



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

May 13, 2009

This management's discussion and analysis ("MD&A") follows rule 51-102A of Canadian Securities Administrator regarding continuous disclosure for reporting issuers. It is a complement and supplement to the audited consolidated financial statements for the years ended December 31, 2008 and 2007 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 on Dia Bras is available on our website at [www.diabras.com](http://www.diabras.com) and on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com).

In December 2008, the Company adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets", that establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new standard, EIC 27, "Revenues and Expenditures during the Pre-operating Period", is withdrawn. 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 consolidated financial statements for the year ended December 31, 2007 have been restated.

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.

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

As at December 31, 2008, the Company had negative working capital of \$7,479,345 and an accumulated deficit of \$56,079,260. 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 December 31, 2008 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 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's 2009 guidance respecting pilot-mining production, and potential plans for Bolivar and Cusi projects. 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 mining properties contain 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.

The Bolivar Mine has not yet reached the commercial production stage. Although the construction of a mill at the Bolivar Mine is required to bring the property to a commercial operation, nothing guarantees that the Company will reach the commercial production stage at the Bolivar Mine. Recently, the Company initiated early-stage activities for construction on the Bolivar property and extensions. 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 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 our 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 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 in 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 audited 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 audited 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 following Qualified Person of Dia Bras reviewed the Technical Information contained in this MD&A: Thomas L. Robyn, Ph.D., P. Geo., Chairman of the Company.

## **Corporate Overview and Business**

Headquartered in Montreal, Canada, Dia Bras Exploration (TSX-V:DIB) 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. The Company is committed to developing and adding value to its assets – the Bolivar copper-zinc project and the Cusi silver project.

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

## **2008 Highlights**

- » The presentation of the financial information has dramatically changed from the previous years. In the last quarter of 2008, management changed its accounting policies regarding exploration and mine development expenditures and revenues and expenditures during the pre-operating period. Please refer to changes in accounting policies on page 22 for more details.
- » The Bolivar Mine generated sales of \$20.56 million in 2008 from the delivery of 3.85 million pounds of copper and 19.07 million pounds of zinc concentrates compared with \$23.7 million generated from the sale of 3.53 million pounds of copper and 17.13 million pounds of zinc in 2007.
- » In 2008, the production of zinc and copper increased 13.12% and 14.54%, respectively, over 2007, mainly due to higher zinc and copper grades.

- » Operating cash costs decreased by 20% per metric tonne during the fourth quarter compared with the same period in 2007 and 15% per metric tonne for the full year compared with 2007 for Bolivar pilot-mining activities. This decrease in operating cash costs is due to the cost improvement program initiated in 2008.
- » The Company intends to move aggressively, with the construction of a 500-tonne-per-day mill near the Bolivar Mine (the “Bolivar mill”) using, in part, equipment from the existing Malpaso mill. The Company continues to seek financing in the near future to fund the construction of the Bolivar mill that will reduce significantly direct operating cash costs.
- » As at December 31, 2008, the Company had a negative working capital of approximately \$7.5 million, including a payable position of approximately \$3.9 million with MRI Trading (“MRI”) resulting from a decrease of market prices of copper and zinc. The Company reached an agreement with MRI Trading to limit the payments of the outstanding short-term debt to 25% of the receivable from pilot-mining sales. This agreement is pending to be formalized.

## **Overall Performance**

In 2008, the Company processed a total of 126,489 tonnes of material from the Bolivar Mine at average grades of 1.65% Cu and 8% Zn, compared with 127,106 tonnes of material at an average grade of 1.49% Cu and 6.92% Zn in 2007.

Activities at the Cusi Silver project were mainly focused on metallurgical testing with the objective of improving metal recovery, especially for material coming from the transition zones (mixed oxides and sulfides) and sulphide zones.

A total of 23,057 metres of drilling was completed at Bolivar and 14,232 metres at Cusi for a combined total of 37,289 metres, compared with 25,189 metres at Bolivar and 21,812 metres at Cusi for a total of 47,001 metres drilled in 2007. Total exploration expenditures amounted to approximately \$4.6 million and \$5.4 million, respectively, for 2008 and 2007.

The 2008 exploration program has opened up some significant new exploration opportunities with considerable upside potential. The results of exploration and development efforts at the Bolivar and Cusi projects are detailed further on in this MD&A.

In May 2008, the Company announced its first mineral resource estimate under the NI 43-101 for the Santa Eduwiges and Promontorio sectors of the Cusi silver district. Details of the resources can be found under the section “Cusi Resources”.

In October 2008, the Company received a new mineral resource estimate for the Bolivar Project. More details can be found under the section “Bolivar resources”.

In response to rapid changes in the economic conditions, management completed a full review of its operations during the latter part of 2008 and developed plans to reduce significantly its operational cash costs and cut-off grades at the Bolivar Mine and become more effective. On January 11, 2009, subsequent to year-end 2008, the Company announced its intention to construct a new mill at the Bolivar Mine, with a view to reducing significantly its operating cash costs. The Company has produced its own estimate for the construction of this mill, which has not been independently validated. See Outlook 2009 – “Construction of a mill near the Bolivar Mine”.

## **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, surface and underground drilling, underground core drilling, 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") providing 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 2008 year-end audited consolidated financial statements).

In October 2007, the Company entered into a termination and transfer of rights agreement in reference to the commercial agreement and, upon signature, made a payment of \$164,272 (US\$166,250). As at December 31, 2008, an amount of \$34,442<sup>(2)</sup> (US\$28,125) remains to be paid.

#### **San José project**

In July 2003, the Company entered into an option agreement with El Paso Partners, Ltd. ("EPP") and its wholly owned subsidiary Polo y Ron Minerales S.A. de C.V. to acquire a cumulative interest of up to 100% in the San José silver and base metal properties, in the State of Chihuahua, Mexico, for a total consideration of US\$349,500 and exploration expenditures of \$2,005,895<sup>(2)</sup> (US\$1,638,000) until July 2009. The remaining payment of \$38,546 (US\$37,500) for the San José properties was made in February 2008.

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

#### **Bolivar project 2008 exploration program**

During 2008, exploration expenditures in the Bolivar region amounted to approximately \$2.7 million including \$1.4 million on drilling, \$1.0 million on geology consulting and \$0.3 million on sampling. The exploration program reached 23,057 metres of drilling compared with 25,188 metres (17,004 metres from the surface and 8,184 metres from underground) of drilling in 2007. Surface drilling was conducted at and around the mine site, in the El Gallo and the La Montura sectors. All underground drilling was performed at the Bolivar Mine. Drilling during the first nine months of 2008 was mainly focused on realizing a new resource estimate (refer to Bolivar resources).

Sharp decreases in base metal prices during the third quarter 2008 required dramatic changes in both exploration and operational strategies for Dia Bras' pilot-mining efforts at the Bolivar Mine. These changes include the application of new exploration concepts to find high-grade mineralization in proximity to existing workings.

Drilling in the fourth quarter led to the discovery of the Guadalupe and the La Herradura zones, two new areas within 100 metres of existing workings. The La Herradura mineralization is on the ESE extension of the Titanic stope on the strike of the Titanic copper-zinc run. The Guadalupe area consists of a cluster of three mineralized zones at the structural intersection of the Fernandez-Rebecca Run, downdip projection of the Brecha Linda Manto, the San Angel Dike, and the NW trending Felsic Dike.

Best results were observed in the following intersections:

Underground Drill Hole	Workplace	From	To	Along Hole Length	% Cu	% Zn	Ag g/t	Au g/t
DB08BM189	Brecha Linda	116.7	120.17	3.47	5.98	43.49	74.74	0.13
DB08BM190	San Angel	63.07	64.85	1.78	2.94	18.34	34.48	0.05
		75.85	80.3	4.45	2.74	24.14	40.46	0.08
DB08BM196	Selena II	7.55	13.87	6.32	4.63	21.01	68.26	0.07
DB08BM202	Selena II	0.0	0.83	0.70	0.64	27.90	34.10	0.04
		6.8	17.0	10.0	3.71	31.18	43.11	0.07
		72.0	72.95	0.8	0.74	7.71	67.10	0.65
DB08BM203	La Herradura	5.20	11.50	6.30	5.59	39.40	84.10	0.11

Ramps to explore and develop these new mineralized areas are advancing on Levels 2 and 7. Ramp 2-840E advanced along the southeastern contact of the San Angel dike. Ramp 7-940 is planned to advance south from Rebecca to test high-grade intercepts in hole DB08BM189 that underlies the Guadalupe chimney, encountered at the intersection of the San Angel granodiorite dike, the downdip extension of the Brecha Linda Manto, and the Rosario-Rebecca Run.

In addition to pilot-mining exploration, wide-scale "headframe" exploration was undertaken for copper-zinc runs and disseminated copper-silver-gold open-pit targets at the Bolivar Mine and extensions. On April 6, 2009, subsequent to year-end, the Company announced the discovery of six occurrences of disseminated copper-silver. Together these suggest that copper-silver mineralization continues for over two kilometres along strike of the garnet skarn with the potential for a low-cost open pit mining operation to feed Dia Bras's proposed new on-site mill. Initial exploration is planned to sample and drill both the known resources and intervening ground to explore this target concept.

#### **Bolivar resources**

On October 31, 2008, the Corporation received an updated resource evaluation<sup>1</sup> effective September 25, 2008, conducted by Yann Camus, P. Eng., from SGS Geostat Limited (formerly Geostat Systems International Inc.) ("SGS Geostat"), an independent Qualified Person under NI 43-101 standards of disclosure for mineral projects. Compared with the previous resources of March 2008, total undiluted resources from the Bolivar project, which are mineral resources that are not mineral reserves and that have not demonstrated economic viability, have increased 26% to a total of 1,188,800 tonnes at 1.26% Cu, 2.35% Zn, 0.28 g/t Au and 30.7 g/t Ag in the measured and indicated categories and 55% to 6,290,100 tonnes at 1.18% Cu, 0.99% Zn, 0.30 g/t Au and 26.4 g/t Ag in the inferred resource category, all at a 2.5% CuEq cut-off for the Upper Skarn and 1% CuEq cut-off for the Lower Skarn and other zones (Yann Camus, Eng., SGS Geostat, Technical Report, Resources Update, February 2009, Bolivar Project, Chihuahua Province, Mexico, dated February 6, 2009).

#### **Bolivar Mine pilot-mining program**

For the fourth quarter of 2008, ore processed decreased by 19.77% compared with the same period in 2007. Zinc head grade was 35.67% higher, and copper head grade was 27.29% lower. Recovery of zinc was 4.89% higher, while recovery of copper was 2.60% lower.

<sup>1</sup> CIM Definitions were followed for the resource estimate

Prices used for calculation are Cu: \$2.00/lb, Zn: \$1.00/lb, Au: \$500/oz, Ag: \$10/oz.

Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Material processed for the full year of 2008 was similar to 2007 levels. Zinc head grade in 2008 was 15.68% higher than last year, while copper head grade was 11.25% higher. Recovery of zinc to concentrate was slightly higher, and copper metal to concentrate was also slightly higher compared with the same period in 2007.

For the full year of 2008, the Company produced 3,854,688 lbs. of copper and 19,077,613 lbs. of zinc, an increase of 9.24% and 11.24%, respectively, from the production levels of 2007.

The Company recognizes that the significant downturn in base metal market prices represents a challenge due to the negative impact on cash flow generated by pilot-mining operations. In 2008, the Company implemented a cost improvement program in all areas. During 2008, this program reduced by 20% the direct operating cash cost per tonne compared with the equivalent period in 2007.

A summary of comparative statistics for the fourth quarters and the full year of 2008 and 2007 is reflected in the following table.

	Actual Q4-2008	Actual Q4-2007	% Variation  2008 over 2007	Actual Year 2008	Actual Year 2007	% Variation  2008 over 2007
Tonnes processed	27,827	34,011	(18.18)	126,489	127,106	(0.49)
Daily throughput	312	389	(19.79)	361	363	(0.49)
Copper grade	1.56%	2.15%	(27.44)	1.65%	1.49%	11.25
Zinc grade	11.04%	8.14%	35.63	8.0%	6.92%	15.68
Copper recovery	82.31%	84.40%	(2.47)	83.40%	81.34%	2.54
Zinc recovery	89.27%	85.11%	4.89	87.15%	86.26%	1.04
Copper concentrate production DMT	1,240	2,137	(41.97)	6,454	5,635	14.54
Zinc concentrate production DMT	4,603	4,218	9.12	15,355	13,574	13.12
Total production of copper (pounds)	749,973	1,327,241	(43.49)	3,854,688	3,528,778	9.24
Total production of zinc (pounds)	5,743,770	5,237,736	9.66	19,077,613	17,149,215	11.24
Average price of copper per pound, US\$	\$1.77	\$3.26	(45.70)	\$3.15	\$3.23	(2.31)
Average price of zinc per pound, US\$	\$0.54	\$1.20	(55.00)	\$0.85	\$1.47	(42.20)
Operating cash costs/DMT (including development)	\$85.59	\$107.68	(20.51)	\$98.93	\$115.06	(14)

### Bolivar Pilot Mining - 2008 Quarterly Highlights

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2008
<b>Average market metal prices</b>					
Copper (US\$ per pound)	3.54	3.83	3.48	1.77	<b>3.15</b>
Zinc (US\$ per pound)	1.10	0.96	0.80	0.54	<b>0.85</b>
<b>Production volume highlights</b>					
Copper (DMT)	2,366	1,676	1,172	1,240	<b>6,454</b>
Copper (pounds)	1,408,335	997,635	698,725	749,963	<b>3,854,688</b>
Zinc (DMT)	3,260	4,580	2,912	4,603	<b>15,355</b>
Zinc (pounds)	4,046,315	5,684,701	3,602,827	5,743,770	<b>19,077,613</b>

### Bolivar Pilot Mining - 2007 Quarterly Highlights

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2007
<b>Average market metal prices</b>					
Copper (US\$ per pound)	2.69	3.47	3.50	3.26	<b>3.23</b>
Zinc (US\$ per pound)	1.57	1.66	1.46	1.19	<b>1.47</b>
<b>Production volume highlights</b>					
Copper (DMT)	1,172	876	1,450	2,137	<b>5,635</b>
Copper (pounds)	722,259	557,708	861,570	1,387,241	<b>3,528,778</b>
Zinc (DMT)	2,987	2,255	4,121	4,218	<b>13,574</b>
Zinc (pounds)	3,788,150	2,867,854	5,117,364	5,237,736	<b>17,149,215</b>

### Cusi Project

The history of the Cusihiuiriachic 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 outcrop 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 north-west 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<sup>(2)</sup> (US\$500,000) in November 2008 (paid on December 11, 2008) and four quarterly instalments of \$630,669<sup>(2)</sup> (US\$515,000) in March, June, September and December 2009.

In January 2009, the Company negotiated new terms with Minera Cusi in order to redefine the schedule of payments as follows: \$122,460<sup>(2)</sup> (US\$100,000) (paid on the date of signature of the new terms), 19 monthly payments of \$122,460<sup>(2)</sup> (US\$100,000) and a final payment of \$73,476<sup>(2)</sup> (US\$60,000) for a total purchase price of \$2,522,676<sup>(2)</sup> (US\$2,060,000).

The properties are subject to a sliding scale royalty in favour of Minera Cusi as follows: 2% NSR if the price of silver is equal to a maximum of \$13.47<sup>(2)</sup> (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$13.47<sup>(2)</sup> (US\$11.00) per ounce.

## **2008 Cusi Exploration Program**

During 2008, exploration expenditures in the Cusi region amounted to approximately \$1.8 million including \$0.9 million on drilling, \$0.8 million on geology consulting and \$0.1 million on sampling. In 2008, exploration advanced with close to 14,235 metres of core drilling (both surface and underground) at Cusi. Approximately 9,100 metres were drilled from the surface to further define the resources at Santa Eduwiges, San Antonio, Santa Marina, Santa Eisela, Tascate, Soledad and Milagro veins. In 2007, a total of 21,800 metres of drilling was completed (20,115 metres from the surface and 1,697 metres from underground).

During the second half of 2008, drilling at the Cusi project significantly decreased in output as development drilling of the Santa Eduwiges vein system wound down. The Company's exploration emphasis shifted to underground exploration for new high-grade gold-silver resources to support pilot mining.

The Company's results from 2008 demonstrate the project's high grades of silver in multiple areas and its potential for significant silver production.

In the fourth quarter of 2008, data compilation and interpretation of Dia Bras's drilling and underground work produced four new target types near Dia Bras's underground workings as well as elsewhere in the most intensely silver mineralized part of the district, which lies between the Santa Eduwiges and Promontorio mines. These targets include:

1. Surface silver oxide mineralization above known veins that crop out in the San Antonio pit.
2. The Santa Rosa "chimney" or stockwork body, a bulk tonnage, underground high-grade silver resource that consists of disseminated and veinlet controlled argentite mineralization.
3. Silver mineralization in silicified wall rock in +2 metre envelopes showing 100 to 300 g/t Ag assays around the major quartz veins.
4. New veins showing previous stoping and mining activity peripheral and perpendicular to the Santa Eduwiges and Promontorio vein systems including the Tascate, Mexicana, San Nicolas, and Minerva veins.

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<sup>2</sup> *Converted at the rate of exchange in effect on December 31, 2008*

## Cusi Resources

On April 28, 2008, the Company received its first Mineral Resource estimates for Santa Eduwiges and Promontorio sectors of the Cusi silver project: 1.41 million ounces of silver in the measured and indicated categories and 8.43 million ounces of silver in the inferred resources category. Including these ounces of silver and counting gold, zinc and lead, the project has 2.12 million ounces of silver equivalent<sup>3</sup> ("AgEq") in the measured and indicated categories and 14.6 million ounces AgEq in the inferred resources category (Yann Camus, Eng., SGS Geostat (formerly Geostat Systems International Inc.), Dia Bras Exploration Inc., Cusi Project, Chihuahua state, Mexico, Resource Estimate Technical Report dated June 16, 2008).

The mineral resources of the Cusi project are summarized in the following tables:

### Resources - Total of Promontorio and Santa Eduwiges

Calculated by Yann Camus, Eng., SGS Geostat, Resources situation on the 2008-03-31

Cutoff at 120 g/t AgEq, 2m minimum horizontal width for structures, density of 2.7

Classification	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	AgEq* (g/t)	Ounces of Ag	Ounces of AgEq
Measured	11,000	0.05	207	0.04	0.47	0.51	263	76,380	96,650
Indicated	223,000	0.12	186	0.05	0.81	0.84	282	1,336,870	2,024,500
Measured+Indicated	234,000	0.12	187	0.05	0.8	0.82	281	1,413,260	2,121,160
Inferred	1,394,000	0.24	188	0.06	1.15	1.14	326	8,434,810	14,614,410

\*: Silver Equivalent  $AgEq = Ag + 70.1 * Au + 62.2 * Zn + 43.3 * Pb$

### Resources - Santa Eduwiges - All Structures

Calculated by Yann Camus, Eng., SGS Geostat, Resources situation on the 2008-03-31

Cutoff at 120 g/t AgEq, 2m minimum horizontal width for structures, density of 2.7

Classification	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	AgEq* (g/t)	Ounces of Ag	Ounces of AgEq
Measured	9,000	0.03	205	0.05	0.52	0.58	266	59,590	77,200
Indicated	122,000	0.15	195	0.07	1.34	1.39	350	766,110	1,376,490
Measured+Indicated	131,000	0.14	196	0.07	1.28	1.34	344	825,710	1,453,700
Inferred	936,000	0.32	144	0.06	1.58	1.58	333	4,343,280	10,021,390

\*: Silver Equivalent  $AgEq = Ag + 70.1 * Au + 62.2 * Zn + 43.3 * Pb$

<sup>3</sup> CIM Definitions were followed for the resource estimate

Silver equivalent is calculated using the formula:  $\%AgEq = \%Ag + 70.1 * ppm Au + 62.2 * \%Zn + 43.3 * \%Pb$

Price assumptions used for the AgEq calculation (US\$): Ag 11.00/oz, Au 600.00/oz, Cu 2.00/lb, Zn 1.00/lb, Pb 0.65/lb

Mineral resources that are not mineral reserves do not have demonstrated economic viability.

### Resources - Promontorio - All Structures

Calculated by Yann Camus, Eng., SGS Geostat, Resources situation on the 2008-03-31

Cutoff at 120 g/t AgEq, 2m minimum horizontal width for structures, density of 2.7

Classification	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	AgEq* (g/t)	Ounces of Ag	Ounces of AgEq
Measured	2,000	0.18	215	0.03	0.24	0.17	249	16,790	19,450
Indicated	101,000	0.08	176	0.03	0.18	0.17	200	570,760	648,010
Measured+Indicated	103,000	0.08	177	0.03	0.18	0.17	201	587,550	667,460
Inferred	458,000	0.08	278	0.05	0.29	0.25	312	4,091,530	4,593,020

\*: Silver Equivalent AgEq=Ag+70.1\*Au+62.2\*Zn+43.3\*Pb

### Cusi Pilot Mining

In 2008, most of the activities were focused on metallurgical testing with the objective of improving metal recovery, especially for the material coming from the transition zones (mixed oxides and sulfides) and sulfide zones.

During the fourth quarter, the Company continued processing material from Cusi at its Malpaso mill facilities in order to achieve further metallurgical testing. During this period, the Company processed 7,384 tonnes of material averaging 1.59% Pb, 1,034 g/t Ag and 0.88% Zn producing 140 DMT of lead/silver concentrate and 49 DMT of zinc concentrate that were sold to MRI Trading for approximately \$670,039. The recovery rate was 48.70% for lead, 58.09% for silver and 31.82% for zinc.

### Cusi Pilot-Mining Statistics

	Q4 2008	April to December 2008
Tonnes processed	7,384	11,378
Daily throughput	84	43
Lead grade	1.59%	3.01%
Zinc grade	0.88%	1.75%
Silver g/t	1,034	2,022
Lead recovery %	48.70%	57.28%
Zinc recovery %	31.82%	35.77%
Silver recovery %	58.09%	62.04%
Lead-silver concentrate production DMT	140	304
Zinc concentrate production DMT	49	67
Silver concentrate production (ounce)	52,735	68,967
Total production of lead (pounds)	139,333	344,687
Total production of zinc (pounds)	46,539	63,547
Average price of lead per pound, US\$	0.56	0.83
Average price of silver per ounce, US\$	10.20	14.13

## **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 \$1,836,900<sup>(2)</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 \$1,224,600<sup>(2)</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 \$1,224,600<sup>(2)</sup> (US\$1,000,000). As at December 31, 2008, the jointly owned Mexican subsidiary has not been constituted.

As at December 31, 2008, the transfer of 50% of the property title of San Miguel had not been completed due to a legal issue related to the ownership of the property.

## **La Engañoso Property**

In February 2008, the Company entered into an option agreement with Arnaldo Castañeda Martínez and Consorcio Minero Latinoamericano, S.A. de C.V. ("Martinez-Consorcio Minero") whereby it could earn a 100% interest in the La Engañoso property by paying a total amount of \$1,289,134 (US\$1,265,000) over a three-year period including \$66,814 (US\$65,000) paid at the date of signing and by incurring minimum exploration expenditures of \$367,380<sup>(2)</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.

## **Outlook - 2009**

### ***Construction of a mill near the Bolivar Mine***

On January 11, 2009, subsequent to year-end 2008, the Company announced its intention to construct a 500-tonne-per-day mill near the Bolivar Mine (the "Bolivar mill"). The Company estimated that the construction of the Bolivar mill would reduce direct operating costs of production of the concentrates by approximately 50% since the mineralized rock will be transported over a distance of five (5) kilometres instead of the current distance of 250 kilometres from mine site to the Malpaso mill. A preliminary economic assessment<sup>4 5</sup> dated November 9, 2007, by SGS Geostat determined that the Bolivar property and extensions are potentially viable with the construction of a 500- or 1000-tonne-per-day mill on site. (Yann Camus, Eng., SGS Geostat (formerly Geostat Systems International Inc.), Preliminary Economic Assessment, November 2007, Bolivar Project, Chihuahua, Mexico, dated November 9, 2007). Due to subsequent changes in general financial conditions, the Corporation does not consider this assessment to be current as to its conclusions on the potential viability of the Bolivar property with the construction of a mill on site and does not rely on it. The Company has produced its own internal cost estimate for the construction of a mill on site which was not independently validated.

The internal cost estimate produced by the Company 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.

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<sup>4</sup> *The study includes inferred mineral resources that are considered too speculative geologically to have economic considerations applied to them and that would enable them to be categorized as mineral reserves.*

<sup>5</sup> *Due to the preliminary nature of the report, there is no certainty that the preliminary assessment can be realized.*

The use of equipment from the Malpaso mill will require the temporary shutdown of the Cusi pilot-mining program. During the construction period of the Bolivar mill, the El Triunfo circuit at Malpaso will remain in operation to maintain revenues. During 2009, management forecasts pilot-mining production at the Malpaso mill of 120,000 tonnes at average grades of 1.7% Cu and 9.5% Zn.

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 proceed 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.

### ***Bolivar Exploration Program***

The main focus of the Company's exploration program at Bolivar will be to provide a continued 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 to indicated and measured categories for the disseminated copper-silver mineralization.

### ***Cusi Project***

During the temporary shutdown of pilot-mining activities at the Santa-Eduwiges Mine, Dia Bras will continue exploration and development works at Santa-Eduwiges as well as at the mill site, including permitting, in order to further define new sulfide resources and outline a leaching project at the mine site.

The Company plans to restart pilot-mining activities at Santa-Eduwiges in the fourth quarter of 2009, at a rate of 6,000 tonnes per month.

The Company has not completed a preliminary feasibility study and, consequently, there is no certainty that the stated objectives will be met or that the operations will be profitable.

### ***Cusi Exploration Program***

An exploration program of 4,800 metres on Santa Marina, San Antonio, Santa Eduwiges, Tascates and Mexicana veins and the Santa Rosa Chimney will continue to:

- » define and expand resources along the Santa Marina and San Antonio veins;
- » define resources along vein intersections Santa Marina and Rosario, Santa Marina and San Bartolo;
- » define resources along the Tascates and Mexicana veins.

Furthermore, Dia Bras intends to drill 3,170 metres on the Promontorio vein target to evaluate vein intersections and:

- » test the "Santa Rosa Chimney" target defined by intersections of the Promontorio vein with C,H and J veins;
- » identify the drill target at Minerva with mapping and sampling;
- » identify new prospects along the projection of known veins utilizing remote sensing and reconnaissance.

## Selected Annual Information

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
	\$	\$ <i>(restated)</i>	\$ <i>(restated)</i>
Sales of concentrates	21,306,788	23,785,334	35,588,838
(Loss) net income	(22,741,180)	(20,526,603)	(14,347,128)
Loss per share (basic and diluted)	(0.20)	(0.19)	(0.16)
Total assets	21,526,867	31,821,508	46,522,938
Long-term liabilities	1,157,307	-	-

## New Presentation of the Financial Information

The presentation of the financial information has dramatically changed from the previous years. Effective December 31, 2008, the Company adopted the following accounting policies:

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

Until the end of 2008, the Company recorded revenue from the sales of concentrates from the pilot-mining program as a reduction of the related deferred exploration on the basis that the Company had not yet reached commercial production stage.

The Company adopted the new accounting policy of CICA Handbook Section 3064, "Goodwill and Intangible Assets", and accounted pilot mining revenue and expenses in the Consolidated Statement of Operations. The impact on the results of 2008 was to increase the loss by \$8,965,181.

This change in accounting policy was applied retroactively and, therefore, the financial statements for the year ended December 31, 2007 were restated. The retroactive application resulted in a decrease of \$16,071,697 in the deficit at the beginning of the year ended December 31, 2007 and an increase of \$1,239,986 in the loss for the year ended December 31, 2007.

### **Exploration and mine development expenditures**

Until the end of 2008, the Company capitalized all costs directly related to exploration and mine development expenditures. All costs were shown on the balance sheet as deferred costs until the economic viability of the related project was established, at which time costs were added to property, plant and equipment.

In the last quarter of 2008, management decided to change its accounting policy regarding exploration and mine development expenditures to more appropriately align its policy with those applied by other comparable companies at a similar stage in the mining industry. Exploration and mine development expenditures are now charged to earnings until mineral property has mineralization identified as proven and probable reserves at which time they are capitalized as an asset. Management considers that this policy provides more relevant information and is consistent with the industry practice for companies at a similar stage. The impact on the results of 2008 was to increase the loss by \$4.57 million.

The new accounting policy was applied on a retroactive basis and therefore, the consolidated financial statements for the year ended December 31, 2008 were prepared as though the Company had applied this policy from the beginning of the year. The retroactive application resulted in an increase of \$15,555,251 in the deficit at the beginning of the year ended December 31, 2007 and of \$10,102,918 in the loss for the year ended December 31, 2007.

## **Results of Operations**

During the year ended December 31, 2008, the Company incurred a loss of \$22,741,180 (\$0.20 per share) compared with a loss of \$20,526,603 (\$0.19 per share) for 2007.

The increase in the yearly loss is explained as follows:

### **Income**

Total revenues decreased to \$21,306,788 compared with \$23,785,334 for 2007. Improved sale volumes were offset by lower prices and negative settlement billings. 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. Sales of concentrate from Cusi amounted to \$670,039.

Interest income amounted to \$74,275 for 2008 compared with \$508,750 in 2007. This decrease in interest revenue is due to a lower average level of cash on hand in 2008 compared to 2007.

### **Expenses**

Exploration and mine development expenditures amounted to \$4,571,445 compared with \$10,102,918 in 2007. The reduction of \$5,531,473 during the year was due to the mine development of Cusi for a total amount of \$4,717,993 expensed in 2007. With the commencement of pilot-mining activities at Cusi during 2008, these mining expenses amounted to approximately \$2.7 million and were classified as cost of goods sold.

Every year, management goes through the process of reviewing the value of the mining assets of the Company to determine if impairment has occurred. Elements considered by management in its review include the Company's share price and the business climate and/or the industry in which the Company operates. The market price of the Company's share decreased from \$0.76 at the end of 2007 to \$0.055 at the end of December 2008. The market prices of zinc, copper, lead and silver were equally depressed and the economic forecasts for demand.

Management concluded that the market capitalization of the Company represented the most reliable overall value and that the general state of the mining industry confirmed such valuation. A total write-down of \$4,049,541 was applied to mining assets and allocated to the various properties on the basis of their importance and the Company's plan for their development in the near future. Management considered that the impact in the property and equipment at the corporate office in Montreal was not material.

During 2008, the Company decided to abandon the La Engañososa (*Jalisco State*) and San José (*Bolívar Project*) properties. Consequently, all accumulated costs on the properties, amounting to \$68,536 and \$245,076, respectively, were written off. In 2007, write-offs amounted to \$249,424 and included mainly the Magistral property (*Promontorio project*).

In 2008, the Company accounted for noncash stock-based compensation costs in the amount of \$155,580 including \$5,892 recorded in goods sold. During 2007, those costs amounted to \$1,806,544 and \$323,722, respectively. Before 2008, all options were fully vested at the date of grant which increased the stock-based compensation cost in the period of grant.

The Company incurred \$816,408 of restructuring costs represented by severance pay and termination settlement.

The fourth quarter of 2008 proved extremely difficult and turbulent for global economies in general and specifically for the mining sector. Concerns regarding the economic downturn led to a drastic decline in base metal prices. As a result of declining metal prices, the Company's revenues, cash flow and earnings all declined in 2008 compared with 2007. The total net loss on variation of commodity market prices during 2008 amounted \$4,568,265 compared with \$3,395,514 in 2007.

- » Zinc prices fell from US\$1.08 per pound at the end of 2007 to a low of US\$0.47 per pound in the second half of 2008. In 2008, zinc prices averaged US\$0.85 per pound, a decline of 42% from the 2007 average of US\$1.47.
- » Copper prices peaked in July 2008 at high of US\$4.07 per pound and by December 31<sup>st</sup> had dropped to US\$1.32, its lowest level since 2005. During the last half of the year, the price fell 69%, resulting in an average annual price of US\$3.17 per pound in 2008. This was slightly below the average price of US\$3.23 per pound in 2007.
- » Lead prices fell throughout the year to US\$0.43 per pound. The average price of US\$0.95 per pound in 2008 was down from the 2007 average of US\$1.17 per pound.
- » Silver prices weakened during the third quarter of 2008, reaching a low of US\$8.97 per ounce in November 2008 after averaging US\$17.37 per ounce during the first half of 2008.

Zinc and copper prices are currently trading approximately 22% and 36% lower than 2008 average prices, respectively.

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

## **Fourth Quarter Results**

### **Income**

Revenues for the fourth quarter of 2008 decreased \$2.7 million from \$6.3 million in 2007 to \$3.6 in 2008. The decrease was mainly due to the depressed market prices of copper and zinc. The average sales prices for the fourth quarter of 2008 were US\$1.77 per pound of copper and US\$0.54 per pound of zinc compared with US\$3.26 and US\$1.20 for the same period in 2007.

### **Expenses**

As a result of the assessment that management performs every year to determine if the assets of the Company have been impaired, during the fourth quarter of 2008, the Company wrote-down its mining assets for a total amount of \$4,049,541 based on the market capitalization as at December 31, 2008.

The fourth quarter loss includes a \$2.7 million loss on the variation of commodity market prices caused by the important decrease in the average market price of copper which impacted negatively on the valuation of the final settlement provision of open shipments. The Company also incurred a loss on currency exchange of \$1.3 million as the U.S. dollar gained 15% over the Canadian dollar during the quarter. This loss is mainly attributable to the conversion value of the outstanding shipments final settlement provision, mining concessions payable and the advance payable into Canadian dollars and of the conversion of monetary assets and liabilities in Mexico.

During the fourth quarter of 2008, the Company incurred \$329,013 of restructuring costs represented by severance pay and termination settlement.

## **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 December 31, 2008, the Company's working capital amounted to a negative amount of \$7,479,345, including \$1,097,569 in cash and cash equivalents. As at December 31, 2007, the working capital amounted \$8,312,149, including \$6,700,016 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.

The decrease in cash at December 31, 2008 compared with December 31, 2007 is mainly due to the settlement of negative final billings with MRI Trading AG ("MRI") in the amount of \$3.9 million and investment in mining assets of \$1.8 million including property payments and property, plant and equipment.

As at December 31, 2008, sales tax and other receivables amounted to \$1,493,918 (\$1,715,907 as at December 31, 2007) and are mostly comprised of Mexican recoverable Value Added Tax credits "IVA". Income tax receivable in the amount of \$70,664 (\$722,515 as at December 31, 2007) represents 2007 provisional tax instalments receivable from the Mexican tax authorities.

As at December 31, 2008, accounts payable and accrued liabilities amounted to \$4,608,826 (\$2,237,010 as at December 31, 2007) which represents mostly current usual business transaction balances. The increase in payables is due to the longer delay in paying creditors as the Company was dealing with reduced liquidity due to final settlement.

Also, 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 \$2,954,034 is included in mining concessions payable 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: \$122,460<sup>(2)</sup> (US\$100,000) (paid on the date of signature of the new terms), 19 monthly payments of \$122,460<sup>(2)</sup> (US\$100,000) and a final payment of \$76,476<sup>(2)</sup> (US\$60,000) for a total purchase price of \$2,522,676<sup>(2)</sup> (US\$2,060,000).

As at December 31, 2008, the Company had a net payable position of \$3,948,891 with MRI (payable of \$1,368,164 as at December 31, 2007), resulting from a decrease of market prices of copper and zinc in during 2008 and included in working capital. This payable is disclosed separately as trade payables. Actual final settlement billings could be higher or lower depending on the future fluctuation of commodity prices. Current liabilities reflect the working capital loan payable to MRI for a total amount of \$2,438,790.

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 \$137,155 (US\$112,000) and a final instalment of \$117,562 (US\$96,000).

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

During March 2009, the Company negotiated new terms to pay the outstanding debt with MRI and the Company is working on the formal Agreement. The new terms stated that 25% of the payments of the future provisional invoices will be retained by MRI to offset first the monthly payment of the advance payable. Any remaining amount will be used to offset the negative settlements balance. The Company has extended the commitment to sell its future production of zinc, copper and lead concentrates exclusively to MRI up until 2014.

## **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 November 2008, the Company closed a private placement for a gross proceed of \$2 million and issued 25,000,000 units at \$0.08 per unit. Each unit is composed of one common share and one purchase warrant. Each warrant entitles the holder thereof to subscribe to one common share of the Company at a price of \$0.20 for a period of two years. The net proceeds are used for general corporate purposes.

During 2008, a total of 130,000 stock options were exercised for a total cash consideration of \$44,000. During 2007, 824,000 stock options and 996,364 broker warrants were exercised for respective cash considerations of \$492,000 and \$996,813.)

As of December 31, 2008, the Company was in default of delivering such quantities of concentrate to MRI and could therefore be required to repay the loan facility in its entirety or in part, upon first demand. Therefore, the advance payable of \$2,438,790 is shown under current liabilities

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

Since the beginning of 2008, capital expenditures have been maintained at a minimal level. During 2008, capital expenditures amounted to \$1,022,575 and consisted of a major overhaul at the project mill site and machinery and equipment compared with capital expenditures for 2007 of \$6,396,889. Mining property payments amounted to \$851,791 compared with \$1,408,958 in the same period of 2007.

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, capital expenditures will be limited to environmental capital expenditure investment at Malpaso and the purchase of the Malpaso superficial land.

## **Financial Commitments**

- (a) In January 2008, the Company entered into a promise to purchase agreement with the state of Chihuahua to purchase the land at the Malpaso milling facility for a total amount of approximately \$270,000 (MX\$2,874,144). Payments will be over a two-year period including 50% at the signature of the sale agreement. The sale agreement was signed in February 2009.
- (b) The Company has elaborated an environmental capital expenditure program estimated at \$350,000 in order to secure an appropriate area for the management of its tailings at the Malpaso mill facility. The costs related to this program will be capitalized as they are incurred. Therefore, as at December 31, 2008, no provision is recorded in accounts payable and accrued liabilities.
- (c) In December 2006, the Company signed a five-year lease for office premises. The annual rent is approximately \$60,000.
- (d) In February 2004, the Company and two other companies jointly signed a five-year lease for the former office premises for an annual rent of approximately \$150,000. The lease expired in February 2009.

## **Off-Balance**

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

## **Subsequent Events**

- (a) On January 11, 2009, the Company announced its intention to build a 500-tonne-per-day mill near the Bolivar Mine (the "Bolivar mill"). The Company estimated that the construction of the Bolivar mill would reduce direct operating costs of production of the concentrates by approximately 50% since the mineralized rock will be transported over a distance of five (5) kilometres instead of the current distance of 250 kilometres from mine site to the Malpaso mill.

The Company estimated the overall cost of construction of the Bolivar mill 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. This cost estimate was prepared internally and has not been validated independently. Following the preliminary studies, the Company could revise, if necessary, some of the elements of its cost estimate.

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

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

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

- (b) On February 17, 2009, the Company closed a private placement of \$1.845 million and issued 30,750,000 units at \$0.06 per unit. Each unit is composed of one common share and one purchase warrant. Each warrant entitles the holder thereof to subscribe to one common share of the Company at a price of \$0.15 for a period of 18 months. The proceeds are used for the engineering study for the construction of the Bolivar Mill and for general corporate and working capital purposes.
- The private placement resulted in the creation of a new control person, which was approved by a majority of the disinterested shareholders at a special meeting held on February 16, 2009.
- (c) On March 16, 2009, the Company's wholly owned subsidiary Dia Bras Mexicana S.A. de C.V. entered into a long-term lease agreement (the "Lease") with the owners of the surface rights (ejido) for the surface land that will be used to accommodate the Bolivar mill and a new tailings dam adjacent to the Bolivar mill. The Lease covers 50 hectares and provides for annual payments of \$16,644 (MX\$188,000) over a 30-year term renewable without approval for another 30 years.
- (d) On March 25, 2009, the Board granted a total of 1,000,000 options to purchase common shares of the Company to its Chief Executive Officer. The options are exercisable until March 25, 2010 at a price of \$0.15, from March 26, 2010 to March 25, 2011 at a price of \$0.20 and from March 26, 2011 until the expiry date on March 25, 2014 at a price of \$0.25.
- (e) On March 27, 2009, the Company closed a private placement of \$1.96 million and issued 35,712,818 units at \$0.055 per unit. Each unit is composed of one common share and one purchase warrant. Each warrant entitles the holder thereof to subscribe to one common share of the Company at a price of \$0.11 for a period of twelve months, expiring on March 25, 2010. The net proceeds are allocated to finance general corporate purposes.

### **Related Party Transactions**

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

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

### **New Accounting Standards**

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

- (i) *Section 3862, "Financial Instruments – Disclosures"* describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which entity is exposed and how the entity manages those risks. The disclosure requirements relating to this section are described in note 4.
- (ii) *Section 3863, "Financial Instruments – Presentation"* establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation". The disclosure requirements relating to this section are described in note 4.
- (iii) *Section 1535, "Capital Disclosures"* establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The disclosure requirements relating to this section are described in note 16.

- (iv) Section 1400, "General Standards of Financial Statement Presentation" was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. These new requirements did not have any impact on the consolidated financial statements as the Company is already assessing its ability to continue as a going concern and adequate disclosure requirements are described in note 1.
- (v) Section 3031, "Inventories" replaces the existing section 3030. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also requires, when applicable, the reversal of any write-downs previously recognized. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this policy had no material impact on the Company's 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 for the year ended December 31, 2007 have been restated. The effect of this change decreases the deficit at the beginning of the year ended December 31, 2007 by \$16,071,697 and increase the loss for the year ended December 31, 2007 by \$1,239,986.

### *Exploration and mine development expenditures*

During the year ended December 31, 2008, the Company retrospectively changed its accounting policy regarding exploration and mine development expenditures to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended December 31, 2008, the Company capitalized such costs to mining assets and only wrote down capitalized costs when the property was abandoned or if the capitalized costs were not considered to be economically recoverable. Exploration and mine development expenditures are now charged to earnings as incurred until the exploration and mine development expenditures meet the definition of an asset, which is when the mineral property has mineralization identified as proven and probable reserves. Significant costs related to property acquisitions are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of exploration and mine development expenditures and is consistent with the industry practice for companies at a similar stage, making the Company's consolidated financial statements more comparable. The effect of this change increases the deficit at the beginning of the year ended December 31, 2007 by \$15,555,251 and increases the loss for the year ended December 31, 2007 by \$10,102,918.

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

**Effect on Consolidated Balance Sheet:**

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

**Effect on Consolidated Statement of Operations and Comprehensive Loss:**

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

**Effect on Consolidated Statement of Cash flows:**

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

**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.

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

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

## **Accounting standards issued but not yet adopted**

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. We have 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.

## **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 and Comprehensive Loss.

### **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:

	<b>Method</b>	<b>Rate/Period</b>
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 as. 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 December 31, 2008, management considers none of the accounts receivable doubtful and therefore no allowance has been registered.

### **Commodity price risk**

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

## **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 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 2008 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 note 10 in the 2008 year-end audited consolidated financial statements). As at December 31, 2008, 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. Completion is anticipated in late 2009. 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 May 13, 2009**

**Common shares:** 202,964,087

**Warrants outstanding:** 91,462,818

**Options outstanding:** 7,950,000

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

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
	\$	
30,750,000	0.15	August 2010
35,712,818	0.11	March 2010
25,000,000	0.20	November 2010

<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
	\$	
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
1,100,000	1.10	April 2012
100,000	1.28	June 2012
150,000	1.25	July 2012
300,000	0.89	October 2012
330,000	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

# Corporate Information

## CORPORATE HEAD OFFICE

Suite 2750  
600 de Maisonneuve Blvd. West  
Montréal, Québec H3A 3J2

Tel.: (514) 393-8875  
Fax: (514) 393-8513

## TICKER SYMBOL

TSX Venture Exchange  
Symbol: DIB

## AUDITORS

PricewaterhouseCoopers LLP  
Suite 2800  
1250 René-Lévesque Blvd. West  
Montréal, Québec H3B 2G4

## REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

## INVESTOR RELATIONS

Nathalie Dion  
*Investor Relations Manager*  
Tel.: (514) 393-8875, ext. 241  
E-mail: [ndion@diabras.com](mailto:ndion@diabras.com)

Arved Marin  
*Financial Controller*  
Tel.: (514) 393-8875, ext. 265

## BOARD OF DIRECTORS

Thomas L. Robyn  
*Chairman*

Daniel Tellechea

J. Alberto Arias

David Crevier

Eduardo Gonzalez

Mark Goodman

Robert D. Hirsh

Philip Renaud

## OFFICERS

Thomas L. Robyn, Ph.D.  
*Chairman*

Daniel Tellechea  
*President and Chief Executive Officer*

Arved Marin  
*Financial Controller*

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