cost and net realizable value”, which is different from the existing guidance of the “lower of cost and market”. The new section also requires, when applicable, the reversal of any write-downs previously recognized. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this policy had no material impact on the Company’s consolidated financial statements.

(c) 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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Notes to the Consolidated Financial Statements

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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, 2007 by \$16,071,697 and increase the loss for the year ended December 31, 2007 by \$1,239,986.

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, 2007 by \$15,555,251 and increases the loss for the year ended December 31, 2007 by \$10,102,918.

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The impact of these changes on the previously reported December 31, 2007 consolidated financial statements are as follows:

Effect on Consolidated Balance Sheet:

	<u>As previously reported</u>	<u>Restatement</u>	<u>As at December 31, 2007</u> <u>As restated</u>
	\$	\$	\$
Asset			
Inventories	608,885	1,812,324	2,421,209
Prepaid expenses	12,839	276,245	289,084
Mining assets	36,751,246	(17,178,469)	19,572,777
Liability			
Excess cost recovery from pilot mining	(4,263,442)	4,263,442	-
Shareholders' equity			
Deficit	22,511,622	10,826,458	33,338,080

Effect on Consolidated Statement of Operations and Comprehensive Loss:

	<u>As previously reported</u>	<u>Restatement</u>	<u>As restated</u> <u>For the year ended December 31, 2007</u>
	\$	\$	\$
Sales	10,954	23,774,380	23,785,334
Cost of sales (excluding amortization)	-	16,261,888	16,261,888
Amortization of property, plant and equipment	64,231	3,581,379	3,645,610
Sales, general and administrative expenses	2,182,432	5,672,390	7,854,822
Exploration and mine development expenditures	-	10,102,918	10,102,918
Write-off of mining assets	1,199,891	(950,467)	249,424
Stock-based compensation costs	1,033,646	449,176	1,482,822
Loss	(9,183,699)	(11,342,904)	(20,526,603)
Basic and diluted loss per share	0.08	0.11	0.19

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Effect on Consolidated Statement of Cash flows:

	<u>As previously reported</u>	<u>Restatement</u>	<u>For the year ended December 31, 2007</u>
	\$	\$	As restated \$
Operating activities			
Loss	(9,183,699)	(11,342,904)	(20,526,603)
Adjustments for			
Stock-based compensation costs	1,033,646	772,898	1,806,544
Amortization of property, plant and equipment	64,231	3,581,379	3,645,610
Write-off of mining assets	1,199,891	(950,467)	249,424
Changes in noncash working capital items	1,869,558	3,308,481	5,178,039
Cash flows from operating activities	(2,042,256)	(4,630,613)	(6,672,869)
Investing activities			
Increase in costs and deferred exploration expenses	(30,010,733)	28,601,775	(1,408,958)
Proceeds from sales of concentrates	23,971,162	(23,971,162)	-
Cash flows from investing activities	(12,451,128)	4,630,613	(7,820,515)

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.

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(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 year ended December 31, 2008 as follows based on the balances as at December 31, 2008:

	As at December 31, 2008	Decrease of loss
	\$	\$
Short-term deposits	514,071	5,140
Advance payable	2,438,790	24,388

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.

As at December 31, 2008, the following balance sheet items included amounts in foreign currencies as follows:

	As at December 31, 2008	
	US\$	MX\$
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>

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	As at December 31, 2007	
	US\$	MX\$
Cash and cash equivalents	1,122,440	619,342
Sales tax and other receivables	-	18,034,265
Accounts payable and accrued liabilities and income tax receivable and payable	(12,788)	(17,628,296)
Trade payables	(1,384,958)	-
Net balance	<u>(275,306)</u>	<u>1,025,311</u>
Equivalent in Canadian dollars	<u>(271,956)</u>	<u>92,781</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 December 31, 2008 would generate a decrease of \$906,689 on the loss for the year ended December 31, 2008. A decrease of 10% in the Mexican peso exchange rate based on the balances as of December 31, 2008 would generate a decrease of \$242,089 on the loss for the year ended December 31, 2008.

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 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 December 31, 2008, 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 year ended December 31, 2008, 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 December 31, 2008:

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	Open positions (tonnes)	Expected settlement periods	Weighted average forward price on December 31, 2008 US\$	Decrease of loss for the year ended December 31, 2008 CA\$
Copper	2,253	January – May 2009	1.39	220,474
Zinc	1,443	January 2009	0.54	100,850
Lead	180	January – February 2009	0.44	8,607

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 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 December 31, 2008 are as follows:

	Total	Less than 6 months	Between 6 and 12 months	More than 1 year
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,536,429	4,536,429	-	-
Advance payable including interest	2,511,187	2,511,187	-	-
Mining concessions payable	3,085,533	979,680	844,974	1,260,879
Trade payables	3,948,891	3,948,891	-	-
	14,082,040	11,976,187	844,974	1,260,879

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5 Trade receivables (payables)

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

	As at December 31, 2008	As at December 31, 2007
	\$	\$
Receivables from pilot mining	-	1,048,690
Final settlement payable	(785,002)	-
Provision for final settlement*	(3,163,889)	(2,416,854)
	<u>(3,948,891)</u>	<u>(1,368,164)</u>

*The provision for final settlement represents the estimated amount that would be recovered or paid back as at December 31, 2008 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 December 31, 2008, shipments that had not reached the final settlement stage, for which prices are fixed and not fixed, comprised approximately 9,169 tonnes of zinc concentrate (11,613,145 lbs. payable), 3,717 tonnes of copper concentrate (2,316,141 lbs. payable) and 276 tonnes of lead concentrate (261,448 lbs. payable) (4,634 tonnes (10,213,000 lbs. payable), 1,590 tonnes (3,503,000 lbs. payable) for zinc and copper, respectively, as at December 31, 2007). 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.

6 Inventories

	As at December 31, 2008	As at December 31, 2007
	\$	\$ Restated (note 3)
Broken material	225,564	37,600
Concentrates	625,527	571,285
Supplies and spare parts	1,359,514	1,812,324
	<u>2,210,605</u>	<u>2,421,209</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 December 31, 2008, the amortization of property, plant and equipment used in mining operations charged to inventories amounts to \$195,327 (\$179,073 in 2007).

During the year, the Company recorded an inventory write-down to the net realizable value of the inventories in the amount of \$299,972 (\$1,158,031 in 2007), mainly due to the decrease of copper and zinc prices.

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7 Temporary investment

	As at December 31, 2008	As at December 31, 2007
	\$	\$
Pershimco Resources Inc. (“Pershimco”)		
835,000 common shares – at quoted market value (December 31, 2007 – 835,000 common shares at quoted market value)	58,450	167,000

Pursuant to the provisions of the Pershimco Agreement, the Company acquired, in November 2006, 850,000 units of Pershimco at \$0.40 per unit, for a total amount of \$340,000. Each unit is comprised of one common share of Pershimco and one common share purchase warrant entitling the holder thereof to subscribe for one additional common share of Pershimco at a price of \$0.40 during a period of 12 months after the closing. During 2007, the Company exercised all of its warrants for a total amount of \$340,000. Furthermore, the Company sold 865,000 common shares for a total net consideration of \$498,899.

The change in the temporary investment value during the year 2008 was due to a decrease in the fair value of the common shares for a total amount of \$108,550.

8 Property, plant and equipment

	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
	319,146	159,213	159,933

	As at December 31, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	84,121	35,672	48,449
Office equipment	71,133	22,792	48,341
Leasehold improvements	160,976	24,766	136,210
	316,230	83,230	233,000

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%

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payable monthly over an 18-month period starting six 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 had 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 December 31, 2008, 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 \$2,438,790 is shown under current liabilities.

10 Mining assets

	As at December 31, 2008	As at December 31, 2007
	\$	\$
Mining concessions (a)	7,441,067	6,610,248
Property, plant and equipment used in mining operations (c)	8,592,790	12,962,529
	<u>16,033,857</u>	<u>19,572,777</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 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.

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(a) Mining concessions

	<u>Costs</u>	<u>Impairment</u>	<u>As at December 31, 2008 Net</u>	<u>As at December 31, 2007 Costs</u>
	\$	\$	\$	\$ Restated (note 3)
Mexico (State of Chihuahua)				
Bolívar projects				
Bolívar III and IV (Bolívar Mine property) ((iv) and note 22)	1,868,192	404,601	1,463,591	1,797,655
La Chaparrita (ii)	88,454	19,157	69,297	-
Bolívar (iii)	88,344	19,133	69,211	-
Piedras Verdes	390,771	84,631	306,140	356,917
San José (vi)	-	-	-	243,835
Other	105,512	22,851	82,661	102,688
Cusi projects (vii)				
India and Marisa (a)	241,168	52,231	188,937	240,920
Holguin and San Juan (b)	1,460,421	350,375	1,110,046	1,458,596
San Miguel – La Bamba (c) (option)	222,089	48,099	173,990	221,726
Mineria Cusi – Santa Eduwiges/San Nicolas (d) (option)	5,043,954	1,092,386	3,951,568	2,162,028
Other	32,710	7,084	25,626	25,883
	<u>9,541,615</u>	<u>2,100,548</u>	<u>7,441,067</u>	<u>6,610,248</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 \$367,380⁽¹⁾ (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⁽¹⁾ (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⁽¹⁾ (US\$55,000) in January 2009 (paid).

As at December 31, 2008, an amount of \$67,353⁽¹⁾ (US\$55,000) is included in mining concessions payable.

(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⁽¹⁾ (US\$55,000) in January 2009 (paid).

As at December 31, 2008, an amount of \$67,353⁽¹⁾ (US\$55,000) is included in mining concessions payable.

(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 December 31, 2008, an amount of \$34,442⁽¹⁾ (US\$28,125) remains to be paid and is included in mining concessions payable.

(v) Promontorio and Hidalgo properties

During the year ended December 31, 2007, the Company decided to abandon the Promontorio and Hidalgo projects and therefore did not proceed with the \$148,215 (US\$150,000) payment that was due in June 2007. Consequently, the Company wrote off the accumulated costs incurred on the property in the amount of \$249,424.

(vi) 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 \$2,005,895⁽¹⁾ (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.

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(vii) 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 \$1,836,900⁽¹⁾ (US\$1,500,000) with a \$1,224,600⁽¹⁾ (US\$1,000,000) buy-back option.
- (b) The Holguin properties, including the San Juan property, are subject to a 1.5% NSR of up to a maximum of \$1,836,900⁽¹⁾ (US\$1,500,000). The NSR can be purchased for \$1,224,600⁽¹⁾ (US\$1,000,000). As at December 31, 2008, an amount of \$15,308⁽¹⁾ (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 \$1,836,900⁽¹⁾ (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 \$1,224,600⁽¹⁾ (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 \$1,224,600⁽¹⁾ (US\$1,000,000). As at December 31, 2008, the jointly owned Mexican subsidiary has not been constituted.

As at December 31, 2008, 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 \$630,669⁽¹⁾ (US\$515,000) in March, June, September and December 2009. As at December 31, 2008, an amount of \$2,522,676⁽¹⁾ (US\$2,060,000) 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: \$122,460⁽¹⁾ (US\$100,000) (paid on the date of signature of the new terms), 19 monthly payments of \$122,460⁽¹⁾ (US\$100,000) and a final payment of \$73,476⁽¹⁾ (US\$60,000) for a total purchase price of \$2,522,676⁽¹⁾ (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 \$13.47⁽¹⁾ (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$13.47⁽¹⁾ (US\$11.00) per ounce.

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

⁽¹⁾ Converted at the rate of exchange in effect as at December 31, 2008.

(b) *Mining concessions payable*

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

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2008	As at December 31, 2007
	US\$	US\$	\$	\$
Mining concessions	2,412,244	37,500	2,954,034	37,054
Less: short-term portion	1,467,195	37,500	1,796,727	37,054
Long-term portion	945,049	-	1,157,307	-

Since mining concessions payable are non-interest bearing, the mining concession (note 10 (a) (vii) (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 December 31, 2008 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
	20,614,302	10,072,519	1,948,993	8,592,790

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	As at December 31, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	273,813	-	273,813
Buildings			
Plant	1,808,410	471,429	1,336,981
Camp	404,802	115,329	289,473
Machinery and equipment	12,754,949	4,010,740	8,744,209
Computers and office furniture	940,400	432,416	507,984
Rolling stock	3,445,913	1,635,844	1,810,069
	<u>19,628,287</u>	<u>6,665,758</u>	<u>12,962,529</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 year ended December 31, 2008		For the year ended December 31, 2007	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of the period	111,371,269	53,218,198	109,550,905	51,308,067
Issued and paid in cash ⁽ⁱ⁾	25,000,000	2,000,000	-	-
Less: value of warrants ⁽ⁱ⁾	-	(325,000)	-	-
Issued following exercise of compensation options (note 12) ⁽ⁱⁱ⁾	-	-	996,364	1,181,141
Issued following exercise of stock options (notes 13 and 14)	130,000	73,588	824,000	728,990
Balance – End of the period	<u>136,501,269</u>	<u>54,966,786</u>	<u>111,371,269</u>	<u>53,218,198</u>

⁽ⁱ⁾ 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.

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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%
Estimated 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).

- (ii) During the year ended December 31, 2007, 996,364 compensation options were exercised for total cash proceeds of \$996,364 and, consequently, the Company issued 996,364 common shares. The remaining 50,136 compensation options expired on August 16, 2007.

12 Warrants and compensation options

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

	For the year ended December 31, 2008		For the year ended December 31, 2007	
	Number of warrants	Amount \$	Number of compensation options	Amount \$
Balance – Beginning of the year	-	-	1,046,500	193,603
Issued (note 11)	25,000,000	325,000	-	-
Exercised (note 11)	-	-	(996,364)	(184,328)
Expired (note 14)	-	-	(50,136)	(9,275)
Balance – End of the year	25,000,000	325,000	-	-

A summary of outstanding warrants, entitling their holders to subscribe for an equivalent number of common shares, as at December 31, 2008, is as follows:

Exercise price \$	Number of warrants	Expiry date
0.20	25,000,000	November 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 December 31, 2008, 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, 2007 – 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 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.

On October 23, 2007, the Board granted a total of 300,000 options to purchase common shares of the Company to an officer. The options are exercisable at any time at a price of \$0.89 until October 23, 2012.

On July 24, 2007, the Board granted a total of 150,000 options to purchase common shares of the Company to a new director. The options are exercisable at any time at a price of \$1.25 until July 24, 2012.

On June 8, 2007, the Board granted a total of 250,000 options to purchase common shares of the Company to its new directors. The options are exercisable at any time at a price of \$1.28 until June 8, 2012.

On April 3, 2007, the Board granted a total of 1,775,000 options to purchase common shares of the Company to its directors, officers and employees. The options are exercisable at any time at a price of \$1.10 until April 3, 2012.

On March 6, 2007, the Board of Directors approved an increase in the number of common shares reserved for issuance under the Company's stock option plan from 9,700,000 to 10,900,000. The number of common shares reserved represented approximately 10% of the then number of shares issued and outstanding.

On January 9, 2007, the Board granted a total of 40,000 options to purchase common shares of the Company to a consultant. The options are exercisable at any time at a price of \$0.98 until January 9, 2012.

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

	For the year ended December 31, 2008		For the year ended December 31, 2007	
	Number of options	Average exercise price \$	Number of options	Average exercise price \$
Beginning of the period	10,318,333	0.72	8,957,333	0.60
Granted	1,220,000	0.33	2,515,000	1.10
Exercised (note 11)	(130,000)	0.34	(824,000)	0.60
Cancelled	(600,000)	0.85	(330,000)	0.91
Expired	(1,240,000)	0.93	-	-
End of the period	<u>9,568,333</u>	<u>0.64</u>	<u>10,318,333</u>	<u>0.72</u>

A summary of options outstanding and exercisable as at December 31, 2008 is presented below:

Exercise price \$	Number of options		Expiry date
	Outstanding	Exercisable	
0.75	930,000	930,000	August 2009
0.75	250,000	250,000	February 2010
0.30	1,253,333	1,253,333	September 2010
0.22	125,000	125,000	September 2010
0.40	2,435,000	2,435,000	February 2011
0.90	1,250,000	1,250,000	September 2011
1.10	1,555,000	1,555,000	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
	<u>9,568,333</u>	<u>8,755,000</u>	

For the year ended December 31, 2008, stock-based compensation costs amounted to \$155,580 compared with \$1,806,544 (restated (note 3)) for the year ended December 31, 2007.

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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:

	For the year ended December 31, 2008	For the year ended December 31, 2007
Average dividend per share	Nil	Nil
Estimated volatility	78.59%	89.91%
Risk-free interest rate	2.71%	3.98%
Expected life of options granted	4 years	4 years
1,220,000 options granted in 2008 (2007 – 740,000) which exercise price equals the market price of the stock on the grant date:		
Estimated fair value of option	\$0.19	\$0.69
Average exercise price	\$0.33	\$1.10
1,775,000 options granted in 2007 which exercise price exceeds the market price of the stock on the grant date:		
Estimated fair value of option	-	\$0.70
Exercise price	-	\$1.10
Stock price at date of grant	-	\$1.09

14 Contributed surplus

	For the year ended December 31, 2008	For the year ended December 31, 2007
	\$	\$
Balance – Beginning of year	8,169,052	6,590,223
Stock-based compensation costs (note 13)	155,580	1,806,544
Exercise of options (note 11)	(29,588)	(236,990)
Compensation options expired (note 12)	-	9,275
Balance – End of year	<u>8,295,044</u>	<u>8,169,052</u>

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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 year of \$816,408 is related to termination costs mainly in Mexico. As of December 31, 2008, an amount of \$90,268 remains to be paid.

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 December 31, 2008, the Company was not subject to any externally imposed capital requirements other than the advance payable as described in note 9.

	As at December 31, 2008	As at December 31, 2007
	<u>\$</u>	<u>\$</u>
Advance payable	2,438,790	-
Less:		
Cash and cash equivalents	(1,097,569)	(6,700,016)
Temporary investment	(58,450)	(167,000)
	<u>1,282,771</u>	<u>(6,867,016)</u>
Shareholders' equity	<u>7,507,570</u>	<u>28,049,170</u>
	<u>8,790,341</u>	<u>21,182,154</u>

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17 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 year ended December 31, 2008	For the year ended December 31, 2007
	\$	\$
		Restated (note 3)
Loss before income taxes	(22,670,170)	(20,229,359)
Combined federal and provincial income tax benefit at 30.9% (32.02 % in 2007)	(7,005,083)	(6,477,440)
Income tax rate differential in Mexico	607,233	675,645
Impact of decrease in income tax rate on future income tax balance	411,812	57,597
Expired tax losses	62,831	58,919
Stock-based compensation costs	48,074	578,455
Non-taxable portion of capital gain	-	(36,863)
Increase in the valuation allowance	5,027,372	5,329,733
Write-off of mining assets	87,811	69,839
Write-down of mining assets	408,674	-
Foreign exchange loss deductible in Mexico	(424,596)	(1,103,526)
Exchange reevaluation of future income tax assets	473,243	592,917
Inflation taxable on losses and net financial liabilities in Mexico	204,579	386,540
Non-deductible items in Mexico	154,908	165,428
Other	14,152	-
	<u>71,010</u>	<u>297,244</u>

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(b) Future income tax balances are summarized as follows:

	As at December 31, 2008 \$	As at December 31, 2007 \$ Restated (note 3)
Current future income tax assets		
Non-capital losses	33,000	62,000
Share issue costs	67,000	112,000
Temporary investment	55,000	74,000
Inventories	84,000	-
Accrued liabilities	1,189,000	625,000
	<u>1,428,000</u>	<u>873,000</u>
Long-term future income tax assets		
Property, plant and equipment	1,365,000	574,000
Mining assets	545,000	380,000
Non-capital losses	9,690,000	6,072,000
Capital losses	65,000	23,000
Share and warrant issue expenses	65,000	149,000
Other	136,000	154,000
	<u>11,866,000</u>	<u>7,352,000</u>
Total future income tax assets	13,294,000	8,225,000
Less: Valuation allowance	13,294,000	8,225,000
Total future income tax assets	<u>-</u>	<u>-</u>

(c) The Company has accumulated non-capital losses in Canada of approximately \$6,594,687. These losses will expire from 2009 to 2028 as follows:

	\$
Years ending December 31, 2009	122,399
2010	121,762
2011	533,468
2015	2,101,308
2026	397,588
2027	1,644,696
2028	1,673,466

(d) As at December 31, 2008, the Company has accumulated non-capital losses in Mexico for income tax purposes amounting to approximately \$28,401,358 (MX\$320,810,379). These losses will expire as follows: \$389,842 (MX\$4,403,497) in 2015, \$15,503,076 (MX\$175,116,543) in 2017, and \$12,508,440 (MX\$141,290,340) in 2018.

(e) These tax values of assets and liabilities have not been agreed to by the relevant tax authorities nor have they been disputed.

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18 Asset retirement obligations

As at December 31, 2008, 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.

19 Statements of cash flows

	For the year ended December 31, 2008	For the year ended December 31, 2007
	\$	\$ Restated (note 3)
(a) The changes in noncash working capital items are as follows:		
Trade payables	(1,485,145)	2,187,799
Sales tax and other receivables	600,390	2,265,919
Inventories	405,931	(403,354)
Prepaid expenses	(112,787)	372,957
Accounts payable and accrued liabilities	2,371,816	1,492,492
Income tax receivable/payable	609,685	(737,774)
	<u>2,389,890</u>	<u>5,178,039</u>
	\$	\$ Restated (note 3)
(b) Additional information – noncash transactions		
Increase in fair value of temporary investment included in deficit	-	399,500
Increase in property, plant and equipment included in deferred tenant allowance	-	103,934
Amortization of property, plant and equipment used in mining operations charged to inventories	195,327	179,073
Sales tax receivable for the acquisition of mining concessions	378,401	-
	\$	\$
(c) Interest and income taxes		
Interest paid	49,863	39,180
Income taxes paid	128,563	984,434

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	For the year ended December 31, 2008	For the year ended December 31, 2007
	\$	\$
(d) Cash and cash equivalents		
Cash	583,498	1,215,381
Short-term deposits (interest rates 1.75% - 3.75%)	514,071	5,484,635
	1,097,569	6,700,016

20 Related party transactions

Some officers of the Company provide their services as officers through companies they control. During the year ended December 31, 2008, companies controlled by officers of the Company charged consulting fees amounting to \$310,918 (for the year ended December 31, 2007 – \$930,662). As at December 31, 2008, the balance due these companies amounted to \$15,212 (as at December 31, 2007 – \$12,636).

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 December 31, 2008, 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 is approximately \$150,000 which is divided on a pro rata basis among the three companies. The Company's annual gross commitment is approximately \$50,000. In 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.

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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.

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) On January 11, 2009, the Company announced its intention to build a 500-tonne-per-day mill near the Bolivar Mine (the "Bolivar mill").

The Company estimated the overall cost of the construction of the Bolivar mill to be approximately \$7.9 million including \$1.8 million for preliminary studies and initial works such as engineering, permitting, site preparation, tailings dams and water and energy facilities. This cost estimate was prepared internally and has not been validated independently. Following the preliminary studies, the Company could revise, if necessary, some of the elements of its cost estimate.

The Bolivar mill will be constructed using some of the existing installations of the Malpaso mill. Therefore the Cusi pilot-mining program will be halted temporarily. However, the El Triunfo circuit at the Malpaso mill will remain in operation in order to maintain a certain level of revenues. Management forecasts that the pilot-mining operation at the Malpaso mill in 2009 will produce 120,000 tonnes at average grades of 1.7% Cu and 9.5% Zn.

The Company cautions that, although the economic viability of the mineral resources on the Bolivar property has not been determined, the Company and its management intend to proceed with the construction of the Bolivar mill. Until the economic viability of the Bolivar project has been determined and mineral resources have been converted to mineral reserves by a least a preliminary feasibility study and confirmed in a technical report as required by NI 43-101, there can be no assurance that the new mill will be economically viable.

In order to finance the construction of the Bolivar mill, the Company will have to issue additional equity and borrow funds. There can be no assurance that sufficient funding will be available to the Company on terms that will not adversely affect the projected economic return of the development of the Bolivar project.

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The preliminary economic assessment dated November 9, 2007 by SGS Geostat is not considered to be current by the Company considering the significant changes in the world economy and the different scenario of construction that the Company has adopted, namely the utilization of existing facilities.

- (b) 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.

- (c) 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.
- (d) 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.
- (e) 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.