



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three- and six-month periods ended June 30, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**August 27, 2009**

This management's discussion and analysis ("MD&A") follows National Instrument 51-102A regarding continuous disclosure for reporting issuers. It is a complement and supplement to the unaudited interim consolidated financial statements for the three- and six-month period ended June 30, 2009 and should be read in conjunction with those statements. It represents the view of management on the Company's current activities and its past and current financial results, as well as an outlook of the coming months. Unless otherwise specified, all dollar amounts in the MD&A are expressed in Canadian dollars.

Additional information relating to the Company, including the Company's Annual Information Form dated August 19, 2009 and subsequent press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online at [www.sedar.com](http://www.sedar.com).

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

For the six-month period ended June 30, 2009, the Company had negative working capital of \$4,440,374 and incurred a net loss of \$2,449,719 for the six-month period. In addition to 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 will also need to finance the construction of a mill that it plans to build on site at Bolivar Mine that will reduce significantly direct operating cash costs.

There is significant doubt at June 30, 2009 as to the Company's ability to meet its commitments and continue its administrative and exploration activities. There can be no assurance that the Company will be able to execute on its plans and there is no guarantee that measures taken by management will be successful. Without new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these unaudited interim consolidated financial statements.

### **Forward-Looking Statements**

This MD&A contains certain statements that constitute forward-looking statements. Forward-looking information includes, but is not limited to, information concerning Dia Bras Exploration Inc.'s ("Dia Bras" or the "Company") 2009 guidance respecting pilot-mining production, and potential plans for Bolivar and Cusi projects, as well as the proposed acquisition of EXMIN Resources Inc. Forward-looking statements are subject to a variety of risks and uncertainties, which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in the mining industry including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; risks associated with the estimation of mineral resources and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties or shortages of labour or interruptions in production; actual rocks mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of pilot-mining activities and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties. Refer to "Risk and Uncertainties".

Forward-looking information is, in addition, based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long-term price of zinc, copper, lead and silver; the regulatory and governmental approvals for the Company's projects and other operations on a timely basis; access to financing, appropriate equipment and sufficient labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot guarantee that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company does not assume any obligation to update or revise them to reflect new events or circumstances, except as required under applicable securities regulations.

### **Notice to Readers**

Until it can be determined that the Company's mining properties contains mineral reserves or resources that can be economically mined, they are classified as mining properties. 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 mining concessions, receipt of necessary permits, the ability of the Company to obtain the necessary financing to complete the development and construction of processing facilities, as well as future profitable production or, alternatively, upon disposal of such properties at an amount equal to the Company's investment therein.

Bolivar Mine has not yet reached the commercial production stage. Although the construction of a mill at Bolivar Mine is required to bring the property to a commercial operation, nothing guarantees that the Company will reach the commercial production stage at Bolivar Mine. Recently, the Company initiated early-stage activities for construction of a mill on the Bolivar property and extensions, including pre-engineering and environmental studies. The economic viability of the Cusi mining properties has not yet been assessed.

The results of the Company's operations are significantly affected by the market prices 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 our control, including levels of supply and demand for a broad range of industrial products, expectations with regard 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 prices of zinc, copper and other metals have 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 with respect to the commodity markets. Future price declines may materially reduce our cash flow, and the Company may have to consider putting the mines on care and maintenance or ceasing operations at the mines and plant, all of which could reduce our cash flow from operations and may also require the Company to look for alternatives other than cash flow to maintain its liquidity.

### **Responsibility of Management and the Board of Directors**

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited interim consolidated financial statements and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company and has reviewed and approved this MD&A and the accompanying unaudited interim consolidated financial statements.

## **NI 43-101 Compliance**

Unless otherwise indicated, the technical information in this MD&A ("Technical Information") is based on information contained in the technical reports and news releases (the "Disclosure Documents") available under the Company's profile (as indicated) on SEDAR at [www.sedar.com](http://www.sedar.com). Each Disclosure Document was prepared by or under the supervision of a qualified person (a "Qualified Person") as defined in National Instrument 43-101 standards ("NI 43-101"). Readers are encouraged to review the full text of the Disclosure Documents which qualifies the Technical Information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents.

The Technical Information contained in this MD&A was reviewed by Thomas L. Robyn, Ph.D., CPG, RPG, Chairman of the Company, Qualified Person of Dia Bras Exploration.

## **Second Quarter 2009 Highlights**

- » The loss of the second quarter of 2009 decreased to \$584,404 compared with a loss of \$3,034,123 for the same period in 2008.
- » Operating cash costs decreased by 15.38% per metric tonne to \$82.83 during the six-month period ended June 30, 2009 compared with the same period in 2008 for the Bolivar pilot-mining activities. This decrease in operating cash costs is primarily due to the cost improvement program and cost control initiatives which involved, amongst other, a reduction in number of contractors for the transportation of mineralized rocks.
- » Bolivar Mine sales of \$3,717,517 for the quarter, down 43.82% compared with \$6,616,659 in the second quarter of 2008. The decline is primarily due to the significant decline in metal prices, lower head grades for copper and zinc and overall sale volumes.
- » During the second quarter of 2009, zinc and copper production decreased 48.86% and 43.71% respectively compared with the same period 2008. For the six-month period ended June 30, 2009, zinc and copper production decreased 15.96% and 40.86% compared with the same period in 2008. This reduction was mainly due by the suspension of the transportation of mineralized rock to the Malpaso mill facilities for about 25 days during the second quarter and also with lower mill-feed grades.
- » During the second quarter of 2009, the Company recorded a gain on final settlements of \$126,935 on variations of final commodity market prices for shipments of 2009. This positive settlement results from QP (quotational period) fixing at the time of shipment of the concentrates.
- » **Revised production outlook for 2009**  
Production in the second quarter of the year was lower than expected because of lower grades mined and lower throughput at Malpaso mill due to suspension of transportation services of mineralized rock from the Bolivar mine. As a result, management has revised the 2009 production objectives to reflect this. The Company now expect to produce about 2,400,000 lbs. of copper and 16,400,000 lbs. of zinc in 2009 from the Bolivar mine.
- » In June, 2009, the Company closed private placements of \$1,483,800 and issued 29,676,000 units at a price of \$0.05 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 \$0.10 for a one year period expiring on December, 2011. The net proceeds will be used to finance the operations of the Company.

## **Corporate Overview and Business**

Headquartered in Montreal, Canada, Dia Bras Exploration is an exploration-stage mining company with rights and options on approximately 96 properties covering 18,430 hectares in the State of Chihuahua, in northern Mexico. Dia Bras is an exploration mining company focused on precious and base metals in the State of Chihuahua, in northern Mexico. The Company is committed to developing and adding value to its assets – the Bolivar copper-zinc project and the Cusi silver project.

The Company operated a pilot-mining program to generate cash flow in order to finance exploration and development activities and to provide data on mining, transport and milling costs, logistics, ore grades, mill recovery performance and metallurgy. The pilot-mining program produces of zinc, copper and silver-lead concentrates from development rock.

Dia Bras's goal is to become a low-cost and mid-tier producer of copper, zinc, silver and lead.

The Company's common shares are listed on the TSX Venture Exchange under the symbol "DIB".

## **Operational Performance – First Quarter 2009**

### EXPLORATION, PILOT MINING AND MINING DEVELOPMENT ACTIVITIES

#### **Bolivar Project**

Bolivar is the Company's most advanced project. It comprises twelve mineral concessions covering approximately 6,616 hectares within the municipality of Urique in the Piedras Verdes mining district of Chihuahua. The Bolivar, Bolivar III, Bolivar IV, and La Chaparrita concessions are held under mining (exploitation) licences while the remaining concessions are held with exploration licences.

Dia Bras purchased the Bolivar Mine in 2004. The surface rights form an "ejido" (land communally held) and cover all of the current mining and related infrastructures at the Bolivar Mine, which comprises the Bolivar, Bolivar III and Bolivar IV concessions.

The Bolivar Cu-Zn skarn deposit is one of many copper, base and precious metal deposits in the north-northwest trending Sierra Madre Belt. The Bolivar Cu-Zn deposit is located within the 63.5-hectare Bolivar mineral concession that expires in 2030. Production from the Bolivar Mine, an old copper-zinc producer, is not subject to any royalties.

Since the acquisition of the Bolivar properties and the Bolivar Mine, the Corporation has conducted detailed exploration and pilot mining of the old mine workings within the immediate surface area of the Bolivar Mine. Exploration consists of detailed core drilling (both surface and underground), detailed geologic mapping, topographic surveying, regional geologic mapping, surveying, engineering, and development of previously known and recently discovered mineralized areas.

#### **Bolivar III and IV**

In August 2004, the Company entered into a commercial agreement with the owners of 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 (refer to note 22 in the unaudited interim consolidated financial statements for the three-month period ended June 30, 2009).

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 June 30, 2009, an amount of \$32,695<sup>1</sup> (US\$28,125) remains to be paid.

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<sup>1</sup> Converted at the rate of exchange in effect as at June 30, 2009

### Surface Land to Accommodate the Bolivar Mill

In March 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 \$16,591 (MX\$188,000) over a 30-year term renewable without approval of the lessor for another 30 years.

### Bolivar Pilot Mining / Summary of the Second Quarter 2009

During the second quarter of 2009, the Company processed 18,948 tonnes of material from the Bolivar Mine averaging grades of 1.55% Cu and 7.63% Zn, producing 561,589 lbs. of copper and 2,907,018 lbs. of zinc. For the six-month period ended June 30, 2009, the Company processed a cumulative 46,935 tonnes averaging grades of 1.60% Cu and 8.63% Zn, producing 1,422,967 lbs. of copper and 8,178,147 lbs. of zinc, which represent a decrease of 40.86% and 15.96% respectively of the production compared to the corresponding period in the previous year. Quarter-to-quarter and six-month to six-month comparisons are shown in the table below.

As metal prices remained low during the first quarter of 2009, the Company was unable to meet its obligation with the providers of transportation services during the month of May. Therefore, the transportation services of mineralized rock to Malpaso mill facilities was suspended for about 25 days during the second quarter, resulting in a shortfall of 44.07% in throughput. The transportation services resumed during the second week of June 2009.

Average grades obtained in the second quarter were well below the Company's internal forecasts of 1.55% for copper and 7.63% for zinc and below average grades for the same period in 2007 of 1.65% for zinc and 8.49% for copper.

Consequently, management revised its production forecast for Bolivar pilot-mining production to approximately 87,000 tonnes at average grades of 1.53% Cu and 10.07% Zn for 2009.

### Bolivar Pilot Mining Program

	Actual Q2-2009	Actual Q2-2008	% Variation 2009 over 2008	Actual Cumulative 2009	Actual Cumulative 2008	% Variation 2009 over 2008
Tonnes processed	18,948	33,880	(44.07)	46,935	66,475	(29.39)
Daily throughput	217	387	(44.07)	268	380	(29.39)
Copper grade	1.55%	1.65%	(6.06)	1.60%	1.94%	(17.53)
Zinc grade	7.63%	8.49%	(10.13)	8.63%	7.62%	13.25
Copper recovery	86.51%	80.06%	8.06	85.42%	84.20%	1.45
Zinc recovery	87.41%	90.01%	(2.89)	87.90%	85.41%	2.92
Total production of copper (pounds)	561,589	997,635	(43.71)	1,422,967	2,405,990	(40.86)
Total production of zinc (pounds)	2,907,018	5,684,701	(48.86)	8,178,147	9,731,016	(15.96)
Average price of copper per pound, \$US	\$2.11	\$3.83	(44.91)	\$1.83	\$3.69	(50.34)
Average price of zinc per pound, \$US	\$0.67	\$0.96	(30.21)	\$0.60	\$1.03	(41.75)
Operating cash costs/DMT (including development)	\$104.49	\$98.43	6.16	\$82.83	\$97.88	(15.38)

## Bolivar Pilot Mining - Highlights

	Q2 2009	Q1 2009	Year 2008	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Copper (US\$ per pound)	2.11	1.55	3.15	1.77	3.48	3.83	3.54
Zinc (US\$ per pound)	0.67	0.53	0.85	0.54	0.80	0.96	1.10
<b>Production volume highlights</b>							
Copper (DMT)	904	1,420	6,454	1,240	1,172	1,676	2,366
Copper (pounds)	561,589	866,488	3,854,658	749,963	698,725	997,635	1,408,335
Zinc (DMT)	2,243	4,074	15,355	4,603	2,912	4,580	3,260
Zinc (pounds)	2,907,018	5,287,765	19,077,613	5,743,770	3,602,827	5,684,701	4,046,315

## Bolivar 2009 Exploration Program

The main focus of the Company's exploration program at Bolivar will be to provide a continue source of feed for the Malpaso mill. Favorable results of disseminated copper-silver mineralization prompted the exploration team to increase exploration efforts on the Bolivar NW, Bismarck, San Francisco and El Gallo Areas for an open pit project.

An exploration drilling program of 5,300 metres will focus on locating high-grade copper-zinc mineralization.

A further 4,700 metres of drilling is planned to increase and upgrade the inferred resources of the disseminated copper-silver mineralization to indicated and measured categories.

## Construction of a Mill near the Bolivar Mine

In January 2009, the Company announced its intention to construct a new mill at the Bolivar Mine, with a view to significantly reducing its operating cash costs. Management of the Company has produced its own estimate for the construction of this mill, which has not been independently validated. The internal cost estimate produced includes equipment from the existing Malpaso mill and other used equipment, as well as local manpower. The Company estimates the overall cost in this scenario to be approximately \$7.9 million (US\$6.5 million), including \$1.8 million (US\$1.5 million) for preliminary studies and initial works such as engineering, permitting, site preparation, tailings dams and water and energy facilities. Following the preliminary studies, the Company could revise its cost estimate for some of the elements, if necessary.

During the first half of 2009, the Company commenced works for the construction of the Bolivar mill, such as permitting, water and energy studies, and environmental study. The work associated with the detailed engineering of the mill is complete with Ingenieria VICA of Mexico. Site preparation for the new mill and tailings is underway.

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

The Company cautions that although economic viability of the mineral resources on the Bolivar property has not been determined, the Company and its management intend to move forward with the construction of a 500-tpd mill near the Bolivar Mine using, in part, equipment from the existing Malpaso 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.

## **Cusi Project**

The history of the Cusi silver district spans over more than three hundred years. The abundance of silver initially attracted Spanish explorers to Cusi in the late 1600s. The District's central location and silver production was important to silver mining in the northern Mexican silver province during the subsequent 300 years and the overall economic development of Chihuahua. These former mines historically produced high-grade silver but became inactive during plummeting silver prices; most have never been explored for disseminated open-pit table resources, which crop out on the property, and none with modern techniques. The acquired assets include 12 inactive mines, each located on a mineralized structure.

The Cusi project is subject to different purchase and option agreements all entered into in 2006.

Due to the size of the property and the high number of potential targets, the Company decided to concentrate its efforts on four interconnecting former mines out of twelve situated in the northwestern area of the property. Most of the drilling has been aimed at discovering and defining mineralized structural trends and veins within two major sectors of the Cusi Project, Santa Eduwiges and Promontorio, both historical producers.

Since the acquisition of the Cusi silver district, the Company has conducted detailed geologic mapping, detailed core drilling (both surface and underground), metallurgical testing and pilot mining in the old mine workings.

### **Minera Cusi Agreement**

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 \$598,687<sup>(1)</sup> (US\$515,000) in March, June, September and December 2009. As at June 30, 2009, an amount of \$1,813,500<sup>(1)</sup> (US\$1,560,000) is included in mining concessions payable.

In January 2009, the Company negotiated new terms with Minera Cusi in order to redefine the schedule of payments as follows: \$126,020 (US\$100,000) (paid on the date of signature of the new terms), 19 monthly payments of \$116,250<sup>(1)</sup> (US\$100,000) and a final payment of \$69,750<sup>(1)</sup> (US\$60,000) for a total purchase price of \$2,394,750<sup>(1)</sup> (US\$2,060,000).

The properties are subject to a sliding scale royalty in favour of Minera Cusi as follows: 2% NSR if the price of silver is equal to a maximum of \$12.79<sup>(1)</sup> (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$12.79<sup>(1)</sup> (US\$11.00) per ounce.

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

### **Cusi Exploration – Q2-2009**

During the first half of 2009, the Company conducted a compilation and interpretation of previous work and historical data, as well as mapping and some drilling. New targets and ore shoots of high grade mineralization in the veins systems of the Santa Eduwiges and Promontorio mines have been identified as well as other nearby areas (refer to the news release of July 23, 2009).

The Santa Eduwiges and Promontorio areas host a series of veins that represent excellent exploration targets.

### ***Santa Eduwiges***

In the Santa Eduwiges mine area, a minimum of 8 structures occur that average 1.0 to 1.5 m wide and yield intercepts of over 300 g/t Ag. Several of these structures converge in a zone located in the hanging wall block of the Green Fault and result in a mineralized zone called the Santa Rosa Chimney. The Santa Rosa Chimney consists of a potentially open-pit area that measures roughly 180 by 50 m with oxidized silver mineralization contained in the wall rocks of the veins. The samples from the oxidized portion of the chimney (San Antonio pit) averages 60-65 g/t Ag and represent a potential deposit of 900,000-1,100,000 tonnes and containing an estimated 2 million ounces of silver.<sup>2</sup> Preliminary bottle roll tests have yielded results of 50 to 70% recovery and further tests will be done.

In the Santa Eduwiges mine area, another two mineralized shoots were identified in the Tascates and La Mexicana veins, which are currently being defined by drilling.

### ***Promontorio***

Several potential targets have been identified in the Promontorio area, the most important of which appears to be the convergence of nearly all of them with the Promontorio vein in an area located immediately below level 11 of the Promontorio mine. The potential for high grade and bulk tonnage mineralization is significant. In addition, the intersections between those structures and the "Veta del Contacto" that runs semi-perpendicular to those veins represent excellent targets that have not been tested.

The Veta del Contacto is a structure that runs more or less parallel to the Cusi Fault. Information obtained from historical reports, maps and sections indicates that the Veta del Contacto structure has several mineralized shoots, with values that range from 30 to 120 ounces (about 900 to 3,600 g/t Ag) of silver per ton. Most of these mineralized shoots are defined by the intersection of the veins mentioned above with this structure. Drilling in this area is in a very early stage and only three holes have been drilled to date. Drilling in the area continues and assays are pending.

### ***San Juan and Los Tajos***

Two additional areas, the San Juan and Los Tajos areas, show good prospects for economic mineralization. The San Juan vein is a structure 0.80 to 1.2 m wide striking about 60° NE that occurs 1.8 km northwest of the Santa Eduwiges mine portal and can be followed for 0.5 km. Examination of old maps and sections indicates that this structure could host mineralization with high grade silver because grades over 800 g/t Ag are reported. This area is poorly known, and preliminary mapping and sampling were done over the area in order to identify drilling targets. The second area, which is called Los Tajos, is located 1.3 km SW of the Santa Eduwiges mine portal and corresponds to the SW projection of the Santa Eduwiges vein. The vein is intersected in this area by the La Gloria vein that strikes 28-30° NE. In addition, a total of 8 samples taken in the wall rock over an area of 120 by 15 m yielded an average grade of 65 Ag g/t. Historical surface sampling carried out by previous owner yielded an average of 358 Ag g/t and 0.22 to 1.20 Au g/t along a distance of more than 500 m in veins that range in width from 0.80 m to 1.20 m. Depending on time and availability, more work will be done in the areas of San Juan and Los Tajos.

### ***Cusi Metallurgical Testing***

In June 2009, Dia Bras reported metallurgical testing on silver-mineralized rock from its Cusi project. The metallurgical test was undertaken to evaluate the potential to increase silver recovery. The testing was performed under the direction of an independent engineer, Mr. Pedro Castillo C., at the Centro de Investigación de Materiales Avanzados (CIMAV) located in Chihuahua City, Chihuahua.

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<sup>2</sup> The potential quantity and grade is conceptual in nature. There has been insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the targets being delineated as a mineral resource.

A representative sample was collected under the supervision of Mr. Castillo from 1,500 tonnes of rock (mined from the Santa Eduwiges and Santa Marina veins) stockpiled at the Company's Malpaso mill. The sample was reduced to 5 kg mass and processed using a combination of flotation and cyanidation methods. Results yielded silver recoveries of about 85% using a combination of flotation and tailings cyanidation.

The Company is also conducting metallurgical tests similar, to those performed on rock from the Santa-Eduwiges mine on mineralized rock from the Promontorio mine.

### **Cusi Outlook**

The positive metallurgical studies on silver-mineralized rock from Santa Eduwiges mine prompted management to accelerate the restart of pilot-mining activities in September rather than late this year 2009. Mine development during the first half of 2009 has delineated sufficient minable resources at the Santa Eduwiges to support operation at a rate of 6,000 tonnes per month.

During the first phase of the foregoing pilot-mining, Dia Bras will process mineralized rock from Santa-Eduwiges by the flotation method and stockpile the flotation tails while cyanidation vats are being constructed. The Company expects to produce more than 38,000 ounces of silver per month at 60% recovery, which will provide Dia Bras with additional operating cash flow.

Recently, the Company initiated site preparation for the cyanidation circuit and installation of piping. Permitting for cyanidation processing has been made, and management expects approval soon. Management anticipates construction of the cyanidation vats to be completed late this year and the Company will produce silver at 85% recovery by combined flotation and cyanidation methods.

### **Cusi 2009 Exploration Program**

The objectives of 2009 are twofold: 1) define and expand the resources along the Santa Marina and San Antonio veins, along vein intersections Santa Marina and Rosario, Santa Marina and San Bartolo and along the Tascates and Mexicana veins and 2) evaluate and test the Promontorio vein intersections and the Santa Rosa Chimney with the objective of defining and expanding resources in this sector.

### **Pershimco Joint Venture Agreement**

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 \$1,743,750<sup>(1)</sup> (US\$1,500,000) of expenditures on the properties before having the right to acquire an additional 20% interest on the properties at a cost of \$1,162,500<sup>(1)</sup> (US\$1,000,000). The JVA provides for Pershimco being the operator for all exploration and development of the properties which will be managed through a jointly owned Mexican subsidiary. Pershimco and Dia Bras each hold a 50% interest in the properties. The properties are subject to a 2% NSR of which 1% may be bought back for \$1,162,500<sup>(1)</sup> (US\$1,000,000). As at June 30, 2009, the jointly owned Mexican subsidiary has not been constituted.

As at June 30, 2009, the transfer of 50% of the property title of San Miguel had not been completed due to a legal issue that Pershimco has on the ownership of the property.

## La Engañososa Property

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 \$348,750<sup>(1)</sup> (US\$300,000) per year over the same three-year period.

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

## Selected Quarterly Information

The following table sets forth selected quarterly financial information for each of the eight most recently completed quarters:

	2009 Q2 \$	2009 Q1 \$	2008 Q4 \$	2008 Q3 \$ <i>(restated)</i>
Sales of concentrate	3,717,517	2,876,064	3,580,538	4,452,750
Net income (loss)	(521,226)	(1,928,493)	(12,189,829)	(7,517,228)
Loss per share (basic and diluted)	(0.00)	(0.01)	(0.10)	(0.07)
Total assets	20,081,205	21,568,404	21,526,867	28,282,800
Long-term liabilities	426,568	901,785	1,157,307	2,142,784

	2008 Q2 \$ <i>(restated)</i>	2008 Q1 \$ <i>(restated)</i>	2007 Q4 \$ <i>(restated)</i>	2007 Q3 \$ <i>(restated)</i>
Sales of concentrate	6,616,659	6,656,841	6,092,141	7,033,910
Net income (loss)	(3,081,382)	47,259	(3,183,104)	(7,031,176)
Loss per share (basic and diluted)	(0.03)	0.00	(0.03)	(0.06)
Total assets	31,894,126	31,428,918	31,821,508	39,023,509
Long-term liabilities	1,049,060	-	-	-

## **Results of Operations**

During the three-month period ended June 30, 2009, the Company recorded a loss of \$521,226 (\$0.00 per share) (cumulative loss \$2,449,719 (\$0.01 per share) compared with a loss of \$3,081,382 (\$0.03 per share) in 2008 and cumulative loss of \$3,034,123 (\$0.03 per share for the six-month period ended June 30, 2008).

The period results are explained as follows:

### **Income**

Total revenues decreased to \$3,717,517 compared with \$6,616,659 for the three-month period ended June 30, 2009 and 2008 respectively. Year-to-date 2009 revenues decreased to \$6,593,381 compared with \$13,273,500 in the same period in 2008. The decline is primarily price driven and also due to lower volumes of zinc and copper concentrates. 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. 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.

### **Expenses**

During the three month period ended June 30, 2009, the cost of sales decreased to \$2.2 million compared with \$4.2 million for the corresponding period in 2008. Year-to-date 2009 cost of sales decreased to \$4.5 million compared with \$8.3 million in 2008. The decreased in costs of sales is primarily attributable to the cost improvement plan implemented by the Company during 2008 in all areas.

The sales, general and administrative expenses decreased to \$1.3 million compared to \$2.2 million for the three-month period ended June 30, 2009 and 2008 respectively. For the six-month period ended June 30, 2009, the expenses decreased to \$2.6 million compared with \$3.8 million for the corresponding period in the previous year. The cost improvement plan implemented by the Company in 2008 had also an important impact in the sales, general and administrative expenses.

Exploration and mine development expenditures decreased to \$645,986 in the second quarter of 2009 (cumulative expenditures of \$1,437,045) from \$1,320,941 during the second quarter of 2008 (cumulative expenditures of \$2,550,800). The decrease is due to the current exploration program focused to provide a continued source of feed to the Malpas mill.

For the three-month period ended June 30, 2009, stock-based compensation costs amounted to \$53,197 (cumulative costs of \$95,793) compared with \$87,555 for the three-month period ended June 30, 2008 (cumulative costs of \$87,555).

The effect of the global recession on market prices for base metals significantly impacted financial results in the second quarter of 2009. While base metal prices have recovered during the first half of the year, realized prices for zinc and copper were significantly lower than in the second quarter of 2008. During the quarter, the Company recorded a gain on the variation of commodity market prices of \$126,935 related to final settlement billings and unsettled shipment provision change in value during the quarter compared with a loss on the variation of commodity market prices of \$603,051 related to final settlement billings and unsettled shipment provision change in value during the same period in 2008.

- » In the second quarter of 2009, the average realized copper price was US\$2.11/lb. compared with US\$3.83/lb. in the second quarter of 2008.
- » The average realized zinc price was US\$0.67/lb. in the first quarter of 2009 compared with US\$0.96/lb. in the second quarter of 2008.

Although management is concerned about current global economic conditions, management believes that the long-term price environment for zinc and copper remains favourable.

## **Other**

During the period, the Company recorded a noncash gain on the change in value of the temporary investment in Pershimco Resources Inc. of \$4,175 for a cumulative loss of \$12,525 for six-month period ended June 30, 2009, compared with a noncash gain of \$8,350 and a cumulative loss of \$58,540 in 2008. The Company still owns 835,000 common shares of Pershimco that are stated at fair market value.

During the three-month period ended June 30, 2009, the Company recorded a gain on currency exchange of \$617,674 (cumulative gain of \$348,280 for the six-month period ended June 30, 2009) compared with a gain of \$81,919 and cumulative loss of \$173,118 for the six-month period ended June 30, 2008. This gain is mainly attributable to the conversion into Canadian currency of the monetary assets and liabilities in Mexico and on advance payable, mining concessions and outstanding negative final settlement provision, as both the U.S. dollar and Mexican peso loss value over the Canadian dollar.

## **Liquidity and Working Capital**

The Company's liquidity position is directly related to the level of concentrate production, the cost of this production and the final settlement billing adjustments recorded for zinc, copper, lead and silver in concentrate that is sold. As at June 30, 2009, the Company's working capital amounted to a negative amount of \$4,440,374, including \$297,569 in cash and cash equivalents compared with a negative amount of \$7,479,345 as at December 31, 2008, including \$1,097,569 in cash and cash equivalents. The Company's cash and working capital position will be materially lower if current zinc, copper and lead market prices remain at this level.

As at June 30, 2009, sales tax and other receivables amounted to \$1,576,648 (\$1,493,918 as at December 31, 2008) and are mostly comprised of Mexican recoverable Value Added Tax credits "IVA". Income tax receivable in the amount of \$156,924 (\$70,664 as at December 31, 2008) represents provisional tax instalments receivable from the Mexican tax authorities.

As at June 30, 2009, accounts payable and accrued liabilities amounted to \$5,213,233 (\$4,608,826 as at December 31, 2008) which represents mostly current usual business transaction balances.

Included in current and long-term liabilities is the impact of the conversion of the Minera Cusi agreement from an option to a property purchase agreement entered into in the second quarter of 2008 and for which \$2,044,425 is included in mining concessions payable as at June 30, 2009 compared to \$2,954,034 as at December 31, 2008. In January 2009, the Company negotiated new terms with Minera Cusi in order to redefine the schedule of payments as follows: \$116,250<sup>(1)</sup> (US\$100,000) (paid on the date of signature of the new terms), 19 monthly payments of \$116,250<sup>(1)</sup> (US\$100,000) and a final payment of \$69,750<sup>(1)</sup> (US\$60,000) for a total purchase price of \$2,394,750<sup>(1)</sup> (US\$2,060,000).

As at June 30, 2009, the Company had a net payable position of \$889,220 with MRI (payable of \$3,948,891 as at December 31, 2008). This negative position is the result of a decrease of market prices of copper and zinc during 2008 and included in working capital. This payable is disclosed separately as trade payables. The decrease of \$3,059,671 is due to the payments discounted from the provisional invoices of the first six-month period of 2009 and the gain in commodity market prices. Actual final settlement billings will not differ significantly from the current provision due to the fact that the Company has fixed the prices for most of its unsettled lots.

In July 2009, the Company signed a new agreement with MRI to limit the payments of the outstanding short-term debt. Consequently, the balance of 2009 payments will be significantly reduced from a monthly average of \$378,213 (US\$330,000) to \$128,363 (US\$112,000) per month. Under this new agreement, the Company has made a commitment to sell its future production of zinc, copper and silver-lead concentrates from its Bolivar and Cusi properties to MRI, on an exclusive basis, up to the end of December 2014. The agreement will be revised in January 2010 with a view to resuming the previous level of monthly repayments.

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, which is also the sole client of the Company. This advance credit facility bears interest at the 3-month LIBOR rate plus 4% payable monthly over an 18-month period starting six months after the reception of the funds. Such reimbursement shall be made of 17 monthly instalments of \$130,200 (US\$112,000) and a final instalment of \$111,600 (US\$96,000).

To secure the repayment of advances made under this advance credit facility, the Company signed a letter of credit as a guarantee in favour of Credit Agricole (Suisse) S.A. (the "Bank"). The letter is governed by Swiss law and gives the right to the Bank to take legal action against the Company before any other competent court or jurisdiction. In addition, the Company made a commitment to sell exclusively to MRI its future production of zinc, copper and lead concentrates up 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 June 2009, the Company was in default of delivering such quantities of concentrate to MRI and could therefore be required to repay the loan facility in its entirety or in part, upon first demand. Therefore, the advance payable of \$1,543,800 is shown under current liabilities.

During the six-month period of 2009, the Company paid a total amount of \$781,200 (US\$672,000) which represents the first six instalments of the advance payable according to the schedule of payments of the loan.

### **Capital Resources, Investing and Financing Activities**

The mineral properties of the Company are at the exploration stage. The exploration and development of the Company's properties depend on the Company having sufficient funds to carry out its plans. Although it is conducting a pilot-mining program at the Bolivar Mine property, thereby providing a source of income through the sales of concentrates, the Company is not yet considered as being at the commercial production stage.

The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due. The Company will continue to seek financing in the near future to fund mill construction on site at Bolivar that will reduce significantly direct operating cash costs. There is no assurance that sufficient funds can or will be raised. Accordingly, doubt exists as to whether the Company will be able to continue as a going concern.

Furthermore, the Company will continue to periodically reassess the amount and timing of its currently planned expenditures to increase operating efficiencies. At the same time, management will continually assess its capital requirements that may require issuance of equity or debt.

In June, 2009, the Company closed private placements of \$1,483,800 and issued 29,676,000 units at a price of \$0.05 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 \$0.10 for a one year period expiring on December, 2011. The net proceeds will be used to finance the operations of the Company.

The Company incurred in share issue expenses a total amount of \$39,959 related to private placements closed during the second quarter of 2009.

A total of 130,000 stock options were exercised for a total cash consideration of \$44,000 which also represents the cumulative amount for the six-month period ended June 30, 2008. No stock options have been exercised during 2009.

### **Capital Expenditures, Deferred Exploration Expenses and Property Payments**

Capital expenditures during the second quarter of 2009 amounted \$0.6 million and consisted mainly in mining concession payments to Minera Cusi.

Currently, the Company has the necessary equipment to continue its exploration program and the expected mining and development activities on both the Bolivar and Cusi projects. Other than the construction of the mill on site at the Bolivar Mine and cyanidation vats at the Malpaso facilities, capital expenditures will be limited to environmental capital expenditure investment at Malpaso and the purchase of the Malpaso superficial land.

### **Financial Commitments**

- (a) 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 June 30, 2009, no provision is recorded in accounts payable and accrued liabilities.
- (b) In December 2006, the Company signed a five-year lease for office premises. The annual rent is approximately \$60,000.
- (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 \$16,591 (MX\$188,000) over a 30-year term renewable without approval of the lessor for another 30 years.

### **Off-Balance**

The Company did not enter into any off-balance sheet arrangement other than the one indicated in (a) of the above section.

### **Subsequent Events**

- (a) On July 1st, 2009, the Eighth Court of Appeal of the Supreme State Court of Chihuahua, Mexico, has confirmed the favorable 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. (refer to note 22 in the unaudited interim consolidated financial statements for the three-month and six-month period ended June 30, 2009).

- (b) On July 8 2009, Dia Bras Exploration Inc. closed private placements for gross proceeds of \$4,000,000 and issued 66,000,000 units at a price of \$0.055 per unit. Each unit being comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to subscribe to one common share at a price of \$0.10 for eighteen-month period expiring on January 8, 2011. The net proceeds will be used for mine development activities at the Cusi silver project in view to commence the pilot-mining activities during September 2009; to build the cyanidation vats at the Malpaso facilities and the balance will be used for working capital purposes.
- (c) In July 2009, the Company signed a new agreement with MRI to limit the payments of the outstanding short-term debt. Consequently, the balance of 2009 payments will be significantly reduced from a monthly average of \$378,213 (US\$330,000) to \$128,363 (US\$112,000) per month. Under this new agreement, the Company has made a commitment to sell its future production of zinc, copper and silver-lead concentrates from its Bolivar and Cusi properties to MRI, on an exclusive basis, up to the end of December 2014. The agreement will be revised in January 2010 with a view to resuming the previous level of monthly repayments.
- (d) On August 18, 2009, Dia Bras and EXMIN Resources Inc. ("EXMIN") entered into an arrangement agreement (the "Arrangement Agreement") pursuant to which Dia Bras will acquire all of the outstanding common shares of EXMIN in exchange for common shares of Dia Bras by way of a statutory plan of arrangement under the Business Corporations Act (British Columbia) (the "Acquisition").

Pursuant to the Acquisition, Dia Bras will acquire all of the outstanding common shares of EXMIN at an agreed exchange ratio (the "Exchange Ratio") of 0.2040 Dia Bras common shares for each EXMIN common share, subject to the following adjustments (rounded to four decimal places), which are described in greater detail in the Arrangement Agreement:

1. The Exchange Ratio will be reduced on the effective date of the plan of arrangement to reflect any current liabilities of EXMIN, immediately prior to such effective date in excess of the threshold amount of U.S. \$600,000 (the "Excess Liabilities"). The Exchange Ratio will be reduced by 0.01 for each U.S. \$91,200 in Excess Liabilities; provided that the Exchange Ratio shall not be less than 0.1544.
2. In the event of a reclassification, split, dividend, distribution, recapitalization, merger, subdivision, combination, tender or exchange offer or similar transaction, the Exchange Ratio will be adjusted appropriately to provide the holders of EXMIN common shares the same economic effect as contemplated by the Arrangement Agreement and the related plan of arrangement.

The unadjusted Exchange Ratio represents approximately a 50.8% premium to EXMIN shareholders based on the 15-day volume weighted average trading price of both companies' common shares on the TSX Venture Exchange (the "TSX-V") as of the close of markets on August 17, 2009 and approximately a 19.0% premium over the closing price of EXMIN's common shares on the TSX-V on August 17, 2009.

Subject to any adjustments, upon completion of the Acquisition, EXMIN shareholders will hold approximately 6.5% of the Dia Bras common shares based on current numbers.

The Acquisition is subject to approval by EXMIN securityholders, regulatory and court approvals, and other customary closing conditions.

## **Related Party Transactions**

Some officers of the Company provide their services as officers through companies they control. During the six-month period ended June 30, 2009, companies controlled by officers of the Company charged consulting fees amounting to \$148,249 (for the six-month period ended June 30, 2008 – \$199,549). As at June 30, 2009, the balance due these companies amounted to \$24,058 (as at June 30, 2008 – nil).

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

## **Accounting Standards Issued but not yet Adopted**

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.

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.

## **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 as of January 1, 2008 have been restated. The effect of this change decreases the deficit at the beginning of the year ended December 31, 2008 by \$14,831,711.

### Exploration and mine development expenditures

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

The impact of these changes on the previously reported June 30, 2008 consolidated financial statements are as follows:

Effect on Consolidated Statement of Operations and Comprehensive Loss:

	<b>As previously reported</b>	<b>Restatement</b>	<b>For the six-month period ended June 30, 2008 As restated</b>
	\$	\$	\$
Sales	64,512	13,208,988	13,273,500
Cost of sales (excluding amortization)	-	8,387,721	8,387,221
Amortization of property, plant and equipment	37,810	1,647,518	1,685,328
Sales, general and administrative expenses	1,113,405	2,698,696	3,812,101
Exploration and mine development expenditures	-	2,550,800	2,550,800
Write-off of mining assets	751,084	(506,008)	245,076
Stock-based compensation costs	74,093	13,462	87,555
Interest expenses	7,984	45,361	53,345
Restructuring cost	-	372,107	372,107
Loss on currency exchange	(173,081)	(37)	(173,118)
Loss	(1,033,991)	(2,000,132)	(3,034,123)
Basic and diluted loss per share	(0.01)	(0.02)	(0.03)

Effect on Consolidated Statement of Cash flows:

	<b>As previously reported</b>	<b>Restatement</b>	<b>For the year ended December 31, 2007 As restated</b>
	\$	\$	\$
<b>Operating activities</b>			
Loss	(1,033,991)	(2,000,132)	(3,034,123)
Adjustments for			
Stock-based compensation costs	74,093	13,462	87,555
Amortization of property, plant and equipment	37,810	1,647,518	1,685,328
Write-off of mining assets	751,084	(506,008)	245,076
Interest expense on mining concessions payable	-	45,361	45,361
Changes in noncash working capital items	(1,599,725)	(678,406)	(2,278,131)
Cash flows from operating activities	(1,833,054)	(1,478,205)	(3,311,259)
<b>Investing activities</b>			
Increase in costs and deferred exploration expenses	(14,641,355)	14,280,168	(361,187)
Proceeds from sales of concentrates	12,644,279	(12,664,279)	-
Increase in land, exploration buildings and equipment	(553,576)	(137,684)	(691,260)
Cash flows from investing activities	(2,509,378)	1,478,205	(1,031,173)

### **International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of IFRS would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. Management has established a changeover plan to adopt IFRS by 2011. Management has started the process of assessing the impact of the conversion on our business activities including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls. We will continually review and adjust our changeover plan to ensure our implementation process properly addresses the key elements of the plan.

The changeover plan includes: i) education and awareness ii) identifying major differences between current Canadian GAAP and IFRS iii) impact on systems and processes. At the date of this report, the education and awareness phase is completed while the other segments of the plan are at the early stages. The impact of the changeover from Canadian GAAP to IFRS cannot be reasonably estimated at this time.

## **Critical Accounting Policies**

### **Financial Instruments – Recognition and Measurement**

This represents a critical accounting policy since it has an impact on the consolidated financial statements, given the embedded derivative included in the sales agreement for concentrate is recorded at the fair value at each balance sheet date with the corresponding change in fair value recorded in the Consolidated Statements of Operations.

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.

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.

### **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.

### **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.

### 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.

### 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.

## **Financial Instruments and Risk Management**

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. The fair value is comparable to its carrying value due to the absence of significant change in the market interest rates for similar instruments.

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.

### **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.

### **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 June 30, 2009, management considers none of the accounts receivable doubtful and therefore no allowance has been registered.

### **Commodity Price Risk**

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

## **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.

## **Risk and Uncertainties**

### **Going Concern**

The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due. The Company is seeking near-term financing to fund construction of a mill on site at Bolivar mine that will reduce significantly direct operating cash costs. There is no assurance that sufficient funds can or will be raised. There can be no assurance once a decision is made with respect to future activities that the Company will be able to execute on its plans. The unaudited interim consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

### **Business Risks**

The exploration for and development of mineral deposits involve significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. All of the Company's mining properties are at the exploration stage. There is no assurance that the Company's exploration programs will result in any discoveries of commercial ore bodies.

The Company has numerous competitors with greater financial, technical and other resources.

Estimates of future production from the Bolivar pilot-mining operations derived from the mine plan prepared in fiscal 2009 and subsequently reviewed and/or revised by management. These estimates are subject to change. The Company cannot give any assurance that it will achieve its production estimates. Failure to achieve the anticipated production estimates could have a material and adverse effect on any or all of the Company's future cash flows, results of the pilot-mining operations and financial condition.

Actual production may vary from estimates for a variety of reasons, including risks and hazards of the types discussed above and as set out below:

- » Actual mineralized rocks mined varying from estimates in grade, tonnage and metallurgical and other characteristics;
- » Mining dilution;
- » Ramp wall failures or cave-ins;
- » Ventilation and adverse temperature levels underground;
- » Industrial accidents;
- » Equipment failures;
- » Natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes;
- » Encounter of unusual or unexpected geological conditions;
- » Changes in power costs and potential power shortages;
- » Shortages of principal supplies needed for operation, including explosives, fuel, chemical reagents, water, equipment parts and lubricants; and
- » Restrictions imposed by government agencies.

#### **Land Title**

The Company is taking reasonable measures, in accordance with industry standards, for properties at that stage of exploration, 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, amongst other things, by undetected defects (refer to notes 10 and 22 of the three- and six-month periods ended June 30, 2009, unaudited interim consolidated financial statement). As at June 30, 2009, some of the Company's property titles are in the process of being registered in the name of the Company's Mexican subsidiary at the Mexico Mining registry office.

#### **Capital Needs**

The exploration, development, mining and processing of the Company's properties will require substantial additional financing. The only current sources of future funds available to the Company are the sale of additional equity capital, the borrowing of funds and sales of concentrates through its pilot-mining activities. There is no assurance that such funding will be available to the Company or that it will be obtained on terms favourable to the Company or will provide the Company with sufficient funds to meet its objectives, which may adversely affect the Company's business and financial position. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of property interest.

#### **Regulation and Environmental Requirements**

The activities of the Company require permits from various governmental authorities and are subject to bylaws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, environmental protection and other matters. Increased costs and delays may result from the need to comply with applicable laws and regulations. If the Company is unable to obtain or renew licenses, approvals and permits, it may be curtailed or prohibited from proceeding with exploration or development activities.

## **Metal Price Volatility**

Metal prices will continue to be the most significant factor influencing the Company's operation going forward. The results of our operations are significantly affected by the market price of base and precious metals which are cyclical and subject to substantial price fluctuations. Our 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 our control, including levels of supply and demand for a broad range of industrial products, substitution of new or different products in critical applications for our existing 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 weeks. Future price declines may materially reduce our cash flow and could cause us to reduce output at our operations (including, possibly, closing one or more of our pilot-mining activities), all of which could reduce our cash flow from operations and may also require the Company to look for alternatives other than cash flow to maintain its liquidity.

## **2009 Priorities**

Dia Bras's biggest current challenge is the financing and construction of the Bolivar mill near the Bolivar Mine. In parallel, the Company's plans for 2009 include processing higher-grade material with the goal of producing positive cash flow at forecasted metal prices.

Dia Bras will focus on key priorities for the foreseeable future:

- » Maximizing cash flow in this uncertain economic environment;
- » Reducing direct operating costs;
- » Exploration program to expand and upgrade resources at Bolivar and Cusi projects;
- » Positioning the Company for the economic recovery.

(ii) NATIONAL INSTRUMENT 51-102 – SECTION 5.4

Disclosure of Outstanding Securities as at August 27, 2009

Common shares: 305,367,360

Warrants outstanding: 193,866,091

Options outstanding: 9,740,000

Warrants: (each warrant entitles the holder to purchase one common share of the Company at the exercise price indicated until expiry date):

Number of Warrants	Exercise Price	Expiry Date
	\$	
25,000,000	0.20	November 2010
30,750,000	0.15	August 2010
35,712,818	0.11	March 2010
29,676,000	0.10	December 2011
72,727,273	0.10	January 2011

Number of Options	Exercise Price	Expiry Date
	\$	
500,000	0.75	August 2009
250,000	0.75	February 2010
920,000	0.30	September 2010
100,000	0.22	September 2010
1,575,000	0.40	February 2011
735,000	0.90	September 2011
900,000	1.10	April 2012
100,000	1.28	June 2012
150,000	1.25	July 2012
300,000	0.89	October 2012
230,000	0.61	April 2013
300,000	0.45	June 2013
50,000	0.30	August 2013
540,000	0.10	November 2013
1,000,000	0.15-0.20-0.25	March 2014
2,090,000	0.10	June 2014

# Corporate Information

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Symbol: DIB

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## BOARD OF DIRECTORS

Thomas L. Robyn  
*Chairman*

Daniel Tellechea

J. Alberto Arias

Douglas F. Cater

David Crevier

Eduardo Gonzalez

Robert D. Hirsh

Philip Renaud

## OFFICERS

Dr. Thomas L. Robyn  
*Chairman*

Daniel Tellechea  
*President and Chief Executive Officer*

Arved Marin  
*Financial Controller*

Luce L. Saint-Pierre, LL.B., C.A.  
*Corporate Secretary*