



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

**Consolidated Financial Statements**

**Years ended December 31, 2007 and 2006**



April 29, 2008

### **Management's Responsibility for Financial Reporting**

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

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

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

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

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

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

Daniel Tellechea,  
President and Chief Executive Officer

A handwritten signature in blue ink, appearing to read "Leonard Teoli".

Leonard Teoli,  
Chief Financial Officer

April 29, 2008

**Auditor's report**

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

We have audited the consolidated balance sheets of Dia Bras Exploration Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# Dia Bras Exploration Inc.

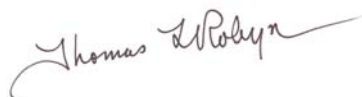
(an exploration-stage company)

Consolidated Balance Sheets

As at December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	6,700,016	19,704,587
Trade receivable (note 4)	-	3,347,046
Sales tax and other receivables	1,609,506	3,981,826
Income taxes receivable	722,515	-
Inventories from the pilot-mining program, at cost (note 5)	608,885	471,981
Temporary investments (note 6)	167,000	340,000
Prepaid expenses	12,839	20,168
Future income tax assets (note 14)	-	758,402
	<u>9,820,761</u>	<u>28,624,010</u>
<b>Property, plant and equipment</b> (note 7)	233,000	-
<b>Mining assets</b> (note 8)	<u>36,837,706</u>	<u>24,126,921</u>
	<u>46,891,467</u>	<u>52,750,931</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,254,123	830,978
Trade payable (note 4)	1,368,164	-
Income taxes payable	42,166	57,425
Deferred tenant allowance	19,188	-
	<u>3,683,641</u>	<u>888,403</u>
<b>Excess cost recovery – pilot mining</b> (note 8 (a) (i))	4,263,442	6,770,293
<b>Deferred tenant allowance</b>	68,756	-
<b>Future income tax liabilities</b> (note 14)	-	727,765
	<u>8,015,839</u>	<u>8,386,461</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 10)	53,218,198	51,308,067
<b>Warrants and compensation options</b> (note 11)	-	193,603
<b>Contributed surplus</b> (note 13)	8,169,052	6,590,223
<b>Deficit</b>	<u>(22,511,622)</u>	<u>(13,727,423)</u>
	<u>38,875,628</u>	<u>44,364,470</u>
	<u>46,891,467</u>	<u>52,750,931</u>
<b>Commitments and Contingency</b> (notes 18 and 19)		

Approved by the Board of Directors,



Thomas L. Robyn, Director



Philip Renaud, Director

# Dia Bras Exploration Inc.

(an exploration-stage company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>Income</b>		
Interest income	508,750	277,440
Gain on disposal of temporary investment (note 6)	-	152,800
Gain on currency exchange	-	289,784
Miscellaneous revenues	10,954	5,000
	<u>519,704</u>	<u>725,024</u>
<b>Expenses</b>		
Administrative expenses	2,181,129	1,595,474
Stock-based compensation costs (note 12)	1,033,646	694,846
Interest expenses	39,180	48,898
Amortization of property, plant and equipment	64,231	-
Loss on disposal of land, exploration building and equipment	18,458	10,448
Write-off of mining assets (note 8 (iv) and (v))	1,199,891	280,117
Write-off of deferred costs – Advance on royalty payment (note 9)	-	350,000
Net loss on variation of commodity market prices	3,395,514	-
Loss on change in value of temporary investments (note 6)	413,601	-
Other project costs	1,303	29,069
Loss on currency exchange	1,059,206	-
	<u>9,406,159</u>	<u>3,008,852</u>
<b>Loss before income taxes</b>	(8,886,455)	(2,283,828)
<b>Future income tax provision (recovery) (note 14)</b>		
Current	266,607	57,425
Future	30,637	(428,237)
	<u>297,244</u>	<u>(370,812)</u>
<b>Loss and comprehensive loss</b>	(9,183,699)	(1,913,016)
<b>Deficit – Beginning of year</b>	(13,727,423)	(10,605,248)
Change in accounting policy related to financial instruments (notes 2 and 6)	399,500	-
Share and warrant issue expenses	-	(1,209,159)
<b>Deficit – End of the year</b>	<u>(22,511,622)</u>	<u>(13,727,423)</u>
<b>Basic and diluted loss per share</b>	<u>(0.08)</u>	<u>(0.02)</u>
<b>Basic and diluted weighted average number of outstanding shares</b>	<u>110,528,551</u>	<u>89,634,481</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Loss	(9,183,699)	(1,913,016)
Adjustments for		
Gain on disposal of temporary investments (note 6)	-	(152,800)
Stock-based compensation costs (note 12)	1,033,646	694,846
Loss or change in value of temporary investments (note 6)	413,601	-
Future income taxes (note 14)	30,637	(428,237)
Write-off of mining assets (note 8 (iv) and (v))	1,199,891	280,117
Loss on disposal of land, exploration building and equipment	18,458	10,448
Amortization of property, plant and equipment	64,231	-
Amortization of deferred tenant allowance	(15,990)	-
Unrealized loss on commodity market price	2,527,411	-
Write-off of deferred costs – Advance on royalty payment (note 9)	-	350,000
	<u>(3,911,814)</u>	<u>(1,158,642)</u>
Changes in non-cash working capital items (note 16)	<u>1,869,558</u>	<u>(3,089,719)</u>
	<u>(2,042,256)</u>	<u>(4,248,361)</u>
<b>Financing activities</b>		
Obligation related to assets under capital lease	-	(228,851)
Issuance of share capital	1,488,813	20,829,934
Share issue expenses	-	(1,015,556)
	<u>1,488,813</u>	<u>19,585,527</u>
<b>Investing activities</b>		
Increase in mining assets (excluding land, exploration building and equipment)	(30,010,733)	(24,407,535)
Increase in land, exploration building and equipment	(6,396,889)	(7,187,561)
Proceeds from sales of concentrates	23,971,162	32,568,792
Acquisition of temporary investments (note 6 (a))	(340,000)	(600,000)
Disposal of temporary investments (note 6 (a))	498,899	412,842
Disposal of land, exploration building and equipment	19,730	23,922
Acquisition of property, plant and equipment	(193,297)	-
	<u>(12,451,128)</u>	<u>810,460</u>
<b>Increase (Decrease) in cash and cash equivalents during the year</b>	<u>(13,004,571)</u>	<u>16,147,626</u>
<b>Cash and cash equivalents – Beginning of the year</b>	<u>19,704,587</u>	<u>3,556,961</u>
<b>Cash and cash equivalents – End of the year</b>	<u>6,700,016</u>	<u>19,704,587</u>
<b>Additional cash flow information</b> (note 16)		

# **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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## **1 Nature of operations**

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

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

During 2007, the Company continued its pilot-mining program, initiated in 2005, at the Bolivar Mine property in order to gather information and data in view of a pre-feasibility study. However, the Company has not yet reached the commercial production stage.

In accordance with industry standards for properties at that stage of exploration, the Company is taking reasonable measures to ensure proper title to its properties. However, there is no guarantee that title to any of its properties will not be challenged or impugned. The Company’s properties may be subject to prior unregistered agreements or transfers, and title may be affected, among other things, by undetected defects (refer to notes 8 and 19).

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

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

#### *Basis of consolidation*

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

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

# **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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## *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, and future income taxes. Actual results could differ from those estimates, and such differences could be material.

## *Cash and cash equivalents*

Cash and cash equivalents consist of bank balances and interest-bearing, short-term liquid investments repurchasable at all times without penalties.

## *Temporary investment*

Temporary investments qualified as held-for-trading are measured at fair value with changes in fair values recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.

## *Inventories from pilot mining*

Inventories from pilot mining consist of broken material and concentrate located at the plant and are recorded at the lower of cost and net realizable value.

## *Property, plant and equipment*

Property, plant and equipment represent assets located at the corporate head office and are recorded at the acquisition cost. Amortization is computed using the straight-line method based on the estimated useful life of the assets (note 7).

## *Mining assets*

Mining assets include the cost to acquire mining concessions and options in mining properties, deferred exploration expenses, land, exploration buildings and equipment, supplies and spare parts inventory that will be used for exploration, and deposits on future mining assets. All costs directly related to exploration projects are capitalized.

## *Costs and deferred exploration expenses*

Costs and exploration expenses are deferred until the economic viability of the project has been established, at which time costs are added to property, plant and equipment. 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.

# Dia Bras Exploration Inc.

(an exploration-stage company)

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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 Statements of Operations, Comprehensive Loss and Deficit. In the case of a partial sale, if carrying costs exceed the proceeds, only the loss is reflected.

Revenue from the sale of concentrates from the pilot-mining program before commencement of commercial production is recorded as a reduction of the related deferred exploration expenses 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, Comprehensive Loss and Deficit.

If the accumulated revenue from sales of concentrates from the pilot-mining program exceeds the related accumulated costs and deferred exploration expenses, then the excess cost recovery is included in long-term liabilities until (i) the situation is reversed, or (ii) commercial production has begun at which time it will be netted against construction costs, if any, of the new facilities, or (iii) the property is abandoned.

The Company expects commercial production on the Bolivar project to commence no later than the end of 2009. Commercial production has been defined as being the stage where the Company reaches a production level of 65% of mill capacity for a consecutive period of 90 days within a maximum period of six months. The production level will be calculated on the rated capacity of an on-site mill.

## Land, exploration buildings and equipment

Land, exploration buildings and equipment are recorded at cost.

Amortization of exploration buildings and equipment is capitalized as deferred exploration expenses when related to a specific project. Amortization is computed using the following methods and rates or period:

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

## Supplies and spare parts inventory

Supplies and spare parts inventory is recorded at the lower of cost and replacement value.

# **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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## *Stock option plan and stock-based compensation costs*

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

## *Embedded derivatives*

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

## *Foreign currency translation*

### Foreign currency

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

### Foreign operations

The Company's subsidiaries and consolidated VIEs are considered to be integrated. As a result, the accounts of the subsidiaries and VIEs are re-measured into the functional currency using the temporal method. Under this method, monetary assets and liabilities are re-measured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are re-measured at the historical rates. Revenues and expenses are re-measured at the average rates for the periods. Gains and losses resulting from re-measurement are reflected in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.

## *Income taxes*

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the accounting and tax bases of assets and liabilities using substantively enacted or enacted income tax rates expected to be in effect in the fiscal year in which the differences are expected to reverse.

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

## *Share and warrant issue expenses*

Share and warrant issue expenses are accounted for in the year in which they are incurred and recorded as an increase in deficit in the year in which the shares are issued.

# **Dia Bras Exploration Inc.**

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Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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## *Earnings (loss) per share*

Earnings (loss) per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share are calculated using the weighted average number of shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities.

The diluted loss per share is equal to the basic loss per share due to the antidilutive effect of the stock options and other dilutive securities.

## *Asset retirement obligations*

Asset retirement obligations are recognized at fair value in the year in which the Company incurs a legal obligation associated to the retirement of an asset. The associated costs are capitalized as part of the carrying value of the related asset and amortized over its remaining useful life. The liability is accreted using a credit-adjusted, risk-free interest rate.

## *Deferred tenant allowance*

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

## **(b) New accounting standards**

Effective January 1, 2007, the Company adopted the new Canadian Institute of Chartered Accountants (“CICA”) handbook sections accounting, related to Financial Instruments Section 1530, “Comprehensive income”, Section 3251 “Equity”, Section 3855 “Financial instruments-Recognition and Measurement”, and Section 1506 “Accounting Changes”.

### *Section 1530 “Comprehensive Income”*

Section 1530 introduced a new requirement to present certain revenues, expenses, gains and losses arising from transactions and other events from non-owner sources, that otherwise would not be immediately recorded in income, in a comprehensive income statement which is now required to constitute a complete set of financial statements. The accumulated effect of comprehensive income or loss can now be found in equity of the Consolidated Balance Sheet as Accumulated Other Comprehensive Income. This standard did not have any effect on the Company’s consolidated financial statements.

### *Section 3251 “Equity”*

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity for the period arising from other comprehensive income. Accumulated changes in other comprehensive income are included in accumulated other comprehensive income and are presented as a separate component of shareholders’ equity. This standard did not have any effect on the Company’s consolidated financial statements.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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## *Section 3865 “Hedges”*

Section 3865 expands the guidelines found in Accounting Guideline 13 “Hedging Relationships” and describes when and how hedge accounting can be applied as well as the disclosure requirements. As at December 31, 2007, the Company had no hedges.

## *Section 3855 “Financial Instruments-Recognition and Measurement”*

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This section requires that:

- (i) All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;

Financial assets must be classified into one of the four following categories:

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

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

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

## *Impact upon adoption of Section 3855*

The primary impact on the consolidated financial statements resulting from the adoption of Section 3855 is as follows:

- (a) The Company’s investments in marketable securities are classified as held for trading and are measured at fair value. Under this classification, any change in value between balance sheet dates is recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.
- (b) The Company’s investments in warrants are derivative instruments and classified as held for trading and are measured at fair value. During 2007, any change in fair value between balance sheet dates was recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.
- (c) The Company has recorded the following transition adjustments in its consolidated financial statements as at January 1, 2007, resulting from the adoption of Section 3855 (note 6):
  - (i) An increase of \$399,500 in temporary investments, representing a fair value adjustment of marketable securities and warrants.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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- (ii) A decrease of \$399,500 in deficit representing the fair value adjustment to the value of marketable securities and warrants net of Canadian taxes of nil. The Company elected to use April 1, 2003 as the transition date for embedded derivatives.
- (d) Sales of concentrates: Effective January 1, 2007, final settlement billing adjustments are recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit instead of an adjustment to sales of concentrates which, before commencement of commercial production, is recorded as a reduction of the related deferred exploration expenses.

Variation in the final settlement provision value due to commodity market price and exchange rate changes at each balance sheet date is also recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.

## *Transaction Costs*

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, *Accounting Policy Choice for Transaction Costs* (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective October 1, 2007, and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The Company has evaluated the impact of EIC-166 and determined that no adjustments will be required.

## *Section 1506 “Accounting Changes”*

Effective January 1, 2007, the Company adopted the revised CICA Section 1506 “Accounting Changes”, which requires that (a) a voluntary change in accounting principles can be made if the changes result in reliable and more relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. Furthermore, this section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below.

The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

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

The CICA has issued the following new Handbook Sections and/or new recommendations which will be adopted by the Company on January 1, 2008:

- (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 Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.

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- (ii) Section 3863, “Financial Instruments – Presentation”. This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, “Financial Instruments – Disclosure and Presentation”. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.
- (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 Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.
- (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. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. These new requirements will not have any impact on the consolidated financial statements as the Company is already assessing its ability to continue as a going concern.
- (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. The new accounting standard and any consequential amendments will be effective for the Company beginning January 1, 2008. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.

## **3 Financial instruments**

### **Fair value**

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The 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 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.

### **Interest rate risk**

The Company’s trade receivables (payables) and accounts payable and accrued liabilities are non-interest bearing. 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,

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accounts payable and accrued liabilities, as well as certain revenues and expenses, include amounts that are exposed to currency fluctuations.

As at December 31, 2007, the following balance sheet items included amounts in foreign currencies as follows:

	US \$		Mx Pesos	
	2007	2006	2007	2006
Cash and cash equivalents	1,122,440	4,425,966	619,342	14,312,555
Trade receivables	-	2,870,224	-	-
Sales tax and other receivables	-	-	16,858,433	37,819,369
Accounts payable and accrued liabilities and income taxes receivable and payable	(12,788)	(43,255)	(16,452,464)	(8,531,105)
Trade payables	(1,384,958)	-	-	-
Net balance	(275,306)	7,252,935	1,025,311	43,600,819
Equivalent in CAS	(271,956)	8,457,881	92,781	4,703,432

## Credit risk

The Company is subject to concentrations of credit risk through cash and cash equivalents, trade receivables (payables), and sales tax 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.

## Commodity price risk

The Company is exposed to commodity price risk for variations in concentrate prices, as final prices are determined by quoted market price in a period subsequent to the date of sale. The Company does not use derivative instruments to mitigate this risk.

## 4 Trade receivables (payables)

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

	As at December 31, 2007	As at December 31, 2006
	\$	\$
Receivables from pilot mining	1,048,690	1,568,683
Provision for final settlement*	(2,416,854)	1,778,363
	(1,368,164)	3,347,046

# Dia Bras Exploration Inc.

(an exploration-stage company)

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As at December 31, 2007 and 2006

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\*The provision for final settlement represents the estimated amount which would be recovered or paid back as at December 31, 2007 on shipments of concentrates for which the Company received provisional payments of approximately 90% of the shipment value at the date of shipment. As at December 31, 2007, shipments that had not reached the final settlement stage comprised approximately 4,634 tonnes of zinc concentrate (10,213,000 lbs. payable) and 1,590 tonnes of copper concentrate (3,503,000 lbs. payable) (7,430 tonnes (16,375,720 lbs.) and 4,090 tonnes (9,014,360 lbs.), respectively, as at December 31, 2006). Final settlement value will be determined at the quotational period under the terms of the arrangement and may vary significantly from the current provisional amount.

## 5 Inventories from the pilot-mining program

	<u>As at December 31, 2007</u>	<u>As at December 31, 2006</u>
	\$	\$
Broken material (at plant site)	37,600	10,928
Concentrate	<u>571,285</u>	<u>461,053</u>
	<u>608,885</u>	<u>471,981</u>

## 6 Temporary investments

	<u>As at December 31, 2007</u>	<u>As at December 31, 2006</u>
	\$	\$
Pershimco Resources Inc. ("Pershimco")		
835,000 common shares – at quoted market value (December 31, 2006 – 850,000 common shares at cost)	167,000	261,113
Nil warrants (December 31, 2006 – 850,000 warrants – at cost, exercisable at \$0.40 each until November 2007)	<u>-</u>	<u>78,887</u>
	<u>167,000</u>	<u>340,000</u>

- (a) During 2007, the Company exercised all of its warrants for a total consideration of \$340,000. Furthermore, the Company sold 865,000 common shares for a total net consideration of \$498,899.
- (b) Pursuant to the provisions of the Pershimco Agreement, the Company acquired, in November 2006, 850,000 units of Pershimco at \$0.40 per unit, for a total amount of \$340,000. Each unit is comprised of one common share of Pershimco and one common share purchase warrant entitling the holder thereof to subscribe for one additional common share of Pershimco at a price of \$0.40 during a period of 12 months after the closing.
- (c) As at December 31, 2005, the Company owned 166 common shares and 666,666 warrants, exercisable at a price of \$0.39 per warrant, of Ecu Silver Mining Inc. During 2006, the Company exercised all the warrants for \$260,000 and disposed of all the shares for a total consideration of \$412,842. The Company realized a gain on disposal of \$152,800.

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Changes in the temporary investments value during the year were as follows:

	<b>Common shares</b>	<b>Warrants</b>	<b>Total</b>
	\$	\$	\$
Balance as at December 31, 2006	261,113	78,887	340,000
Change in accounting policy (note 2)	240,387	159,113	399,500
Balance as at January 1, 2007	501,500	238,000	739,500
Increase (Decrease) in fair value during the year	(498,601)	85,000	(413,601)
Exercise of warrants	663,000	(323,000)	340,000
Disposal	(498,899)	-	(498,899)
Balance – end of the year	167,000	-	167,000

## 7 Property, plant and equipment

	<b>As at December 31, 2007</b>			
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>	<b>Estimated useful life</b>
	\$	\$	\$	
Computer equipment	84,121	35,672	48,449	3 years
Office equipment	71,133	22,792	48,341	3 years
Leasehold improvements	160,976	24,766	136,210	over the term of the lease
	<u>316,230</u>	<u>83,230</u>	<u>233,000</u>	
	<b>As at December 31, 2006</b>			
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>	<b>Estimated useful life</b>
	\$	\$	\$	
Computer equipment	18,999	18,999	-	3 years
	<u>18,999</u>	<u>18,999</u>	<u>-</u>	

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## 8 Mining assets

	As at December 31, 2007	As at December 31, 2006
	\$	\$
Costs and deferred exploration expenses (a)	21,470,782	11,672,155
Land, exploration buildings and equipment (b)	13,278,355	10,446,092
Supplies and spare parts inventory	1,812,324	1,366,801
Deposits on mining assets	276,245	641,873
	<u>36,837,706</u>	<u>24,126,921</u>

### (a) Cost and deferred exploration expenses

	Costs		Deferred exploration expenses		Total	
	As at December 31, 2007	As at December 31, 2006	As at December 31, 2007	As at December 31, 2006	As at December 31, 2007	As at December 31, 2006
	\$	\$	\$	\$	\$	\$
<b>Mexico (State of Chihuahua)</b>						
Bolivar projects (options except for Piedras Verdes)						
Bolivar Mine* (i) (note 19)	-	-	-	-	-	-
Piedras Verdes (ii)	356,917	313,102	2,073,771	2,073,771	2,430,688	2,386,873
San José (iii)	228,174	141,288	271,504	271,504	499,678	412,792
Mezquital	30,716	27,299	99,105	99,105	129,821	126,404
La Cascada	12,794	10,110	133,577	133,577	146,371	143,687
Val	2,867	2,684	100,928	100,928	103,795	103,612
Other	71,972	68,860	22,302	43,564	94,274	112,424
Promontorio projects (options)						
Promontorio and Hidalgo (iv)	-	249,425	-	948,505	-	1,197,930
El Magistral (v)	-	-	-	-	-	-
Cusi projects (vi)						
India – Marisa (a)	240,920	239,997	1,706,147	1,667,335	1,947,067	1,907,332
Holguin – San Juan (b)	1,545,056	1,463,823	13,112	-	1,558,168	1,463,823
San Miguel – La Bamba (c) (option)	221,726	221,285	2,532,400	1,204,497	2,754,126	1,425,782
Mineria Cusi – Santa Edwiges/San						
Nicolas (d) (option)	2,162,028	1,127,048	9,576,131	1,254,744	11,738,159	2,381,792
DBM	25,883	4,269	42,752	5,435	68,635	9,704
	<u>4,899,053</u>	<u>3,869,190</u>	<u>16,571,729</u>	<u>7,802,965</u>	<u>21,470,782</u>	<u>11,672,155</u>

# Dia Bras Exploration Inc.

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Notes to the Consolidated Financial Statements

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	Costs		Deferred exploration expenses		Total	
	As at December 31, 2007	As at December 31, 2006	As at December 31, 2007	As at December 31, 2006	As at December 31, 2007	As at December 31, 2006
	\$	\$	\$	\$	\$	\$
<b>*Bolivar Mine</b>						
Costs and deferred exploration expenses	1,797,655	1,630,929	59,146,680	32,750,018	60,944,335	34,380,947
Less: accumulated sales of concentrates from pilot mining	(1,797,655)	(1,630,929)	(63,410,122)	(39,520,311)	(65,207,777)	(41,151,240)
	-	-	(4,263,442)	(6,770,293)	(4,263,442)	(6,770,293)
Less: transfer to excess cost recovery – pilot mining	-	-	4,263,442	6,770,293	4,263,442	6,770,293
	-	-	-	-	-	-

(i) Bolivar Mine

In August 2004, the Company entered into a commercial agreement with the owners of the Bolivar Mine property (Bolivar III and Bolivar IV). The agreement provides for the acquisition by the Company of 100% of the Bolivar Mine property for a consideration of US\$1,200,000 payable over a two-year period. The last payment scheduled in 2006 was delayed due to legal issues (note 19).

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<sup>(1)</sup> (US\$166,250). As at December 31, 2007, an amount of \$55,580<sup>(1)</sup> (US\$56,250) remains to be paid.

During the year ended December 31, 2007, the Company continued its pilot-mining program on the Bolivar Mine property. During the year, the Company's sales of zinc and copper concentrates amounted to \$24,056,537 (for the year ended December 31, 2006 – \$35,588,838). In accordance with the Company's accounting policy, revenue from sales of concentrates prior to the commencement of commercial production is accounted for as a reduction of related costs and deferred exploration expenses. Consequently, the \$4,263,442 (as at December 31, 2006 – \$6,770,293) of excess cost and deferred accumulated exploration expense recovery on the Bolivar Mine property is disclosed in long-term liability on the Consolidated Balance Sheets.

(ii) Piedras Verdes

During the year ended March 31, 2004, the Company entered into an option agreement to acquire a 100% interest in the Piedras Verdes property for a cash consideration of US\$200,000 payable over a two-year period. As at December 31, 2007, the option had been exercised and the titles were transferred to the Company.

(iii) San José project

In July 2003, the Company entered into an option agreement with El Paso Partners, Ltd. ("EPP") to acquire a cumulative interest of up to 100% in the San José silver and base metal properties for a total consideration of US\$349,500 and exploration expenditures of \$1,599,087<sup>(1)</sup> (US\$1,638,000) until July 2009. The remaining payment of \$37,054<sup>(1)</sup> (US\$37,500) for the San José project was made in February 2008 and the Company concluded that the recognition of an impairment charge for this project was not required as at December 31, 2007.

## **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

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As per the agreement, advance royalty payments of \$61,756<sup>(1)</sup> (US\$62,500) are also scheduled for July 2008 and July 2009.

Subsequent to the year ended December 31, 2007, the Company is evaluating the status of this project and its terms of agreement in view of the Company's future development plans. Should the Company decide to abandon this project, the related costs and deferred exploration expenses would then be written-off.

(iv) Promontorio and Hidalgo properties

In May 2004, the Company entered into a purchase option agreement whereby it could earn a 100% interest in the Promontorio and Hidalgo properties by paying the vendors a total of US\$3,000,000.

During the year ended December 31, 2007, the Company decided to abandon the Promontorio and Hidalgo projects and therefore did not proceed with the \$148,215 (US\$150,000) payment that was due in June 2007. Consequently, the Company wrote off the accumulated costs and deferred exploration expenses incurred on the property in the amount of \$1,199,891.

(v) El Magistral

In November 2004, the Company entered into a purchase option agreement whereby the Company could purchase a 100% interest in the El Magistral property for the sum of US\$1,000,000, payable over a five-year period, including US\$50,000 at the signing of the agreement.

In 2006, the Company decided to abandon the project and therefore did not make the November 2006 payment of US\$75,000. Consequently, the Company wrote off the accumulated costs incurred on the property in the amount of \$147,635.

(vi) Cusi Project

In May and June 2006, the Company staked ground and entered into different agreements in order to earn interest in more than 7,500 hectares of contiguous mining concessions (the "Cusi Properties"), including 12 former mines, in the Cusihiuriachic ("Cusi") silver district in Chihuahua State, Mexico, located within 40 kilometres of the Company's Malpaso mill, as follows:

- (a) On May 2, 2006, the Company entered into a purchase agreement with Hector Sanchez Villalobos and Carmen Saenz Rodriguez ("Villalobos and Rodriguez") to acquire two properties covering 21.08 hectares for a cash payment of US\$100,000 and the issuance by the Company of 200,000 common shares of the Company at a price of \$0.64 per share for a total of \$128,000. The portion of the transaction payable in shares was recorded in 2006 at the fair value of the common shares issued, based on their quoted market value at the date of the transaction. The property is subject to a 1.5% NSR of up to a maximum of \$1,482,150<sup>(1)</sup> (US\$1,500,000) in favour of Villalobos and Rodriguez with a \$988,100<sup>(1)</sup> (US\$1,000,000) buy-back option.
- (b) On May 30, 2006, the Company entered into a purchase agreement with Manuel Holguin Aragon ( "Holguin") to acquire properties covering 1,676 hectares for an aggregate cash payment of US\$740,000, and the issuance by the Company of 1,000,000 common shares of the Company at a price of \$0.64 per share for a total of \$640,000. The portion of the transaction payable in shares was recorded in 2006 at the fair value of the common shares issued, based on their quoted market value at the date of the transaction. The properties are subject to a 1.5% NSR of up to a maximum of \$1,482,150<sup>(1)</sup> (US\$1,500,000) in favour of Holguin. The NSR can be purchased for \$988,100<sup>(1)</sup> (US\$1,000,000). As at December 31, 2007, an amount of

# Dia Bras Exploration Inc.

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\$73,500<sup>(1)</sup> (US\$75,000) remains to be paid. The majority of the property titles have been transferred to the Company and the others are in the process of being transferred.

- (c) On May 31, 2006, the Company entered into an option agreement with Pershimco Resources Inc. ("Pershimco") pursuant to which the Company could earn up to a 70% interest in the San Miguel-La Bamba property covering 36 hectares located in the Cusi District a cash consideration of \$221,285 (US\$200,000) and work commitments as follows:

<u>Equivalent</u>	<u>Work commitment</u>	<u>Cumulative interest to be earned</u>	<u>Period</u>
C\$	US\$	%	
1,482,100	1,500,000	50	before May 31, 2007
2,470,200	2,500,000	20	before November 30, 2008

The property is subject to a 2% NSR of which 1% may be bought back for \$988,100<sup>(1)</sup> (US\$1,000,000).

As at December 31, 2007, the Company had fulfilled its obligations under the option agreement and therefore earned a first 50% in the property. However, the transfer of titles remains to be completed. The Company is currently negotiating terms of a joint venture agreement with Pershimco.

- (d) On June 14, 2006, the Company signed a letter of intent to enter into an option agreement to earn a 100% interest in several mining concessions (1,133.5 hectares) with Compañía Minera Cusi ("Minera Cusi"), a private Mexican company, for US\$5,000,000 payable over three years. 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 \$10.87<sup>(1)</sup> (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$10.87<sup>(1)</sup> (US\$11.00) per ounce. The Company may withdraw from its option agreement under the proposed acquisition, over the three-year period, by simple notice to Minera Cusi and the forfeiture of payments.

Remaining option payments are as follows:

	<u>Equivalent in C\$</u>	<u>Payments in US\$</u>
August 2007*	988,100 <sup>(1)</sup>	1,000,000
August 2008	1,976,200 <sup>(1)</sup>	2,000,000

\*In agreement with Minera Cusi, the remaining portion of the scheduled August 2007 payment was deferred until some mining concession registration issues are settled.

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 US\$3,060,000 to be paid as follows: US\$500,000 (paid at the date of signing), US\$500,000 in November 2008 and four quarterly instalments of US\$515,000 in March, June, September and December 2009. The other terms of the original option agreement with regard to the NSR remain unchanged.

<sup>1)</sup> Converted at the rate of exchange in effect as at December 31, 2007.

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(b) Land, exploration building and equipment

	As at December 31, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	273,813	-	273,813
Buildings			
Plant	1,808,410	386,648	1,421,762
Camp	404,802	115,329	289,473
Machinery and equipment	12,754,949	3,936,585	8,818,364
Computers and office furniture	940,400	415,206	525,194
Rolling stock	3,445,913	1,496,164	1,949,749
	<u>19,628,287</u>	<u>6,349,932</u>	<u>13,278,355</u>
	As at December 31, 2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	67,539	-	67,539
Buildings			
Plant	1,512,348	220,582	1,291,766
Camp	397,346	89,721	307,625
Machinery and equipment	7,781,876	1,478,437	6,303,439
Computers and office furniture	547,618	207,382	340,236
Rolling stock	2,993,482	857,995	2,135,487
	<u>13,300,209</u>	<u>2,854,117</u>	<u>10,446,092</u>

## 9 Deferred costs – Advance on royalty payment

On August 26, 2003, the Company acquired from Nichromet Extraction Inc., an unrelated entity, the rights of a licence for the use and marketing of a metallurgical extractive technology for Mexico in consideration for a 1% NSR payment on all mineral production using the technology from any of the Company's Mexican properties. As part of the agreement, the Company made a non-refundable royalty advance of \$350,000.

In addition, the agreement gave the Company the right to act as an agent for the purpose of sourcing the licence to third parties in Mexico. Any consideration received will be shared equally with Nichromet.

Although the license was still in effect as at December 31, 2006, the Company had no further plans to use this technology and therefore would not benefit economically from it. Consequently, the Company wrote off the deferred costs during the year 2006.

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## 10 Share capital

Authorized

An unlimited number of common shares without par value

Issued

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

	<b>For the year ended December 31, 2007</b>		<b>For the year ended December 31, 2006</b>	
	<b>Number of shares</b>	<b>Amount \$</b>	<b>Number of shares</b>	<b>Amount \$</b>
Balance – Beginning of the year	109,550,905	51,308,067	81,724,769	26,921,601
Issued and paid in cash (i)	-	-	14,950,000	10,465,000
Issued for the acquisition of mining assets (note 8 (vi) (a) (b))	-	-	1,200,000	768,000
Issued following exercise of compensation options or warrants (ii) and note 11)	996,364	1,181,141	11,423,219	13,022,470
Issued following exercise of stock options (notes 12 and 13)	824,000	728,990	252,917	130,996
Balance – End of the year	<u>111,371,269</u>	<u>53,218,198</u>	<u>109,550,905</u>	<u>51,308,067</u>

- (i) On August 17, 2006, the Company closed an offering on a bought-deal basis of 13,000,000 common shares at a price of \$0.70 per common share, for gross proceeds of \$9,100,000. The underwriters for the offering also exercised their over-allotment options to purchase an additional 1,950,000 common shares at \$0.70 per common share for additional gross proceeds of \$1,365,000, raising the total gross proceeds of the offering to \$10,465,000.

As a commission, the Company paid a cash consideration of \$732,550 and issued to the agent 1,046,500 compensation options evaluated at \$193,603 (note 11). This amount was included in share and warrant issue expenses in the Consolidated Statements of Operations, Comprehensive Loss and Deficit. The compensation options entitled the holders to subscribe for the same number of common shares at a price of \$1.00 per share until August 16, 2007 (note 11).

The fair value of the compensation options was estimated using the Black-Scholes model based on the following assumptions:

Dividend yield	0%
Volatility	87.83%
Risk-free interest rate	4.33%
Expected life	1 year

As a result, the fair value of the compensation option was estimated at \$193,603.

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

During 2006, 11,423,219 warrants were exercised at the price of \$0.90, for a total cash consideration of \$10,280,897, including 1,100,067 warrants by directors and officers of the Company or company controlled by a director or officer of the Company for a total amount of \$990,060. Consequently, the Company issued 11,423,219 common shares.

## 11 Warrants and compensation options

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

	For the year ended December 31, 2007			For the year ended December 31, 2006		
	Number of warrants	Number of compensation options	Amount \$	Number of warrants	Number of compensation options	Amount \$
Balance – Beginning of the year	-	1,046,500	193,603	12,002,068	-	2,880,496
Issued (note 10)	-	-	-	-	1,046,500	193,603
Exercised (note 10)	-	(996,364)	(184,328)	(11,423,219)	-	(2,741,573)
Expired (note 13)	-	(50,136)	(9,275)	(578,849)	-	(138,923)
Balance – End of the year	-	-	-	-	1,046,500	193,603

## 12 Stock option plan

The Company maintains a stock option plan (the "Plan") whereby the Board of Directors may, from time to time, grant to employees, officers, directors or consultants options to acquire common shares of the Company on such terms and at such exercise prices as may be determined by the Board. As at December 31, 2007, the Plan provides that: i) the maximum number of common shares in the capital of the Company that may be reserved for issuance under the Plan shall be equal to 10,900,000 (as of December 31, 2006 – 9,700,000) common shares, and ii) that the maximum number of common shares that may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of grant.

The options must be exercised within five years of grant. The exercise price may not be lower than the market price of the common shares at the time of grant. All options granted before September 2006 have a vesting period of 18 months: 25% at the date of grant and 12.5% in each of the following six quarters. Beginning September 2006, up until November 2007, options granted are entirely vested at the date of grant. All options granted after November 2007 have a vesting period of two years as follows: 33 1/3% on the grant of the options, 33 1/3% one year after the grant and 33 1/3% two years after the grant of the options.

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

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

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

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

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

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

On February 2, 2006, the Board granted a total of 2,700,000 options to purchase common shares of the Company to its directors, officers and employees. The options are exercisable at a price of \$0.40 until February 2011.

On September 28, 2006, the Board granted a total of 2,000,000 options to purchase common shares of the Company to its directors, officers and employees. The options are exercisable at a price of \$0.90 until September 2011.

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

	<b>For the year ended December 31, 2007</b>		<b>For the year ended December 31, 2006</b>	
	<b>Number of options</b>	<b>Average exercise price \$</b>	<b>Number of options</b>	<b>Average exercise price \$</b>
Beginning of the year	8,957,333	0.60	4,786,250	0.59
Granted	2,515,000	1.10	4,700,000	0.61
Exercised (note 10)	(824,000)	0.60	(252,917)	0.33
Cancelled	(330,000)	0.91	(276,000)	0.72
End of the year	<u>10,318,333</u>	<u>0.72</u>	<u>8,957,333</u>	<u>0.60</u>

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A summary of options outstanding and exercisable as at December 31, 2007 is presented below:

Exercise price \$	Number of options		Expiry date
	Outstanding	Exercisable	
0.85	600,000	600,000	October 2008
0.75	930,000	930,000	August 2009
0.75	400,000	400,000	February 2010
0.30	1,353,333	1,353,333	September 2010
0.22	125,000	125,000	September 2010
0.40	2,545,000	2,545,000	February 2011
0.90	1,890,000	1,890,000	September 2011
0.98	40,000	40,000	January 2012
1.10	1,735,000	1,735,000	April 2012
1.28	250,000	250,000	June 2012
1.25	150,000	150,000	July 2012
0.89	300,000	300,000	October 2012
	<u>10,318,333</u>	<u>10,318,333</u>	

Total stock-based compensation costs for the year ended December 31, 2007 amount to \$1,806,544 (note 13) (for the year ended December 31, 2006 – \$1,696,019), including \$772,898 (for the year ended December 31, 2006 – \$1,001,173) capitalized to mining assets on the basis that the options were granted to officers and consultants involved in the exploration program in Mexico. The balance of \$1,033,646 (for the year ended December 31, 2006 – \$694,846) was recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.

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

	For the year ended December 31, 2007	For the year ended December 31, 2006
Average dividend per share	Nil	Nil
Estimated volatility	89.91%	99.22%
Risk-free interest rate	3.98%	4.17%
Expected life of options granted	4 years	4 years
Options granted which exercise price equals the market price of the stock on the grant date:		
Estimated fair value of option	\$0.69	\$0.28
Exercise price	\$1.10	\$0.40
Options granted which exercise price exceeds the market price of the stock on the grant date:		
Estimated fair value of option	\$0.70	\$0.55
Exercise price	\$1.10	\$0.90
Stock price at date of grant	\$1.09	\$0.80

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

## 13 Contributed surplus

	For the year ended December 31, 2007	For the year ended December 31, 2006
	\$	\$
Balance – Beginning of the year	6,590,223	4,802,240
Stock-based compensation costs (note 12)	1,806,544	1,696,019
Exercise of options (note 10)	(236,990)	(46,959)
Warrants expired (note 11)	9,275	138,923
Balance – End of the year	<u>8,169,052</u>	<u>6,590,223</u>

## 14 Income taxes

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

	For the year ended December 31, 2007	For the year ended December 31, 2006
	\$	\$
Loss before income taxes	<u>(8,886,455)</u>	<u>(2,283,828)</u>
Combined federal and provincial income tax benefit at 32.02% (32% in 2006)	(2,845,443)	(730,825)
Income tax rate differential in Mexico	227,366	47,399
Impact of decrease in income tax rate on future income tax balance	57,597	149,235
Expired tax losses	58,919	25,338
Prior years reassessments	-	(159,295)
Stock-based compensation costs	330,973	222,351
Non-taxable portion of capital gain	(36,863)	(24,448)
Increase (decrease) in the valuation allowance	2,994,121	(120,012)
Foreign exchange deductible in Mexico	(1,103,526)	(34,772)
Inflation taxable on losses and net financial liabilities in Mexico	386,540	60,690
Permanent difference	195,686	102,864
Non-deductible items in Mexico	38,603	81,436
Other	<u>(6,729)</u>	<u>9,227</u>
	<u>297,244</u>	<u>(370,812)</u>

# Dia Bras Exploration Inc.

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Notes to the Consolidated Financial Statements

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

	As at December 31,	
	2007	2006
	\$	\$
Current future income tax assets		
Non-capital losses	62,000	746,246
Share issue costs	112,000	180,000
Temporary investments	74,000	-
Other	-	69,156
	<u>248,000</u>	<u>995,402</u>
Long-term future income tax assets		
Property, plant and equipment	48,000	29,000
Mining assets	380,000	386,000
Non-capital losses	6,072,000	1,077,000
Capital losses	23,000	58,718
Share and warrant issue expenses	149,000	266,000
Other	154,000	157,000
	<u>6,826,000</u>	<u>1,973,718</u>
Total future income tax assets	7,074,000	2,969,120
Less: Valuation allowance	<u>5,077,000</u>	<u>2,210,718</u>
	1,997,000	758,402
Long-term future income tax liabilities		
Mining assets	<u>1,997,000</u>	<u>727,765</u>
Total net future income tax assets	<u>-</u>	<u>30,637</u>

(c) As at December 31, 2007, the cost for income tax purposes of the property, plant and equipment, mining assets and other costs totalled approximately \$15,890,000 (\$11,885,000 in 2006). The difference between this cost and the amounts capitalized in the consolidated financial statements arises mainly as a result of the write-off of some of the mining assets, the election of the Company in Mexico to deduct, in the year incurred, the exploration expenses and costs of mining claims prior to the commencement of commercial operations of a mine. This cost may be applied to reduce future taxable income over an unlimited period of time.

# Dia Bras Exploration Inc.

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As at December 31, 2007 and 2006

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- (d) The Company has accumulated non-capital losses in Canada of approximately \$5,169,806. These losses will expire from 2008 to 2027 as follows:

	\$
Years ending December 31, 2008	203,336
2009	122,399
2010	121,762
2011	533,468
2015	2,101,308
2026	398,093
2027	1,689,440

- (e) As at December 31, 2007, the Company has accumulated non-capital losses in Mexico for income tax purposes amounting to approximately \$16,295,120 (MX 180,075,746). These losses will expire as follows: \$2,108,413 (MX 23,299,866) in 2015 and \$14,186,707 (MX 156,775,880) in 2017.
- (f) The tax basis of temporary investments amounting to \$411,484 can be carried forward indefinitely.
- (g) The unamortized balance for tax purposes of share and warrant issue expenses amounting to approximately \$860,108 will be deductible over the next three years.
- (h) The Company's balance of capital losses amounts to \$74,829 and can be carried forward indefinitely against capital gains.
- (i) These tax values of assets and liabilities have not been agreed to by the relevant tax authorities nor have they been disputed.

## 15 Asset retirement obligations

As at December 31, 2007, based on its review of the status of its operations under the current Mexican environmental legislation, the Company determined it does not carry any asset retirement obligation and, therefore, has not recognised such an obligation.

In view of the upcoming feasibility study, the Company will commission an environmental impact study at Bolivar from which asset retirement obligations may arise.

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

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## 16 Statements of cash flows

	<b>For the year ended December 31, 2007</b>	<b>For the year ended December 31, 2006</b>
	<u>\$</u>	<u>\$</u>
(a) The changes in non-cash working capital items are as follows:		
Sales tax and other receivables	2,372,320	(2,944,704)
Inventories from the pilot-mining program	(136,904)	(329,742)
Prepaid expenses	7,329	73,880
Accounts payable and accrued liabilities	364,587	98,422
Income taxes receivable/payable	(737,774)	12,425
	<u>1,869,558</u>	<u>(3,089,719)</u>
	\$	\$
(b) Additional information – non-cash transactions		
Issuance of shares for mining property	-	768,000
Stock-based compensation costs capitalized into mining assets (note 12)	772,898	1,001,173
Additions of mining assets included in accounts payable and accrued liabilities	1,058,558	17,120
Variation in trade receivables (payables) included in mining assets	2,187,799	3,020,046
Capitalized amortization of exploration buildings and equipment	3,526,437	1,686,739
Increase in fair value of temporary investment included in deficit	399,500	-
Increase in property, plant and equipment included in deferred tenant allowance	103,934	-
	\$	\$
(c) Interest and income taxes		
Interest paid	39,180	48,898
Income taxes paid and prepaid instalments	984,434	45,000

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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## 17 Related party transactions

During the year ended December 31, 2007, companies controlled by officers of the Company charged consulting fees amounting to \$930,662 (for the year ended December 31, 2006 – \$946,145), including \$666,141 capitalized to deferred exploration costs (for the year ended December 31, 2006 – \$602,571). As at December 31, 2007, the balance due to these companies amounted to \$12,636 (as at December 31, 2006 – \$42,361).

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

## 18 Commitments

- (a) In 2007, in the normal course of business, the Company guaranteed financial lease for the purchase of transportation equipment by a third party (the “Borrower”) for an amount of approximately \$400,000 (MX 4,420,380) in favour of the Borrower’s lender. The original financial lease agreement had a duration of 12 months from the date of its signature in May 2007 and the Borrower’s debt is secured by the transportation equipment. In addition, the Company advanced \$113,600 (US\$115,000) to the Borrower. The Borrower provides transportation services to the Company pursuant to a transportation agreement. In March 2008, the Company was informed that the borrower was in default of payments of its obligation. The Company does not have any recourse over any assets of the Borrower. The Company reached an agreement with the Borrower to secure repayment of the Borrower’s debt directly from the proceeds of the Company’s payment of transportation charges.

In addition, on April 15, 2008, the borrower signed a promissory note in favor of the Company in the amount of \$494,000 (US\$500,000) to secure any potential obligation for the Company. As of April 24, 2008, the amount due pursuant to the financial lease is approximately \$170,000 (MX 1,920,800) and represents the maximum potential exposure for the Company under this agreement. The Balance outstanding under the advance is approximately \$78,100 (US\$79,000). The Company is confident it will not incur any loss resulting from this transaction and as such, no provision for contingent loss has been recorded under the guarantee in the consolidated financial statements of the Company as at December 31, 2007.

The fair value of the guarantee at initial recognition is approximately \$15,000.

- (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, 2007, no provision is recorded in accounts payable and accrued liabilities.
- (c) In December 2006, the Company signed a five-year lease for office premises. The annual rent is approximately \$60,000.
- (d) In February 2004, the Company and two other companies jointly signed a five-year lease for the former office premises. The annual rent is approximately \$150,000 which is divided on a pro rata basis among the three companies. The Company’s annual gross commitment is approximately \$50,000. Subsequent to year-end, the Company and the other interested parties entered into a full sublease agreement over the remainder of the original lease period.

# Dia Bras Exploration Inc.

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Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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## 19 Contingency

In 2005, a personal action was filed in Mexico against one of the Company's subsidiaries, Dia Bras Mexicana, S. de R.L. de C.V., ("DBM"), by an individual claiming the annulment and revocation of the purchase contracts of two mining concessions in the Bolivar mine entered into between DBM and Mr. Javier Octavio Bencomo Muñoz and Minera Senda de Plata, S.A. de C.V. Following the notification of said claim against DBM, a defense was filed based on the fact that DBM acquired the property as a bona fide purchaser as well as in the questionable legal standing of the claimant to file a lawsuit on behalf of the former owner. Management and its external legal advisors believe the claims are without merit as they are based on the claimant's personal perceptions of the circumstances surrounding the performance of such purchase agreement. Consequently, management is confident that, as the claimant purports the annulment and revocation of the purchase contracts, it will have no adverse effect on DBM. The remote success of such legal proceedings could result in an impairment of the value of the Bolivar Mine property.

## 20 Comparative figures

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

## 21 Subsequent event

- (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 \$266,787 (MX 2,874,144).
- (b) In January 2008, the Company entered into a right purchase agreement with Minera Senda de Plata regarding the La Chaparrita property for a total amount of US\$85,000 to be paid as follows:
- \$14,820 (US\$15,000) at the date of signing
  - \$14,820 (US\$15,000) in July 2008
  - \$54,340 (US\$55,000) in January 2009
- (c) In January 2008, the Company entered into a right purchase agreement with Marina Fernandez regarding the Bolivar property for a total amount of US\$85,000 to be paid as follows:
- \$14,820 (US\$15,000) at the date of signing
  - \$14,820 (US\$15,000) in July 2008
  - \$54,340 (US\$55,000) in January 2009

## **Dia Bras Exploration Inc.**

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Notes to the Consolidated Financial Statements

As at December 31, 2007 and 2006

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(d) In February 2008, the Company entered into an option agreement with Arnoldo Castañeda Martínez and Consoscio Minero Latinoamericano, S.A. de C.V. whereby it can earn a 100% interest in the La Engañosa property by paying a total amount of \$1,249,947 (US\$1,265,000) as follows:

- a. \$64,220 (US\$65,000) at the date of signing,
- b. \$74,100 (US\$75,000) after 6 months from signing,
- c. \$74,100 (US\$75,000) after 12 months from signing,
- d. \$148,200 (US\$150,000) after 18 months from signing,
- e. \$197,600 (US\$200,000) after 24 months from signing,
- f. \$296,400 (US\$300,000) after 30 months from signing,
- g. \$395,200 (US\$400,000) after 36 months from signing,

and incurring minimum exploration expenditures of \$296,430 (US\$300,000) per year over the same three-year period.

The payments from d) to g) (18 months to 36 months) could be converted into free-trading shares of Dia Bras Exploration if the share trades at or higher than \$1.25 at their option. The property is subject to a 2% NSR which can be bought back for US\$1.5 million over a period of 6 years, plus minimum annual royalties of \$47,425 (US\$48,000) after 5 years.

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