# DIA BRAS EXPLORATION INC.

## (AN EXPLORATION-STAGE COMPANY)

## Consolidated Financial Statements

Years ended December 31, 2009 and 2008

April 30, 2010

**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.

KPMG LLP, Chartered Accountants, 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 various times during the year and at least once per 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.

Daniel Tellechea
President and Chief Executive Officer

Mark C. Shonnard
Chief Financial Officer

**KPMG** LLP
**Chartered Accountants**
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To the Shareholders of Dia Bras Exploration Inc.

We have audited the consolidated balance sheet of Dia Bras Exploration Inc. (the "Company") as at December 31, 2009 and the consolidated statement of operations and comprehensive loss and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2008 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements, in their report dated May 13, 2009.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
April 30, 2010

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# Dia Bras Exploration Inc.

*(an exploration-stage company)*
Consolidated Balance Sheets
As at December 31, 2009 and 2008
(expressed in Canadian dollars)

| | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 2,821,277 | $ 1,097,569 |
| Trade receivables (note 5) | 1,319,167 | - |
| Sales tax and other receivables | 2,178,931 | 1,493,918 |
| Income tax receivable | 89,424 | 70,664 |
| Inventories (note 6) | 3,032,370 | 2,210,605 |
| Investment in exploration companies (note 7) | 146,900 | 58,450 |
| Prepaid expenses | 283,858 | 401,871 |
| | 9,871,927 | 5,333,077 |
| **Office assets** (note 8) | 83,812 | 159,933 |
| **Mining assets** (note 10) | 21,219,822 | 16,033,857 |
| | $ 31,175,561 | $ 21,526,867 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 3,532,102 | $ 4,608,826 |
| Trade payables (note 5) | 1,593,480 | 3,948,891 |
| Advance payable (note 9) | 686,570 | 2,438,790 |
| Mining concessions payable (note 10 (c)) | 1,198,187 | 1,796,727 |
| Deferred tenant allowance | 14,391 | 19,188 |
| | 7,024,730 | 12,812,422 |
| **Long-term liabilities** | | |
| Mining concessions payable (note 10 (c)) | - | 1,157,307 |
| Asset retirement obligation (note 15) | 104,660 | - |
| Deferred tenant allowance | 35,177 | 49,568 |
| | 7,164,567 | 14,019,297 |
| **Shareholders' Equity** | | |
| Share capital (note 11) | 70,229,509 | 54,966,786 |
| Contributed surplus (note 11) | 10,993,531 | 8,620,044 |
| Accumulated deficit | (57,212,046) | (56,079,260) |
| | 24,010,994 | 7,507,570 |
| | $ 31,175,561 | $ 21,526,867 |

**Going concern assumption** (note 1)
**Commitments and Contingencies** (notes 18 and 19)
**Subsequent Events** (notes 9, 11 and 20)

Approved on behalf of the Board:

(s) *Philip Renaud*
Philip Renaud,
Chairman of the Board

(s) *Éduardo Gonzalez*
Eduardo Gonzalez,
Chairman Audit Committee

*The accompanying notes are an integral part of these financial statements.*

# Dia Bras Exploration Inc.

*(an exploration-stage company)*
Consolidated Balance Sheets
As at December 31, 2009 and 2008
(expressed in Canadian dollars)

| | 2009 | 2008 |
|---|---|---|
| **Accumulated deficit – Beginning of year** | (56,079,260) | (33,338,080 |
| Loss | (1,132,786) | (22,741,180) |
| **Accumulated deficit – End of year** | (57,212,046) | (56,079,260) |

*The accompanying notes are an integral part of these financial statements.*

# Dia Bras Exploration Inc.

*(an exploration-stage company)*

Consolidated Statement of Operations and Comprehensive Loss

For the years ended December 31, 2009 and 2008

(expressed in Canadian dollars)

| | 2009 | 2008 |
|---|---|---|
| Sales | $ 17,037,002 | $ 21,306,788 |
| Cost of sales (excluding amortization) | 8,886,456 | 16,860,086 |
| Transportation of concentrate | 1,702,935 | 2,216,170 |
| Amortization of property, plant and equipment | 2,835,105 | 3,291,091 |
| General and administrative expenses | 3,695,935 | 5,426,302 |
| Exploration expenditures | 2,178,691 | 4,571,445 |
| Write-down of mining assets (note 10) | - | 4,049,541 |
| Write-off of mining assets (note 10 (b)) | - | 313,612 |
| Stock-based compensation cost (note 11) | 270,519 | 149,688 |
| Loss on disposal of property, plant and equipment used in mining operations | 12,730 | 2,782 |
| Restructuring cost (note 12) | - | 816,408 |
| Net (gain) loss on variation of commodity market prices | (703,359) | 4,568,265 |
| (Gain) loss on change in value of investment in exploration companies | (33,450) | 108,550 |
| Interest expense | 179,679 | 263,246 |
| Interest income | (2,149) | (74,275) |
| (Gain) loss on foreign currency | (647,064) | 1,414,047 |
| | 18,376,028 | 43,976,958 |
| **Loss before income taxes** | (1,339,026) | (22,670,170) |
| **Income taxes** (note 14 (a)) | | |
| Current tax expense | 69,858 | 71,010 |
| Future tax benefit | (276,098) | - |
| | (206,240) | 71,010 |
| **Loss and comprehensive loss** | $ (1,132,786) | $ (22,741,180) |
| **Basic and diluted loss per share** | $ (0.00) | $ (0.20) |
| **Basic and diluted weighted average number of outstanding shares** | 252,561,516 | 114,264,274 |

*The accompanying notes are an integral part of these financial statements.*

# Dia Bras Exploration Inc.

*(an exploration-stage company)*
Consolidated Statements of Cash Flows
For the years ended December 31, 2009 and 2008
(expressed in Canadian dollars)

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Cash flows from** | | |
| **Operating activities** | | |
| Loss | (1,132,786) | (22,741,180) |
| Adjustments for | | |
| Stock-based compensation costs (note 11) | 270,519 | 155,580 |
| Write-down of mining assets (note 10) | - | 4,049,541 |
| Write-off of mining assets (note 10 *(b)*) | - | 313,612 |
| Amortization of property, plant and equipment | 2,835,105 | 3,291,091 |
| Amortization of deferred tenant allowance | (19,188) | (19,188) |
| Loss on disposal of property, plant and equipment used in mining operations | 12,730 | 2,782 |
| Unrealized (gain) loss on variation of commodity market prices | (63,822) | 4,065,872 |
| (Gain)loss on change in value of temporary investment | (33,450) | 108,550 |
| Unrealized (gain) loss on foreign currency | (320,549) | 426,590 |
| Interest expense on mining concessions payable | - | 145,389 |
| Future income taxes payable (note 14) | (276,098) | - |
| | 1,272,461 | (10,201,361) |
| Changes in working capital items (note 16) | (6,672,426) | 2,389,890 |
| | (5,399,965) | (7,811,471) |
| **Financing activities** | | |
| Advance payable (note 9) | (1,635,452) | 2,012,200 |
| Mining concessions payable (note 10) | (1,552,066) | - |
| Issuance of share capital | 12,418,005 | 2,044,000 |
| Share issue expenses | (142,695) | - |
| | 9,087,792 | 4,056,200 |
| **Investing activities** | | |
| Increase in mining assets | (1,676,896) | (1,874,366) |
| Disposal of property, plant and equipment used in mining operations | 55,800 | 30,106 |
| Acquisition of property, plant and equipment | - | (2,916) |
| Cash paid on acquisition of EXMIN Resources, net of cash acquired (note 2) | (343,023) | - |
| | (1,964,119) | (1,847,176) |
| **Decrease in cash and cash equivalents during the year** | 1,723,708 | (5,602,447) |
| **Cash and cash equivalents – Beginning of year** | 1,097,569 | 6,700,016 |
| **Cash and cash equivalents – End of year** (note 16) | 2,821,277 | 1,097,569 |

**Additional cash flow information** (note 16)

*The accompanying notes are an integral part of these financial statements.*

## 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 owns or controls several mining concessions located in the States of Chihuahua, Sonora, Jalisco, Zacatecas and Durango in 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 determination of economically recoverable reserves and resources, maintenance 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 at least equal to the Company's net investment therein.

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 19).

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

As of December 31, 2009, the Company has working capital of $2,847,197 and an accumulated deficit of ($57,212,046) and has incurred a net loss of ($1,132,786) for the year ended December 31, 2009. In addition to ongoing working capital requirements, the Company must generate cash flow or 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, to fund the construction of a mill on site at the Bolívar mine that will significantly reduce operating costs and to continue its activities as a going concern. Although there is no assurance that the Company will be successful in these actions, management expects that it will be able to secure the necessary financing through the issuance of new equity and/or debts.

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.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

## 2 Acquisition of EXMIN Resources Inc.

On September 30, 2009, the Company acquired, by way of a plan of arrangement, all of the outstanding common shares of EXMIN Resources Inc. (EXMIN) in an all-equity transaction. The results of EXMIN's operations have been included in these consolidated financial statements since the date of acquisition.

Pursuant to the acquisition agreement, EXMIN shareholders received 0.204 common shares of the Company for each common share of EXMIN. The Company issued 21.2 million common shares on closing at a price of $0.235 per share based on the closing stock price of the Company's common shares at the date of the transaction.

In addition, all of EXMIN's outstanding stock options and warrants as at the date of acquisition were exchanged for equivalent instruments in the Company. Approximately 1.4 million stock options and 1.6 million warrants were issued by the Company in the exchange. The transaction was accounted as an asset purchase for accounting purposes and following table summarizes the estimated preliminary fair value of the assets acquired and liabilities assumed as at the date of acquisition:

| | |
|---|---|
| PURCHASE CONSIDERATION | |
| Common share capital | $ 4,989,010 |
| Stock options (note 11) | 85,141 |
| Purchase warrants (note 11) | 16,230 |
| Transaction costs | 472,932 |
| Purchase consideration | $ 5,563,313 |
| | |
| NET ASSETS ACQUIRED | |
| Cash and cash equivalents | $ 129,909 |
| Sales tax and other receivables | 130,427 |
| Temporary investments | 55,000 |
| Prepaid expenses | 50,086 |
| Property, plant and equipment | 57,200 |
| Mining interests | 6,223,212 |
| Accounts payable and liabilities | (806,423) |
| Future tax liabilities | (276,098) |
| | $ 5,563,313 |

## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements 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. and for the period from October 1, 2009, until December 31, 2009, its wholly owned domestic subsidiary Dia Bras Exmin Resources Inc. and its wholly owned foreign subsidiaries EXMIN Inc. and EXMIN 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.

## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted *(cont)*

*Use of estimates*

The preparation of consolidated financial statements in conformity with 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 re-purchasable at all times without penalties with maturity of three months or less. Cash and cash equivalents are categorized as held-for-trading and are measured at fair value which value approximates cost.

*Investments in exploration companies*

Investments in exploration companies 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. Broken material is comprised of in-process mineralized material awaiting processing at milling facilities and materials for use at milling operations. 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 concentrates of copper and zinc jointly produced in milling operations. 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.

*Office assets*

Office assets 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, which is 3 years. The amortization of leasehold improvements is computed using the straight-line method over the term of the lease.

## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted *(cont)*

*Mining assets*

Assets related to mineral projects, 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 a portion of the costs are separately aggregated into 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 proceeds are reflected as a gain and any excess carrying costs are reflected as a loss in the Consolidated Statement of Operations.

(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:

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

*Exploration expenditures*

Exploration and mine evaluation expenditures include engineering and metallurgical studies, drilling and other related costs to delineate an ore body. Costs incurred before a development decision is made are expensed and classified as *Exploration expenditures* in the Consolidated Statement of Operations.

Capitalization of exploration and mine development expenditures that meet the definition of an asset begins once a development decision is made. Drilling and related costs are capitalized for an ore body where proven and probable reserves exist or a development decision for a discrete mining area has been made 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.

## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted *(cont)*

*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.

By-products credits related to mine production are included in net sales.

*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. Under this method, compensation expense is measured on the date of grant using the Black-Scholes option pricing model. Any consideration paid on exercise of stock options is credited to share capital. The stock-based compensation cost is charged to the Statement of Operations over the vesting period. The contributed surplus resulting from the stock-based compensation is transferred to share capital when the options are exercised.

*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 the consolidated VIE are considered to be integrated. As a result, the accounts of the subsidiaries and the VIE are translated into Canadian dollars 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.

## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted *(cont)*

*Income taxes*

The Company provides for income taxes using the asset and liability method of accounting. 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 enacted or substantively enacted income tax rates expected to be in effect in the fiscal year in which the differences are expected to reverse.

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

*Loss per share*

Loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the year. Diluted 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.

*Asset retirement obligations*

As the Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment, asset retirement obligations are recognized at fair value in the year in which the Company incurs a legal obligation associated with 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 with the offsetting amount charged to earnings and is adjusted for any change in the amount or timing of the underlying cash flows with the offsetting amount recorded as an adjustment to mining assets. The asset retirement cost is depreciated over the remaining life of the assets.

*Impairment of Long-Lived Assets*

Long-lived assets are reviewed for impairment at least annually or when changes in circumstances suggest their carrying value may not be recoverable. An impairment loss is recognized then the carrying value is not recoverable. The impairment loss is measured by the amount by which the carrying value exceeds fair value.

## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements yet adopted *(cont)*

*Financial instruments – Recognition, Measurement and Disclosures*

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 categorized 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 categorized 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.

The Company has implemented the following categorizations:

(a) The Company's cash and cash equivalents, and its investments in exploration companies, are categorized as "held-for-trading" and are measured at fair value.

(b) The Company's other receivables are categorized as "loans and receivables" and are measured at amortized cost. Similarly, its trade receivables are categorized as "loans and receivables" and are measured at cost with adjustments upon settlement taken to the Statement of Operations.

(c) The Company's accounts payable and accrued liabilities, trade payable, advance payable are categorized as "other financial liabilities" and are measured at amortized cost using the effective interest rate method which is comparable to the carrying value due to the relatively short period to maturity of the instruments.

(d) Mining concessions payable, also an "other financial liability", is measured at amortized cost.

## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements yet adopted *(cont)*

*Financial instruments – Hierarchy*

All financial instruments follow a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

### (b) New accounting pronouncements

*Credit Risk and Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year ending December 31, 2009, with retrospective application. The adoption of EIC-173 did not result in a material impact on the Company's consolidated financial statements.

*Mining Exploration Costs*

In March 2009, the CICA issued EIC Abstract 174 - Mining Exploration Costs ("EIC-174") which supersedes EIC Abstract 126 -Accounting by Mining Enterprises for Exploration Costs ("EIC-126"), to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. EIC 174 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year ending December 31, 2009, with retrospective application. The adoption of EIC – 174 did not result in a material impact on the Company's consolidated financial statements

## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements yet adopted *(cont)*

### (c) Accounting pronouncements 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.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these new sections on the consolidated financial statements.

## 4 Financial instruments and risk management

### (a) Fair value and carrying amounts

All financial instruments follow a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements.

*Fair value hierarchy*

The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

## 4 Financial instruments and risk management *(cont)*

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2009:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Trade receivables[(a)] | - | 1,319,167 | - | 1,319,167 |
| Investments in exploration companies | 146,900 | - | - | 146,900 |
| Total financial asset instruments | $2,968,177 | $1,319,167 | $2,268,355 | $6,555,699 |
| | | | | |
| Trade payables[(a)] | - | 1,593,480 | - | 1,593,480 |
| Advance payable[(b)] | - | 686,570 | - | 686,570 |
| Mining concessions payable[(b)] | - | 1,198,187 | - | 1,198,187 |
| Totals | $ - | $7,010,339 | $ - | $7,010,339 |

[(a)] Fair market value is dependent on quoted metals prices.

[(b)] Fair market value is dependent upon quoted interest rates for similar instruments and credit risk.

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

The Company's financial position and results are sensitive to changes in commodity prices, foreign exchange risk, credit risk, liquidity risk 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 only enters into fixed sales contracts for its delivered concentrates for the short time until settlement of the contract with its customer. Similarly, derivative financial instruments are not used to reduce 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 16.

A 1% annual percentage rate decrease in interest rates would have an impact on the loss for the year ended December 31, 2009, as follows based on the balances as at December 31, 2009:

## 4 Financial instruments and risk management *(cont)*

| | As at December 31, 2009 | Decrease/ (increase) of loss |
|---|---|---|
| | $ | $ |
| Advance payable | 686,570 | 6,866 |
| Short-term deposits | 30,872 | (309) |

*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 previously noted, the company does not mitigate these risks with hedging transactions.

The Company has exposure to monetary assets and liabilities denominated in Mexican pesos and U.S. dollar. Cash balances, trade receivables and payables, sales tax receivables, account payables, mining concession payable or advance payable denominated in Mexican pesos and U.S. dollar could expose the Company to a foreign exchange gain or loss. A decrease of 1% in the U.S. dollar exchange rate based on the balances as of December 31, 2009, would generate a decrease of $13,536 on the loss for the year ended December 31, 2009. A decrease of 1% in the Mexican peso exchange rate based on the balances as of December 31, 2009, would generate a decrease of $3,559 on the loss for the year ended December 31, 2009.

*Credit risk*

The Company is subject to concentrations of credit risk through cash and cash equivalents, trade receivables, and other receivables. The Company maintains substantially all of its cash and cash equivalents with major financial institutions in Canada and in Mexico. Therefore, management believes credit risk of counterparty non-performance is remote. The totality of the Company's trade receivables is with a sole client and is subject to normal credit risks. The sales and income taxes receivable are with the Governments of Mexico and Canada, and, as such, management believes they also represent normal credit risk.

As at December 31, 2009, of the $2,168,883 sales tax and other receivables an amount of $748,939 is categorized as delayed in collection. Management considers none of the accounts receivable doubtful and therefore no allowance has been recorded.

*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 can change as the underlying commodity market prices vary, which the company has eliminated by entering into a fixed price contract for each sale at the time of delivery. This component of the contract is an embedded derivative, which is short-term (less than four months) and recorded at fair value with changes in fair value recorded in net earnings.

## 4 Financial instruments and risk management *(cont)*

The Company produces copper, zinc, silver and lead, in various forms, which exposes it to commodity price risk. Metals prices are affected by many factors, including global and regional supply and demand, the relative exchange rate of the United States dollar with other major currencies, political and economic conditions, central bank sales, producer hedging activities, global and regional demand and political and speculative hedging and investments. Many of these factors combine to produce high levels of short-term volatility. The Company may enter into derivative financial instruments to manage the Company's exposure to commodity price risk. However, at this time, the Company has elected not to engage in any long-term hedging to reduce its exposure to commodity price risk.

In 2009, with other variables unchanged, a 1% change in the average prices of its commodities would have increased or decreased the Company's net earnings in the year ended December 31, 2009 by $259,000.

*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.

## 5 Trade receivables (payables)

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

| | **As at December 31, 2009** | **As at December 31, 2008** |
|---|---|---|
| | **$** | **$** |
| Receivables from pilot mining | 655,189 | - |
| Receivable for final settlement | 663,978 | - |
| Trade receivables | 1,319,167 | - |
| | | |
| Final settlement payable | (1,593,480) | (785,002) |
| Provision for final settlement* | - | (3,163,889) |
| Trade payables | (1,593,480) | (3,948,891) |

*****The provision for final settlement represents the estimated amount that would be recovered or paid back as at December 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 December 31, 2009, shipments that had not reached the final settlement stage comprised approximately 2,507 tonnes of zinc concentrate (3,201,680 lbs. payable), 1,313 tonnes of copper concentrate (797,670 lbs. payable) and 52 tonnes of lead concentrate (28,555 lbs payable). As at December 31, 2008, shipments that had not reached the final settlement stage comprised approximately 9,169 tonnes of zinc (11,613,145 lbs. payable), 3,717 tonnes of copper (2,316,141 lbs. payable) and 276 tonnes of lead (261,448 lbs. payable). Final settlement value will be determined at the end of the quotational period under the terms of the arrangement and may vary from the current provisional amount.

## 6 Inventories

| | As at December 31, 2009 | As at December 31, 2008 |
|---|---|---|
| | $ | $ |
| Broken material | 1,032,321 | 225,564 |
| Concentrates | 312,651 | 625,527 |
| Supplies and spare parts | 1,687,398 | 1,359,514 |
| | 3,032,370 | 2,210,605 |

The cost of sales, which comprises site operating cost plus the 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.

For the year ended December 31, 2009, the amortization of property, plant and equipment used in mining operations charged to inventories amounted to $ 48,489 (2008 - $195,327).

During the year ended December 31, 2009, the Company recorded an inventory write-down to the net realizable value of the inventories in the amount of $34,512 (2008 - $299,972) mainly due to the low level of production of lead concentrates.

## 7 Investments in exploration companies

| | As at December 31, 2009 | As at December 31, 2008 |
|---|---|---|
| | $ | $ |
| Pershimco Resources Inc. (“Pershimco”) | | |
| 835,000 common shares – at quoted market value (December 31, 2008 – 835,000 common shares at quoted market value) | 116,900 | 58,450 |
| Yale Resources Ltd. (“Yale”) | | |
| 500,000 common shares – at quoted market value | 30,000 | - |
| | 146,900 | 58,450 |

The change in the investment value during the year ended December 31, 2009, was due to a net increase in the fair value of the common shares for a total amount of $33,450 (2008 – ($108,550)).

## 8 Office assets

| | | | As at December 31, 2009 |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net** |
| | **$** | **$** | **$** |
| Computer equipment | 87,037 | 80,922 | 6,115 |
| Office equipment | 71,133 | 70,208 | 925 |
| Leasehold improvements | 160,976 | 84,204 | 76,772 |
| | 319,146 | 235,334 | 83,812 |

| | | | 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 |

## 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 customer 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 receipt of the funds. Such reimbursement shall be made through 17 monthly instalments of $117,219 (US$112,000) and a final instalment of $100,473 (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 until mid-2010, preliminarily estimated at around 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.

## 10 Mining assets

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Mining concessions (a) | 14,051,510 | 7,441,067 |
| Property, plant and equipment used in mining operations (d) | 7,168,312 | 8,592,790 |
| | 21,219,822 | 16,033,857 |

As of December 31, 2009, the Company reviewed the carrying value of its mining assets concluding that no impairment of value had been incurred in 2009. The challenging conditions in financial and commodity markets and the related uncertainty at the end of 2008 prompted management to write down its mining assets in December 2008 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 areas of interest as defined in the Company's plan for their development in the near future.

## 10 Mining assets *(cont)*

*(a) Mining concessions*

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Mexico (State of Chihuahua)** | | |
| Bolivar projects Bolivar III and IV (Bolivar Mine property) (note 19) | 1,586,799 | 1,463,591 |
| La Chaparrita | 71,379 | 69,297 |
| Bolívar | 72,467 | 69,211 |
| Piedras Verdes | 315,347 | 306,140 |
| Other | 96,506 | 82,661 |
| | 2,142,498 | 1,990,900 |
| Cusi projects | | |
| India and Marisa | 191,348 | 188,937 |
| Holguin and San Juan | 1,119,600 | 1,110,046 |
| San Miguel – La Bamba (option) | 176,374 | 173,990 |
| Minera Cusi – Santa Eduviges/San Nicolás (option) | 4,000,025 | 3,951,568 |
| Other | 36,156 | 25,626 |
| | 5,523,503 | 5,450,167 |
| EXMIN projects | | |
| Reyna de Oro | 4,140,887 | - |
| Maguarichic | 23,755 | - |
| Moris | 730,156 | - |
| Arechuyvo | 160,133 | - |
| Oribo | 568,557 | - |
| Batopilas | 34,378 | - |
| Melchor Ocampo | 22,292 | - |
| Horcon | 387,560 | - |
| Cerro Gordo | 206,340 | - |
| El Pino | 111,451 | - |
| Other | - | - |
| | 6,385,509 | - |
| | 14,051,510 | 7,441,067 |

Various of the Company's projects are subject to option agreements, which require instalment payments if the Company chooses to continue under the agreement. During 2010 the Company will be required to make payments ranging from $30,000 to $105,000, with an aggregate of $520,000, if it decides to keep all the properties under option.

## 10 Mining assets *(cont)*

*(b) Write-off of mining assets*

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| La Engañosa | - | 68,536 |
| San José | - | 245,076 |
| | - | 313,612 |

In February 2008, the Company entered into an option agreement on the La Engañosa property, which was abandoned in August 2008 and all costs in the amount of $68,536 were written off. On May 30, 2008, the Company decided to abandon the San José properties, which were subject to an option agreement entered into in July of 2003 with El Paso Partners, Ltd. ("EPP") and its wholly owned subsidiary Polo y Ron Minerales S.A. de C.V. Consequently, all costs accumulated on the related mining concessions as at that date, amounting to $245,076, were written off. EPP has yet to officially accept the Company's option termination letter (see also note 19).

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. 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 (see also note 19).

*(c) Mining concessions payable*

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

| | 2009 | 2008 | 2009 | 2008 |
|---|---|---|---|---|
| | US$ | US$ | $ | $ |
| Minera Cusi [1] | 1,079,212 | 2,261,619 | 1,129,503 | 2,769,578 |
| Bolivar | - | 55,000 | - | 67,353 |
| La Chaparrita | - | 55,000 | - | 67,353 |
| Bolivar III and IV | 28,125 | 28,125 | 29,436 | 34,442 |
| Cusi San Juan | 12,500 | 12,500 | 13,083 | 15,308 |
| Other | 25,000 | - | 26,165 | - |
| Mining concessions | 1,144,837 | 2,412,244 | 1,198,187 | 2,954,034 |
| Less: short-term portion | 1,144,837 | 1,467,195 | 1,198,187 | 1,796,727 |
| Long-term portion | - | 945,049 | - | 1,157,307 |

[1] – On June 14, 2006, the Company entered into an option agreement, later changed to a purchase agreement, to earn a 100% interest in several mining concessions with Compañía Minera Cusi ("Minera Cusi"), a private Mexican company, for US$5,000,000 payable over three years. In January 2009, the Company negotiated new terms with Minera Cusi in order to redefine the schedule of remaining payments as follows: US$100,000 – paid on the date of signature of the new terms, 19 monthly payments of US$100,000 – beginning March, 2009 and a final payment of US$60,000 for a renegotiation of the remaining US$2,060,000 to be paid under the original contract. As at December 31, 2009, the present value of the remaining payments due of US$925,612 is included in mining concessions payable, along with the IVA payable of US$153,600.

## 10 Mining assets *(cont)*

Since mining concessions payable are non-interest bearing, the mining concession of Minera Cusi 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 of interest for a similar instrument with a similar credit rating representing an effective interest rate of 8.31%.

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

| | | | **2009** |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net** |
| | **$** | **$** | **$** |
| Land | 464,236 | - | 464,236 |
| Buildings | | | |
| Plant | 2,117,723 | (958,232) | 1,159,491 |
| Camp | 450,023 | (338,135) | 111,888 |
| Machinery and equipment | 13,549,435 | (9,832,036) | 3,717,399 |
| Computers and office furniture | 1,097,494 | (966,166) | 131,328 |
| Rolling stock | 3,125,151 | (2,497,746) | 627,405 |
| Work in progress – Bolivar plant | 956,565 | - | 956,565 |
| | 21,760,627 | (14,592,315) | 7,168,312 |

| | | | | **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 |
| | 20,614,302 | (10,072,519) | (1,948,993) | 8,592,790 |

The ongoing challenging conditions in financial and commodity markets and the related uncertainty prompted management in 2008 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 its mining concessions as at December 31, 2008 using the market approach and the market capitalization method. The impairment amount, in the amount of $2,100,548, was applied to mining concessions and allocated to and the areas of interest as defined in the Company's plan for their development in the near future, with the remaining amount of $1,948,993 allocated to Property, plant and equipment used in mining operations.

## 11 Share capital

*Common shares*

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, 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 [ii] | 168,866,091 | 9,293,005 | 25,000,000 | 2,000,000 |
| Less: value of warrants | | (2,465,315) | | (325,000) |
| Issued pursuant to acquisition of EXMIN Resources Inc.(note 2) | 21,229,828 | 4,989,010 | - | - |
| Issued following exercise of warrants [i] | 28,409,091 | 3,125,000 | - | - |
| Plus: value of warrants | | 321,023 | | - |
| Issued following exercise of stock options | - | - | 130,000 | 44,000 |
| Plus: value of stock options | | - | | 29,588 |
| Balance – End of the period | 355,006,279 | 70,229,509 | 136,501,269 | 54,966,786 |

[i] During November, 2009, 28,409,091 warrants were exercised at the price of $0.11, for a total cash consideration of $3,125,000. The warrants were exercised by directors of the Company. Consequently, the Company issued 28,409,091 common shares.

[ii] From January to July 2009, the Company closed five private placements for a total amount of $9,293,005 and issued 168,866,091 units, each unit being comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to subscribe, during periods from twelve to eighteen months, to one common share at an average price of $0.111 per share, with 35,712,818 being exercised between November 2009 to March 2010 at a price of $0.11 per share. During 2008, the Company closed a private placement for a total amount of $2,000,000 and issued 25,000,000 units, each unit being comprised of one common share and one common share purchase warrant exercisable over the following twenty-four months to purchase one common share at a price of $0.20 per share.

## 11 Share capital *(Cont)*

*Warrants*

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

| | For the year ended December 31, 2009 | For the year ended December 31, 2008 |
|---|---|---|
| | Number of warrants | Number of warrants |
| Balance – Beginning of the year | 25,000,000 | - |
| Issuance of warrants | 168,866,091 | 25,000,000 |
| Issued pursuant to acquisition of EXMIN Resources Inc.(note 2) | 1,636,262 | - |
| Exercised warrants | (28,409,091) | - |
| Expired warrants | (443,700) | - |
| Balance – End of the year | 166,649,562 | 25,000,000 |

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

| Exercise price | Number of warrants | Expiry date |
|---|---|---|
| $ | | |
| 0.11 | 7,303,727 | March 2010^ |
| 2.45 | 34,000 | March 2010*^ |
| 3.68 | 816,000 | April 2010*^ |
| 0.15 | 30,750,000 | August 2010 |
| 0.49 | 163,200 | October 2010* |
| 0.20 | 25,000,000 | November 2010 |
| 0.49 | 86,816 | November 2010* |
| 0.49 | 92,546 | December 2010* |
| 0.10 | 72,727,273 | January 2011 |
| 0.10 | 29,676,000 | December 2011 |
| Total | 166,649,562 | |

^ Refer to Note 20.

*Replacement warrants issued to EXMIN shareholders in the acquisition completed September 30, 2009.

## 11 Share capital *(Cont)*

The fair value of each warrant was estimated using the Black-Scholes pricing model based on the following weighted average assumptions:

| | For the year ended December 31, 2009 | For the year ended December 31, 2008 |
|---|---|---|
| Average dividend per share | Nil | Nil |
| Estimated volatility | 93% - 106% | 85.22% |
| Risk-free interest rate | 1.1% - 2.2% | 2.03% |
| Expected life of warrants issued | 12 - 18 months | 24 months |
| Average estimated fair value of warrants per share | $0.011 | $0.013 |
| Exercise prices per share | $0.10 - $0.15 | $0.20 |

*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, 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 no more than 10% of the common shares outstanding at the time of the grant or the amount approved to be reserved by the Board, if less, (13,600,000 and 10,900,000 common shares as of December 31, 2009 and 2008, respectively), 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, 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.

During 2009, the Board granted a total of 4,750,000 options to purchase common shares of the Company (1,220,000 during 2008) to various officers, directors, consultants and employees. The options are exercisable until 2014 (until 2013 for 2008).

## 11 Share capital *(Cont)*

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

| | For the year ended December 31, 2009 | | For the year ended December 31, 2008 | |
|---|---|---|---|---|
| | Number of options | Average exercise price | Number of options | Average exercise price |
| | | $ | | $ |
| Beginning of the period | 9,568,333 | 0.64 | 10,318,333 | 0.72 |
| Granted | 4,750,000 | 0.17 | 1,220,000 | 0.33 |
| Issued pursuant to acquisition of EXMIN Resources Inc. | 1,413,720 | 1.61 | - | - |
| Exercised | - | - | (130,000) | 0.34 |
| Cancelled | (3,323,333) | 0.65 | (600,000) | 0.85 |
| Expired | (534,080) | 0.76 | (1,240,000) | 0.93 |
| End of the period | 11,874,640 | 0.56 | 9,568,333 | 0.64 |

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

| | Number of options | | |
|---|---|---|---|
| Exercise price | Outstanding | Exercisable | Expiry date |
| $ | | | |
| 0.75 | 250,000 | 250,000 | February 2010^ |
| 0.30 | 920,000 | 920,000 | September 2010 |
| 0.40 | 1,575,000 | 1,575,000 | February 2011 |
| 0.90 | 700,000 | 700,000 | September 2011 |
| 1.10 | 865,000 | 865,000 | 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 | 230,000 | 153,333 | April 2013 |
| 0.45 | 225,000 | 150,000 | June 2013 |
| 0.10 | 420,000 | 140,000 | November 2013 |
| 0.15-0.20-0.25 | 1,000,000 | 333,333 | March 2014 |
| 0.10 | 2,070,000 | 690,000 | June 2014 |
| 0.18 | 20,000 | 6,667 | August 2014 |
| 1.27 | 450,840 | 135,252 | April 2011* |
| 1.57 | 548,760 | 548,760 | September 2016* |
| 1.89 | 308,040 | 308,040 | August 2017* |
| 2.45 | 102,000 | 25,500 | October 2010* |
| 0.20-0.25 | 600,000 | 200,000 | September 2014 |
| 0.23-0.28-0.33 | 500,000 | 166,667 | November 2014 |
| 0.215 | 540,000 | 180,000 | December 2014 |
| | 11,874,640 | 7,897,552 | |

^ Refer to Note 20.

*Replacement options issued to EXMIN shareholders in the merger completed September 30, 2009.

## 11 Share capital *(Cont)*

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, 2009 | For the year ended December 31, 2008 |
|---|---|---|
| Average dividend per share | Nil | Nil |
| Estimated volatility | 95.92% | 78.59% |
| Risk-free interest rate | 2.30% | 2.71% |
| Expected life of options granted | 4 years | 4 years |
| 1,160,000 options granted in 2009 (1,220,000 – 2008) which exercise price equals the market price of the stock on the grant date: | | |
| Estimated fair value of option | 0.16 | 0.19 |
| Exercise price | 0.22 | 0.33 |
| 3,590,000 options granted in 2009 (Nil – 2008) which exercise price exceeds the market price of the stock on the grant date: | | |
| Estimated fair value of option | 0.05 | - |
| Exercise price | 0.16 | - |
| Stock price at date of grant | 0.09 | - |
| 1,413,720 replacement options granted in 2009 as part of the acquisition of EXMIN: | | |
| Estimated fair value of option | 0.07 | - |
| Exercise price | 1.61 | - |
| Stock price at date of grant | 0.24 | - |

| *Contributed surplus* | For the year ended December 31, 2009 | For the year ended December 31, 2008 |
|---|---|---|
| | $ | $ |
| Balance – Beginning of the year | 8,620,044 | 8,169,052 |
| Issuance of warrants | 2,465,315 | 325,000 |
| Issued pursuant to acquisition of EXMIN Resources Inc.(note 2) | 16,230 | - |
| Exercised warrants | (321,023) | - |
| Stock-based compensation costs | 270,519 | 155,580 |
| Capitalized option cost from acquisition of EXMIN (note 2) | 85,141 | - |
| Exercise of options | - | (29,588) |
| Share issue expenses | (142,695) | - |
| Balance – End of the year | 10,547,488 | 8,620,044 |

## 12 Restructuring cost and Employment related obligations

As a result of the impact that 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 ended December 31, 2008, of $ 816,408 is related to termination costs mainly in Mexico.

## 13 Capital disclosure

In the definition of capital the Company includes: shareholders' equity, mining concessions payable 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 to potentially bring them to the commercial production stage.

The Company monitors capital on an ongoing basis by keeping close control over expenditures and adjusting when necessary its exploration and development programs consistent with business conditions.

As at December 31, 2009, the Company was not subject to any externally imposed capital requirements.

| | **As at December 31, 2009** | **As at December 31, 2008** |
|---|---|---|
| | **$** | **$** |
| Advance payable | 686,570 | 2,438,790 |
| Mining concessions payable | 1,198,187 | 2,954,034 |
| Less: | | |
| Cash and cash equivalents | (2,821,277) | (1,097,569) |
| Investments in exploration companies | (146,900) | (58,450) |
| | (1,083,420) | 4,236,805 |
| Shareholders' equity | 24,010,994 | 7,507,570 |
| | 22,927,574 | 11,744,375 |

## 14 Income taxes

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

| | For the year ended December 31, 2009 | For the year ended December 31, 2008 |
|---|---|---|
| | $ | $ |
| Loss before income taxes | (1,339,026) | (22,670,170) |
| Combined federal and provincial income tax (benefit) expense at 30.9% (31.9 % in 2008) | (413,759) | (7,005,083) |
| Income tax rate differential | 23,094 | 607,233 |
| Expired tax losses | 37,624 | 62,831 |
| Stock-based compensation costs | 83,590 | 48,074 |
| Impact on decrease in income tax rate on future income tax balance | - | 411,812 |
| Increase in the valuation allowance | 633,724 | 5,027,372 |
| Write-off of mining properties | - | 87,811 |
| Write-down of mining assets | - | 408,674 |
| Foreign exchange loss deductible in Mexico | (934,106) | (424,596) |
| Exchange re-evaluation of future income tax assets | - | 473,243 |
| Inflation taxable on losses and net financial liabilities in Mexico | 278,898 | 204,579 |
| Non-deductible (non-taxable) items in Mexico | 84,171 | 154,908 |
| Other | 524 | 14,152 |
| | (206,240) | 71,010 |

## 14 Income taxes *(Cont)*

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

| | As at December 31, 2009 | As at December 31, 2008 |
|---|---|---|
| | $ | $ |
| Current future income tax assets | | |
| Non-capital losses | - | 33,000 |
| Share issue costs | 112,000 | 67,000 |
| Temporary investment | 40,000 | 55,000 |
| Inventories | 10,000 | 84,000 |
| Accrued liabilities | 186,000 | 1,189,000 |
| | 348,000 | 1,428,000 |
| Long-term future income tax assets | | |
| Property, plant and equipment | 1,326,000 | 1,365,000 |
| Mining assets | (1,099,000) | 545,000 |
| Non-capital losses | 13,713,000 | 9,690,000 |
| Capital losses | 31,000 | 65,000 |
| Share and warrant issue expenses | 39,000 | 65,000 |
| Other | 519,000 | 136,000 |
| | 14,529,000 | 11,866,000 |
| Total future income tax assets | 14,877,000 | 13,294,000 |
| Less: Valuation allowance | 14,877,000 | 13,294,000 |
| Total future income tax assets | - | - |

*(c)* The Company has accumulated non-capital losses in Canada of approximately $10,759,119. These losses will expire from 2013 to 2029 as follows:

| | $ |
|---|---|
| Years ending December 31, 2013 | 533,468 |
| 2014 | 1,481,741 |
| 2015 | 1,053,941 |
| 2025 | 800,429 |
| 2026 | 1,259,036 |
| 2027 | 2,248,595 |
| 2028 | 2,021,784 |
| 2029 | 1,360,125 |

*(d)* As at December 31, 2009, the Company has accumulated non-capital losses in Mexico for income tax purposes amounting to approximately $36,322,862 (MX$453,355,747). These losses will expire as follows:

## 14 Income taxes *(Cont)*

| | $ | MXPS |
|---|---|---|
| Years ending December 31, 2014 | 282,748 | 3,529,058 |
| 2015 | 2,907,451 | 36,288,699 |
| 2016 | 1,145,924 | 14,302,600 |
| 2017 | 14,125,854 | 176,308,713 |
| 2018 | 11,795,627 | 147,224,501 |
| 2019 | 6,065,258 | 75,702,176 |

*(e)* As at December 31, 2009, the Company has accumulated non-capital losses in US for income tax purposes amounting to approximately $1,652,297 (US $1,578,729). These losses will expire from 2024 to 2029.

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

## 15 Asset retirement obligations

The Company recognizes the fair value of a liability for asset retirement obligations in the period in which incurred, on a discounted cash flow basis, if a reasonable estimate can be made, which first occurred as at December 31, 2009 since the Company started developing new areas requiring reclamation in its exploration/ expansion efforts undertaken in the fourth quarter of 2009. The liability accretes to its full value over time through charges to earnings. The fair value is added to the carrying amount of the Company's mining assets, and is amortized over the expected lives of the associated assets.

The Company estimates that the associated outlays will be expended between 1 and 11 years from the balance sheet date; that the undiscounted cash flows required to settle the obligation is $152,011 at December 31, 2009 and $0 at December 31, 2008; and uses a credit-adjusted risk-free interest rate of 6% along with an expected inflation rate of 5%

| **Reconciliation, for the year ended December 31** | **2009** | **2008** |
|---|---|---|
| Asset retirement obligation, beginning of year | $0 | $0 |
| Liabilities incurred | $104,660 | - |
| Liabilities settled | - | - |
| Accretion | - | - |
| Revisions in estimated cash flows and changes in assumptions | - | - |
| Asset retirement obligation, end of year | $104,660 | $0 |

## 16 Statements of cash flows

| | For the year ended December 31, 2009 | For the year ended December 31, 2008 |
|---|---|---|
| | $ | $ |
| (a) The changes in affecting cash working capital items are as follows: | | |
| Trade receivables | (1,319,167) | - |
| Trade payables | (2,291,589) | (1,485,145) |
| Sales tax and other receivables | (554,586) | 600,390 |
| Inventories | (773,276) | 405,931 |
| Prepaid expenses | 168,099 | (112,787) |
| Accounts payable and accrued liabilities | (1,883,147) | 2,371,816 |
| Income tax receivable/payable | (18,760) | 600,685 |
| | (6,672,426) | 2,389,890 |
| (b) Additional information – noncash transactions | | |
| Amortization of property, plant and equipment used in mining operations charged to inventories | 48,489 | 195,327 |
| Sales tax receivable for the acquisition of mining concessions | - | 378,401 |
| EXMIN acquisition | | |
| Increase in current assets, except cash | 235,513 | - |
| Increase in property, plant and equipment | 5,807,480 | - |
| Issuance of common shares | 4,989,010 | - |
| Issuance of replacement options and warrants | 101,371 | - |
| Increase of accounts payable assumed | 806,426 | - |
| Increase in mining assets for future income tax liability | 276,098 | - |
| Increase of asset retirement obligation, capitalized in mining assets | 104,660 | - |
| (c) Interest and income taxes | | |
| Interest paid | 95,891 | 49,863 |
| Income taxes paid | 83,351 | 128,563 |
| (d) Cash and cash equivalents | | |
| Cash | 2,790,405 | 583,498 |
| Short-term deposits (interest rates 1.75% - 3.75%) | 30,872 | 514,071 |
| | 2,821,277 | 1,097,569 |

## 17 Related party transactions

During the year ended December 31, 2009, the Company paid consulting fees of $129,003 to a company controlled by one of its directors (2008 - $89,512). As at December 31, 2009, the balance due to this company amounted to $15,699 (2008 - $7,348).

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.

## 18 Commitments

(a) The Company is obligated under premises leases to pay rents on offices and houses in its operating areas.

| For the year ended | Lease s[(i)] | Purchase Commitment s[(ii)] |
|---|---|---|
| December 31, 2010 | 71,301 | 30,566 |
| December 31, 2011 | 68,096 | - |
| December 31, 2012 | 34,048 | - |
| Thereafter | - | - |

[(i)] – combination of Canadian and Mexican denominated operating leases.

[(ii)] –Mexican denominated purchase commitments for supplies and services.

## 19 Contingencies

(a) On October 26, 2009, an action was filed in Mexico against the Company and one of the Company's subsidiaries, Dia Bras Mexicana, S.A. de C.V. ("DBM"), by Polo y Ron Minerales S.A. de C.V. claiming a penalty for the cancelation of the option agreement of the San Jose properties in the State of Chihuahua, Mexico and the cancelation of seventeen mining concession sale agreements that are already completed and paid. The Company maintains that it has complied with all its obligations with the related agreement, will defend this action and has recorded no related charge.

(b) In 2005, a personal action was filed in Mexico against one of the Company's subsidiaries, DBM, by an individual claiming the annulment and revocation of the purchase contracts of two mining concessions, Bolivar III and IV (see note 10 *(b)*), 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. On July 1, 2009, the Eighth Court of Appeal of the Supreme State Court of Chihuahua, Mexico, has confirmed the favourable ruling issued by the Sixth Civil Court regarding the legal dispute involving the Bolivar III and Bolivar IV mining concessions. The confirmation of the decision rendered on January 22, 2009, in which the Sixth Civil Court determined the claim unfounded now stands in full legal force and effect.

The claimant did not file a constitutional trial against the Court of Appeal who confirmed the final resolution in favour of DBM. The claim is no longer in effect and the final resolution stands as issued by the Sixth Civil Court.

## 20 Subsequent Events

(a) Subsequent to year end, 29,485,545 warrants were exercised at an average exercise price of $0.136, for a total cash consideration of $4,021,592. All of the 7,303,727 March 2010 warrants with exercise prices of $0.11 per share were exercised, with the balance of the exercised warrants coming from tranches with expiry dates throughout 2010. The warrants were exercised by directors and other shareholders of the Company. Consequently, the Company issued 29,458,545 common shares and the 34,000 and 816,000 warrants, with expiry dates in March 2010 and April 2010 respectively, expired unexercised. No options were exercised subsequent to year end and the 250,000 options with expiry date of February 2010 expired unexercised.

(b) In April 2010, the Board of directors approved the grant of 3,421,000 options to purchase the Company's common stock to various directors, officers, employees and a consultant of the Company. One-third of the options vest upon the date of grant with an exercise price of $0.20/share, one-third vest on the first anniversary with an exercise price of $0.25/share and the rest vest on the second anniversary with an exercise price of $0.30/share. On the date of grant, the Company's common stock price was $0.185/share. All options expire five years from the date of grant.