



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

**Interim Consolidated Financial Statements**

**Three-month period ended March 31, 2008**

**(Unaudited)**



**NOTICE TO READERS OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:**

The unaudited interim consolidated financial statements of Dia Bras Exploration Inc. for the three-month period ended March 31, 2008 have not been reviewed by the Company's external auditors.

A handwritten signature in black ink, appearing to read "E. Gonzalez", is positioned above a horizontal line.

**EDOUARDO GONZALEZ**, Director

A handwritten signature in blue ink, appearing to read "L. Teoli", is positioned above a horizontal line.

**LÉONARD TEOLI**, Chief Financier Officer

Montréal, Québec  
May 30, 2008

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Balance Sheets

|  | <b>As at<br/>March 31,<br/>2008</b> | <b>As at<br/>December 31,<br/>2007</b> |
|--|-------------------------------------|--|
|  | \$                                  | \$                                     |
|  | (unaudited)                         | (audited)                              |
| <b>Assets</b>  |                                     |  |
| <b>Current assets</b>  |                                     |  |
| Cash and cash equivalents                                    | 3,737,076                           | 6,700,016                              |
| Trade receivable (note 5)                                    | 1,359,489                           | -                                      |
| Sales tax and other receivables                              | 2,075,558                           | 1,609,506                              |
| Income taxes receivable                                      | 799,476                             | 722,515                                |
| Inventories from the pilot-mining program, at cost (note 6)  | 207,085                             | 608,885                                |
| Temporary investments (note 7)                               | 100,200                             | 167,000                                |
| Prepaid expenses   | 45,092                              | 12,839                                 |
|  | <u>8,323,976</u>                    | <u>9,820,761</u>                       |
| <b>Property, plant and equipment</b> (note 8)                | 216,624                             | 233,000                                |
| <b>Mining assets</b> (note 9)                                | <u>39,243,383</u>                   | <u>36,837,706</u>                      |
|  | <u>47,783,983</u>                   | <u>46,891,467</u>                      |
| <b>Liabilities</b>   |                                     |  |
| <b>Current liabilities</b>                                   |                                     |  |
| Accounts payable and accrued liabilities                     | 2,917,683                           | 2,254,123                              |
| Trade payable (note 5)                                       | -                                   | 1,368,164                              |
| Income taxes payable   | 18,104                              | 42,166                                 |
| Deferred tenant allowance                                    | 19,188                              | 19,188                                 |
|  | <u>2,954,975</u>                    | <u>3,683,641</u>                       |
| <b>Excess cost recovery – pilot mining</b> (note 9 (a) (iv)) | 5,097,411                           | 4,263,442                              |
| <b>Deferred tenant allowance</b>                             | <u>63,959</u>                       | <u>68,756</u>                          |
|  | <u>8,116,345</u>                    | <u>8,015,839</u>                       |
| <b>Shareholders' Equity</b>                                  |                                     |  |
| <b>Share capital</b> (note 10)                               | 53,238,350                          | 53,218,198                             |
| <b>Contributed surplus</b> (note 13)                         | 8,160,900                           | 8,169,052                              |
| <b>Deficit</b>   | <u>(21,731,612)</u>                 | <u>(22,511,622)</u>                    |
|  | <u>39,667,638</u>                   | <u>38,875,628</u>                      |
|  | <u>47,783,983</u>                   | <u>46,891,467</u>                      |
| <b>Commitments and Contingency</b> (notes 19 and 20)         |                                     |  |

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

|  | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2008</b> | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2007</b> |
|--|--|--|
|  | \$   | \$   |
|  | (unaudited)  | (unaudited)  |
| <b>Income</b>  |  |  |
| Interest income  | 43,705   | 109,892  |
| Change in value of temporary investment (note 7)                             | -  | 110,500  |
| Net gain on variation of commodity prices                                    | 1,373,705  | -  |
| Gain on currency exchange  | 91,199   | -  |
| Miscellaneous revenues   | 39,541   | -  |
|  | <u>1,548,150</u>   | <u>220,392</u>   |
| <b>Expenses</b>  |  |  |
| Administrative expenses  | 606,878  | 517,252  |
| Stock-based compensation costs (note 12)                                     | -  | 41,994   |
| Interest expenses  | 3,613  | 14,764   |
| Amortization of property, plant and equipment                                | 18,867   | 7,191  |
| Loss on disposal of land, exploration buildings and equipment                | 4,453  | -  |
| Net loss on variation of commodity market prices                             | -  | 1,282,415  |
| Loss on change in value of temporary investments (note 7)                    | 66,800   | -  |
| Loss on currency exchange  | -  | 146,007  |
|  | <u>700,611</u>   | <u>2,009,623</u>   |
| <b>Profit (loss) before income taxes</b>                                     | 847,539  | (1,789,231)  |
| <b>Future income tax provision (recovery) (note 15)</b>                      |  |  |
| Current  | 67,529   | 93,000   |
| Future   | -  | (459,000)  |
|  | <u>67,529</u>  | <u>(366,000)</u>   |
| <b>Profit (loss) and comprehensive profit (loss)</b>                         | 780,010  | (1,423,231)  |
| <b>Deficit – beginning of period</b>   | (22,511,622)   | (13,727,423)   |
| Change in accounting policy related to financial instruments (notes 3 and 7) | -  | 399,500  |
| <b>Deficit – End of period</b>   | <u>(21,731,612)</u>  | <u>(14,751,154)</u>  |
| <b>Basic and diluted profit (loss) per share</b>                             | <u>0.01</u>  | <u>(0.01)</u>  |
| <b>Basic and diluted weighted average number of outstanding shares</b>       | <u>111,373,027</u>   | <u>109,663,346</u>   |

**Dia Bras Exploration Inc.**  
*(an exploration-stage company)*  
Consolidated Statements of Cash Flows

|   | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2008</b> | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2007</b> |
|---|--|--|
|   | \$   | \$   |
|   | (unaudited)  | (unaudited)  |
| <b>Cash flows from</b>  |  |  |
| <b>Operating activities</b>   |  |  |
| Net income (loss)   | 780,010  | (1,423,231)  |
| Adjustments for   |  |  |
| Stock-based compensation costs (note 12)  | -  | 41,994   |
| Loss or change in value of temporary investments (note 7)                       | 66,800   | (110,500)  |
| Future income taxes (note 15)   | -  | (459,000)  |
| Loss on disposal of land, exploration buildings and equipment                   | 4,453  | -  |
| Amortization of property, plant and equipment                                   | 18,867   | 7,191  |
| Amortization of deferred tenant allowance                                       | (4,797)  | -  |
| Unrealized (gain) loss on commodity market price                                | (824,149)  | 1,282,415  |
| Loss on currency exchange   | -  | 146,007  |
|   | <u>41,184</u>  | <u>(515,124)</u>   |
| Changes in non-cash working capital items (note 17)                             | <u>11,536</u>  | <u>1,364,488</u>   |
|   | <u>52,720</u>  | <u>849,364</u>   |
| <b>Financing activities</b>   |  |  |
| Issuance of share capital   | <u>12,000</u>  | <u>218,000</u>   |
|   | <u>12,000</u>  | <u>218,000</u>   |
| <b>Investing activities</b>   |  |  |
| Increase in mining assets (excluding land, exploration buildings and equipment) | (8,309,616)  | (6,998,138)  |
| Increase in land, exploration building and equipment                            | (389,662)  | (2,700,557)  |
| Proceeds from sales of concentrates   | 5,665,244  | 5,354,105  |
| Disposal of land, exploration building and equipment                            | 8,865  | -  |
| Acquisition of property, plant and equipment                                    | (2,491)  | (153,189)  |
|   | <u>(3,027,660)</u>   | <u>(4,497,779)</u>   |
| <b>Decrease in cash and cash equivalents during the period</b>                  | <u>(2,962,940)</u>   | <u>(3,430,415)</u>   |
| <b>Cash and cash equivalents – Beginning of the period</b>                      | <u>6,700,016</u>   | <u>19,704,587</u>  |
| <b>Cash and cash equivalents – End of the period</b>                            | <u>3,737,076</u>   | <u>16,274,172</u>  |
| <b>Additional cash flow information</b> (note 17)                               |  |  |

# **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

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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 States of Chihuahua and Jalisco, 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.

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 9 and 20).

## **2 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., Servicios de Minería de la Sierra S. de R.L. de C.V and Bolivar Administradores S.A. de C.V.

## **3 Significant accounting policies and new accounting standards**

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

The interim consolidated financial statements of the Company have been prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company as at December 31, 2007, except as noted below. The disclosure provided below is incremental to that included in the annual audited consolidated financial statements. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual consolidated financial statements and should be used in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2007.

# **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

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

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

### *Section 3862, “Financial Instruments – Disclosures”*

This section describes the required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which entity is exposed and how the entity manages those risks.

### *Section 3863, “Financial Instruments – Presentation”*

Section 3863 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”.

### *Section 1535, “Capital disclosures”*

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

### *Section 1400, “General Standards of Financial Statement Presentation”*

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

### *Section 3031 “Inventories”*

This section replaces the existing section 3030. Under the new section, inventories are required to be measured at the “lower of cost and net realizable value”, which is different from the existing guidance of the “lower of cost and market”. The new section also requires, when applicable, the reversal of any write-downs previously recognized.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

## 4 Financial instruments and risk management

### (a) Financial Instruments

The Company has classified financial instruments as follows:

|  | <b>Three-month<br/>period ended<br/>March 31,<br/>2008</b> | <b>Year ended<br/>December 31,<br/>2007</b> |
|--|--|---|
|  | <u>\$</u>  | <u>\$</u>                                   |
| <b>Financial Assets</b>                            |  |   |
| Held-for-trading, measured at fair value           |  |   |
| Cash and cash equivalents                          | 3,737,076  | 6,700,016                                   |
| Temporary investments                              | 100,200  | 167,000                                     |
| Loans and receivable – measured at amortized costs |  |   |
| Trade receivable                                   | 1,359,489  | -   |
| Sales tax and other receivables                    | 2,075,558  | 1,609,506                                   |
| Income taxes receivable                            | 799,476  | 722,515                                     |
| <b>Financial Liabilities</b>                       |  |   |
| Held-for-trading, measured at fair value           |  |   |
| Trade payable                                      | -  | 1,368,164                                   |
| Other liabilities, measured at amortized costs     |  |   |
| Accounts payable and accrued liabilities           | 2,954,975  | 2,315,477                                   |

The Company had no held-to-maturity financial instruments during the quarter ended March 31, 2008 or during the year ended December 31, 2007.

### (b) Allowance account for credit losses

|                                 | <b>Three-month<br/>period ended<br/>March 31,<br/>2008</b> | <b>Year ended<br/>December 31,<br/>2007</b> |
|---------------------------------|--|---|
|                                 | <u>\$</u>  | <u>\$</u>                                   |
| Sales tax and other receivables | 2,075,558  | 1,609,506                                   |
| Income taxes receivable         | 799,476  | 722,515                                     |
| Allowance for doubtful accounts | -  | -   |
|                                 | <u>2,875,034</u>   | <u>2,332,021</u>                            |

As at March 31, 2008, management considers none of the accounts receivable doubtful and therefore no allowance has been registered.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

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## (c) 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.

## (d) Risk management policies and hedging activities

The Company is sensitive to changes in commodity prices, foreign exchange and interest rates. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Although the Company has the ability to address its price-related exposures through the use of options, future and forward contracts, it does not generally enter into such arrangements. Similarly, derivative financial instruments are not used to reduce these financial risks.

### Interest rate risk

The Company's trade receivables (payables) 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, accounts payable and accrued liabilities, as well as certain revenues and expenses, include amounts that are exposed to currency fluctuations.

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

|   | <b>As at<br/>March 31,<br/>2008</b> |                  |                            |
|---|-------------------------------------|------------------|----------------------------|
|   | <b>US \$</b>                        | <b>Mx Pesos</b>  | <b>Equivalent<br/>CA\$</b> |
| Cash and cash equivalents   | 269,110                             | 928,280          | 366,346                    |
| Trade receivables   | 1,322,589                           | -                | 1,359,489                  |
| Sales tax and other receivables   | -                                   | 20,410,961       | 1,972,931                  |
| Accounts payable and accrued liabilities and<br>income taxes receivable and payable | (7,156)                             | (21,581,648)     | (2,093,446)                |
| Net balance   | <u>1,584,543</u>                    | <u>(242,407)</u> | <u>1,605,320</u>           |

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

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|   |                  |                  | <b>As at<br/>December 31,<br/>2007</b> |
|---|------------------|------------------|--|
|   | <b>US \$</b>     | <b>Mx Pesos</b>  | <b>Equivalent<br/>CA\$</b>             |
| Cash and cash equivalents   | 1,122,440        | 619,342          | 1,164,824                              |
| Trade receivables   | -                | -                | -                                      |
| Sales tax and other receivables   | -                | 16,858,433       | 1,525,520                              |
| Accounts payable and accrued liabilities and<br>income taxes receivable and payable | (12,788)         | (16,452,464)     | (1,501,416)                            |
| Trade payables  | (1,384,958)      | -                | (1,368,103)                            |
| Net balance   | <u>(275,306)</u> | <u>1,025,311</u> | <u>(179,175)</u>                       |

## **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 has the ability to address its price-related exposure through the limited use of options, future and forward contracts. At the moment, 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. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

## 5 Trade receivables (payables)

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

|                                 | As at<br>March 31,<br>2008 | As at<br>December 31,<br>2007 |
|---------------------------------|----------------------------|-------------------------------|
|                                 | \$                         | \$                            |
| Receivables from pilot mining   | 1,121,220                  | 1,048,690                     |
| Provision for final settlement* | 238,269                    | (2,416,854)                   |
|                                 | <u>1,359,489</u>           | <u>(1,368,164)</u>            |

\*The provision for final settlement represents the estimated amount which would be recovered or paid back as at March 31, 2008 on shipments of concentrates for which the Company received provisional payments of approximately 90% of the shipment value at the date of shipment. As at March 31, 2008, shipments that had not reached the final settlement stage comprised approximately 3,224 tonnes of zinc concentrate (7,106,650 lbs. payable) and 931 tonnes of copper concentrate (2,051,535 lbs. payable) (4,634 tonnes (10,213,000 lbs. payable) and 1,590 tonnes (3,503,000 lbs. payable), respectively, as at December 31, 2007). Final settlement value will be determined at the quotational period under the terms of the arrangement and may vary significantly from the current provisional amount.

## 6 Inventories from the pilot-mining program

|                                 | As at<br>March 31,<br>2008 | As at<br>December 31,<br>2007 |
|---------------------------------|----------------------------|-------------------------------|
|                                 | \$                         | \$                            |
| Broken material (at plant site) | -                          | 37,600                        |
| Concentrate                     | 207,085                    | 571,285                       |
|                                 | <u>207,085</u>             | <u>608,885</u>                |

## 7 Temporary investments

|   | As at<br>March 31,<br>2008 | As at<br>December 31,<br>2007 |
|---|----------------------------|-------------------------------|
|   | \$                         | \$                            |
| Pershimco Resources Inc. ("Pershimco")  |                            |                               |
| 835,000 common shares – at quoted market value<br>(December 31, 2007 – 835,000 common shares at quoted<br>market value) | 100,200                    | 167,000                       |
|   | <u>100,200</u>             | <u>167,000</u>                |

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

Changes in the temporary investment value during the period were as follows:

|   | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2008</b> | <b>For the<br/>year ended<br/>December 31,<br/>2007</b> |                 |              |
|---|--|---|-----------------|--------------|
|   | <b>Common<br/>shares</b>   | <b>Common<br/>shares</b>                                | <b>Warrants</b> | <b>Total</b> |
|   | \$   | \$  | \$              | \$           |
| Balance – beginning of the period                   | 167,000  | 261,113   | 78,887          | 340,000      |
| Change in accounting policy (note 3)                | -  | 240,387   | 159,113         | 399,500      |
| Adjusted balance – beginning of period              | 167,000  | 501,500   | 238,000         | 739,500      |
| Increase (decrease) in fair value during the period | (66,800)   | (498,601)   | 85,000          | (413,601)    |
| Exercise of warrants                                | -  | 663,000   | (323,000)       | 340,000      |
| Disposal  | -  | (498,899)   | -               | (498,899)    |
| Balance – end of the period                         | 100,200  | 167,000   | -               | 167,000      |

## 8 Property, plant and equipment

|                        | <b>As at March 31, 2008</b>    |                                     |                | <b>Estimated<br/>useful life</b> |
|------------------------|--------------------------------|-------------------------------------|----------------|----------------------------------|
|                        | <b>Cost</b>                    | <b>Accumulated<br/>amortization</b> | <b>Net</b>     |                                  |
|                        | \$                             | \$                                  | \$             |                                  |
| Computer equipment     | 86,612                         | 41,182                              | 45,430         | 3 years                          |
| Office equipment       | 71,133                         | 28,720                              | 42,413         | 3 years                          |
| Leasehold improvements | 160,976                        | 32,195                              | 128,781        | Over the term<br>of the lease    |
|                        | <u>318,721</u>                 | <u>102,097</u>                      | <u>216,624</u> |                                  |
|                        | <b>As at December 31, 2007</b> |                                     |                | <b>Estimated<br/>useful life</b> |
|                        | <b>Cost</b>                    | <b>Accumulated<br/>amortization</b> | <b>Net</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<br>the lease    |
|                        | <u>316,230</u>                 | <u>83,230</u>                       | <u>233,000</u> |                                  |

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

## 9 Mining assets

|   | As at<br>March 31,<br>2008 | As at<br>December 31,<br>2007 |
|---|----------------------------|-------------------------------|
|   | \$                         | \$                            |
| Costs and deferred exploration expenses (a)   | 23,311,323                 | 21,470,782                    |
| Land, exploration buildings and equipment (b) | 12,872,546                 | 13,278,355                    |
| Supplies and spare parts inventory            | 2,690,626                  | 1,812,324                     |
| Deposits on mining assets                     | 368,888                    | 276,245                       |
|   | <u>39,243,383</u>          | <u>36,837,706</u>             |

### (a) Cost and deferred exploration expenses

|  | Costs                      |                               | Deferred<br>exploration expenses |                               | Total                      |                               |
|--|----------------------------|-------------------------------|----------------------------------|-------------------------------|----------------------------|-------------------------------|
|  | As at<br>March 31,<br>2008 | As at<br>December 31,<br>2007 | As at<br>March 31,<br>2008       | As at<br>December 31,<br>2007 | As at<br>March 31,<br>2008 | As at<br>December 31,<br>2007 |
|  | \$                         | \$                            | \$                               | \$                            | \$                         | \$                            |
| <b>Mexico (State of Chihuahua)</b>                         |                            |                               |                                  |                               |                            |                               |
| Bolívar projects   |                            |                               |                                  |                               |                            |                               |
| Bolívar III and IV (Bolívar Mine property)* (iv) (note 20) | -                          | -                             | -                                | -                             | -                          | -                             |
| La Chaparrita (ii)   | 85,089                     | -                             | -                                | -                             | 85,089                     | -                             |
| Bolívar (iii)  | 85,076                     | -                             | -                                | -                             | 85,076                     | -                             |
| Piedras Verdes   | 357,039                    | 356,917                       | 2,073,771                        | 2,073,771                     | 2,430,810                  | 2,430,688                     |
| San José (v) (note 22 (b))                                 | 228,174                    | 228,174                       | 271,504                          | 271,504                       | 499,678                    | 499,678                       |
| Mezquital  | 33,081                     | 30,716                        | 99,105                           | 99,105                        | 132,186                    | 129,821                       |
| La Cascada   | 14,034                     | 12,794                        | 133,577                          | 133,577                       | 147,611                    | 146,371                       |
| Val  | 2,867                      | 2,867                         | 100,928                          | 100,928                       | 103,795                    | 103,795                       |
| Other  | 72,431                     | 71,972                        | 22,302                           | 22,302                        | 94,733                     | 94,274                        |
| Cusi projects (vi)   |                            |                               |                                  |                               |                            |                               |
| India – Marisa (a)   | 240,920                    | 240,920                       | 1,706,162                        | 1,706,147                     | 1,947,082                  | 1,947,067                     |
| Holguin – San Juan (b)                                     | 1,555,538                  | 1,545,056                     | 13,112                           | 13,112                        | 1,568,650                  | 1,558,168                     |
| San Miguel – La Bamba (c) (option)                         | 222,061                    | 221,726                       | 2,537,905                        | 2,532,400                     | 2,759,966                  | 2,754,126                     |
| Minería Cusi – Santa Edwiges/San Nicolas (d) (option)      | 2,140,252                  | 2,162,028                     | 11,177,728                       | 9,576,131                     | 13,317,980                 | 11,738,159                    |
| DBM  | 27,894                     | 25,883                        | 42,752                           | 42,752                        | 70,646                     | 68,635                        |
| La Engañososa (i)  | 64,789                     | -                             | 3,232                            | -                             | 68,021                     | -                             |
|  | <u>5,129,245</u>           | <u>4,899,053</u>              | <u>18,182,078</u>                | <u>16,571,729</u>             | <u>23,311,323</u>          | <u>21,470,782</u>             |

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

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|   | Costs                |                         | Deferred exploration expenses |                         | Total                |                         |
|---|----------------------|-------------------------|-------------------------------|-------------------------|----------------------|-------------------------|
|   | As at March 31, 2008 | As at December 31, 2007 | As at March 31, 2008          | As at December 31, 2007 | As at March 31, 2008 | As at December 31, 2007 |
|   | \$                   | \$                      | \$                            | \$                      | \$                   | \$                      |
| <b>*Bolívar III and IV (Bolívar Mine property)</b>        |                      |                         |                               |                         |                      |                         |
| Costs and deferred exploration expenses                   | 1,827,013            | 1,797,655               | 64,909,234                    | 59,146,680              | 66,736,247           | 60,944,335              |
| Less: accumulated sales of concentrates from pilot mining | (1,827,013)          | (1,797,655)             | (70,006,645)                  | (63,410,122)            | (71,833,658)         | (65,207,777)            |
| Less: transfer to excess cost recovery – pilot mining     | -                    | -                       | (5,097,411)                   | (4,263,442)             | (5,097,411)          | (4,263,442)             |
|   | -                    | -                       | 5,097,411                     | 4,263,442               | 5,097,411            | 4,263,442               |
|   | -                    | -                       | -                             | -                       | -                    | -                       |

(i) La Engañososa

In February 2008, the Company entered into an option agreement with Arnoldo Castañeda Martínez and Consorcio Minero Latinoamericano, S.A. de C.V. (“Martinez-Consorcio Minero”) whereby it can earn a 100% interest in the La Engañososa property by paying a total amount of \$1,300,294<sup>(1)</sup> (US\$1,265,000) as follows:

- a. \$66,814<sup>(1)</sup> (US\$65,000) at the date of signing (paid),
- b. \$77,093<sup>(1)</sup> (US\$75,000) in August 2008 ,
- c. \$77,093<sup>(1)</sup> (US\$75,000) in February 2009,
- d. \$154,185<sup>(1)</sup> (US\$150,000) in August 2009,
- e. \$205,580<sup>(1)</sup> (US\$200,000) in February 2010,
- f. \$308,370<sup>(1)</sup> (US\$300,000) in August 2010,
- g. \$411,160<sup>(1)</sup> (US\$400,000) in February 2011,

and incurring minimum exploration expenditures of \$308,370<sup>(1)</sup> (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 (at the option of Martinez-Consorcio Minero) into free-trading shares of Dia Bras Exploration if the share trades at or higher than \$1.25. The property is subject to a 2% NSR which can be bought back for \$1,541,850<sup>(1)</sup> (US\$1,500,000) over a period of 6 years, plus minimum annual royalties of \$49,339<sup>(1)</sup> (US\$48,000) after 5 years.

## **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

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(ii) La Chaparrita

In January 2008, the Company entered into a right purchase agreement with Minera Senda de Plata regarding the La Chaparrita property covering 10.0 hectares adjacent to the Bolivar III and IV concessions (the Bolivar Mine property) for a total amount of \$87,372<sup>(1)</sup> (US\$85,000) to be paid as follows:

- \$15,419<sup>(1)</sup> (US\$15,000) at the date of signing (paid)
- \$15,419<sup>(1)</sup> (US\$15,000) in July 2008
- \$56,535<sup>(1)</sup> (US\$55,000) in January 2009

As at March 31, 2008, the total amount of \$71,953<sup>(1)</sup> (US\$70,000) is included in accounts payable and accrued liabilities.

(iii) Bolivar

In January 2008, the Company entered into a right purchase agreement with the Fernandez Group regarding the Bolivar property covering 63.56 hectares adjacent to the Bolivar III and IV concessions (the Bolivar Mine property) for a total amount of \$87,372<sup>(1)</sup> (US\$85,000) to be paid as follows:

- \$15,419<sup>(1)</sup> (US\$15,000) at the date of signing (paid)
- \$15,419<sup>(1)</sup> (US\$15,000) in July 2008
- \$56,535<sup>(1)</sup> (US\$55,000) in January 2009

As at March 31, 2008, the total amount of \$71,953<sup>(1)</sup> (US\$70,000) is included in accounts payable and accrued liabilities.

(iv) Bolivar III and IV (the Bolivar Mine property)

In August 2004, the Company entered into a commercial agreement with the owners of the Bolivar III and Bolivar IV (“Bolivar Mine property”). The agreement provides for the acquisition by the Company of 100% of these two concessions for a consideration of US\$1,200,000 payable over a two-year period. The last payment scheduled in 2006 was delayed due to legal issues (note 20).

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 \$170,888<sup>(1)</sup> (US\$166,250). As at March 31, 2008, an amount of \$28,910<sup>(1)</sup> (US\$28,125) remains to be paid.

During the three-month period ended March 31, 2008, the Company continued its pilot-mining program on the Bolivar Mine property. During the period, the Company’s sales of zinc and copper concentrates amounted to \$6,625,881 (for the three-month period ended March 31, 2007 – \$5,696,533). 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 \$5,097,411 (as at December 31, 2007 – \$4,263,442) 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.

## **Dia Bras Exploration Inc.**

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Notes to the Interim Consolidated Financial Statements (unaudited)

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(v) San José properties

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 covering 823.16 hectares for a total consideration of US\$349,500 and exploration expenditures of \$1,683,700<sup>(1)</sup> (US\$1,638,000) until July 2009. The remaining payment of \$38,546<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.

As per the agreement, advance royalty payments of \$64,244<sup>(1)</sup> (US\$62,500) are also scheduled for July 2008 and July 2009.

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 (see note 22 (b)).

(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 Cusi district in Chihuahua State, Mexico, located within 40 kilometres of the Company's Malpaso mill, as follows:

- (a) La India and La Marisa properties are subject to a 1.5% NSR of up to a maximum of \$1,541,850<sup>(1)</sup> (US\$1,500,000) with a \$1,027,900<sup>(1)</sup> (US\$1,000,000) buy-back option.
- (b) The Holguin properties, including the San Juan property, covering 1,676 hectares, are subject to a 1.5% NSR of up to a maximum of \$1,541,850<sup>(1)</sup> (US\$1,500,000). The NSR can be purchased for \$1,027,900<sup>(1)</sup> (US\$1,000,000). As at March 31, 2008, an amount of \$28,267<sup>(1)</sup> (US\$27,500) 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"). As at March 31, 2008, the company had earned a 50% interest in the 36-hectare San Miguel-La Bamba property. The property is subject to a 2% NSR of which 1% may be bought back for \$1,027,900<sup>(1)</sup> (US\$1,000,000).

In April 2008, the Company and Pershimco have agreed on the terms of a joint venture agreement that foresees the undertaking of an exploration program at La Bamba – San Miguel.

- (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 of which 3,083,700<sup>(1)</sup> (US\$3,000,000) remained to be paid as at March 31, 2008.

Subsequent to quarter end, 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), \$513,950<sup>(1)</sup> (US\$500,000) in November 2008 and four quarterly instalments of \$529,369<sup>(1)</sup> (US\$515,000) in March, June, September and December 2009.

# Dia Bras Exploration Inc.

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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 \$11.31<sup>(1)</sup> (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$11.31<sup>(1)</sup> (US\$11.00) per ounce.

<sup>(1)</sup> Converted at the rate of exchange in effect as at March 31, 2008.

(b) Land, exploration building and equipment

|                                | <b>As at<br/>March 31,<br/>2008</b> |                                     |  |
|--------------------------------|-------------------------------------|-------------------------------------|--|
|                                | <b>Cost</b>                         | <b>Accumulated<br/>amortization</b> | <b>Net</b>                             |
|                                | \$                                  | \$                                  | \$                                     |
| Land                           | 273,813                             | -                                   | 273,813                                |
| Buildings                      |                                     |                                     |  |
| Plant                          | 1,808,410                           | 411,891                             | 1,396,519                              |
| Camp                           | 404,802                             | 135,706                             | 269,096                                |
| Machinery and equipment        | 13,135,630                          | 4,507,123                           | 8,628,507                              |
| Computers and office furniture | 968,845                             | 473,866                             | 494,979                                |
| Rolling stock                  | 3,425,850                           | 1,616,218                           | 1,809,632                              |
|                                | <b>20,017,350</b>                   | <b>7,144,804</b>                    | <b>12,872,546</b>                      |
|                                |                                     |                                     |  |
|                                |                                     |                                     | <b>As at<br/>December 31,<br/>2007</b> |
|                                | <b>Cost</b>                         | <b>Accumulated<br/>amortization</b> | <b>Net</b>                             |
|                                | \$                                  | \$                                  | \$                                     |
| 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                              |
|                                | <b>19,628,287</b>                   | <b>6,349,932</b>                    | <b>13,278,355</b>                      |

# Dia Bras Exploration Inc.

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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:

|   | For the<br>three-month<br>period ended<br>March 31,<br>2008 |              | For the<br>year ended<br>December 31,<br>2007 |              |
|---|---|--------------|---|--------------|
|   | Number<br>of shares   | Amount<br>\$ | Number<br>of shares                           | Amount<br>\$ |
| Balance – Beginning of the period                               | 111,371,269   | 53,218,198   | 109,550,905                                   | 51,308,067   |
| Issued following exercise of<br>compensation options (note 11)  | -   | -            | 996,364                                       | 1,181,141    |
| Issued following exercise of stock options<br>(notes 12 and 13) | 40,000  | 20,152       | 824,000                                       | 728,990      |
| Balance – End of the period                                     | 111,411,269   | 53,238,350   | 111,371,269                                   | 53,218,198   |

## 11 Compensation options

Changes in the Company's outstanding compensation options in 2007 were as follows:

|                                   | For the<br>year ended<br>December 31,<br>2007 |              |
|-----------------------------------|---|--------------|
|                                   | Number of<br>compensation<br>options          | Amount<br>\$ |
| Balance – Beginning of the period | 1,046,500                                     | 193,603      |
| Exercised (note 10)               | (996,364)                                     | (184,328)    |
| Expired (note 13)                 | (50,136)                                      | (9,275)      |
| Balance – End of the period       | -   | -            |

# Dia Bras Exploration Inc.

(an exploration-stage company)

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As at March 31, 2008

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As at March 31, 2008, there are no outstanding compensations options.

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

## 12 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 March 31, 2008, the Plan provides that: i) the maximum number of common shares in the capital of the Company that may be reserved for issuance under the Plan shall be equal to 10,900,000 (as of December 31, 2007 – 10,900,000) common shares, and ii) that the maximum number of common shares that may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of grant.

The options must be exercised within five years of grant. The exercise price may not be lower than the market price of the common shares at the time of grant. 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.

No options were granted during the first quarter ended March 31, 2008.

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

|                         | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2008</b> |  | <b>For the<br/>year ended<br/>December 31,<br/>2007</b> |  |
|-------------------------|--|--|---|--|
|                         | <b>Number<br/>of options</b>   | <b>Average<br/>exercise<br/>price<br/>\$</b> | <b>Number<br/>of options</b>                            | <b>Average<br/>exercise<br/>price<br/>\$</b> |
| Beginning of the period | 10,318,333   | 0.72   | 8,957,333   | 0.60   |
| Granted                 | -  | -  | 2,515,000   | 1.10   |
| Exercised (note 10)     | 40,000   | 0.30   | (824,000)   | 0.60   |
| Cancelled               | -  | -  | (330,000)   | 0.91   |
| End of the period       | <u>10,278,333</u>  | <u>0.72</u>                                  | <u>10,318,333</u>                                       | <u>0.72</u>                                  |

# Dia Bras Exploration Inc.

(an exploration-stage company)

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As at March 31, 2008

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

| Exercise price<br>\$ | 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                 | 1,313,333         | 1,313,333         | 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>10,278,333</u> | <u>10,278,333</u> |                |

During the three-month period ended March 31, 2008, no stock-based compensation costs were incurred since no options were granted nor vested. For the period ended March 31, 2007, stock-based compensation costs amounted to \$58,141, including \$16,147 capitalized to mining assets, on the basis that the options were granted to officers and consultants involved in the exploration program in Mexico, and the balance of \$41,994 was recorded in the Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit.

The weighted average of estimated fair value of each option granted during 2007 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

|   | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2007</b> |
|---|--|
| Average dividend per share  | Nil  |
| Estimated volatility  | 98%  |
| Risk-free interest rate   | 4.06%  |
| Expected life of options granted  | 4 years  |
| Options granted which exercise price equals the<br>market price of the stock on the grant date: |  |
| Estimated fair value of option  | \$0.68   |
| Exercise price  | \$0.98   |

# Dia Bras Exploration Inc.

(an exploration-stage company)

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As at March 31, 2008

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## 13 Contributed surplus

|  | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2008</b> | <b>For the<br/>year ended<br/>December 31,<br/>2007</b> |
|--|--|---|
|  | <u>\$</u>  | <u>\$</u>   |
| Balance – Beginning of the period        | 8,169,052  | 6,590,223   |
| Stock-based compensation costs (note 12) | -  | 1,806,544   |
| Exercise of options (note 10)            | (8,152)  | (236,990)   |
| Compensation options expired (note 11)   | -  | 9,275   |
| Balance – End of the period              | <u>8,160,900</u>   | <u>8,169,052</u>  |

## 14 Capital disclosure

In the definition of capital the Company includes: Deficit, share capital, current and long-term liabilities, temporary investments and cash and cash equivalents.

The Company's objectives when managing capital are as follows:

- a) To safeguard its ability to continue as a going concern,
- b) To secure sufficient capital to be able to develop its mining projects and potentially bring them to the commercial production stage.

The Company monitors capital on an ongoing process by keeping close control over expenditures and adjusting when necessary its exploration and development program at it progresses.

As at March 31, 2008, the Company was not subject to any externally imposed capital requirements. However, it has committed to a environmental capital expenditure program at its Malpaso mill (see Note 19 (c)).

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

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## 15 Income taxes

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

|  | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2008</b> | <b>For the<br/>three-month<br/>period ended<br/>March 31,<br/>2007</b> |
|--|--|--|
|  | \$   | \$   |
| Loss before income taxes   | 847,539  | (1,789,231)  |
| Combined federal and provincial income tax benefit<br>at 31.9% (32% in 2007) | 270,365  | (572,554)  |
| Income tax rate differential in Mexico                                       | (49,815)   | 55,362   |
| Expired tax losses   | 64,757   | -  |
| Stock-based compensation costs   | -  | 13,522   |
| Increase in temporary investment   | -  | (35,360)   |
| Increase (decrease) in the valuation allowance                               | (336,766)  | 153,000  |
| Foreign exchange deductible in Mexico  | 80,408   | (42,092)   |
| Inflation taxable on losses and net financial liabilities<br>in Mexico       | 22,785   | 72,347   |
| Permanent difference   | -  | (2,046)  |
| Non-deductible items in Mexico   | 14,161   | 10,918   |
| Increase in taxable loss   | -  | (18,340)   |
| Other  | 1,634  | (757)  |
|  | <u>67,529</u>  | <u>(366,000)</u>   |

## 16 Asset retirement obligations

As at March 31, 2008 and 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 the Bolivar project from which asset retirement obligations may arise.

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

# Dia Bras Exploration Inc.

(an exploration-stage company)

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## 17 Statements of cash flows

|   | For the<br>three-month<br>period ended<br>March 31,<br>2008 | For the<br>three-month<br>period ended<br>March 31,<br>2007 |
|---|---|---|
|   | \$  | \$  |
| (a) The changes in non-cash working capital items are as follows:               |   |   |
| Sales tax and other receivables   | (466,052)   | 727,194   |
| Inventories from the pilot-mining program                                       | 401,800   | (224,667)   |
| Prepaid expenses  | (32,253)  | 10,000  |
| Accounts payable and accrued liabilities  | 209,064   | 758,961   |
| Income taxes receivable/payable   | (101,023)   | 93,000  |
|   | <u>11,536</u>   | <u>1,364,488</u>  |
|   | \$  | \$  |
| (b) Additional information – non-cash transactions                              |   |   |
| Stock-based compensation costs capitalized into mining assets (note 12)         | -   | 16,147  |
| Additions of mining assets included in accounts payable and accrued liabilities | 454,496   | 237,039   |
| Variation in trade receivables (payables) included in mining assets             | (1,903,504)   | 2,419,349   |
| Capitalized amortization of exploration buildings and equipment                 | 782,153   | 715,820   |
|   | \$  | \$  |
| (c) Interest and income taxes   |   |   |
| Interest paid   | 3,613   | 14,764  |
| Income taxes paid and prepaid instalments                                       | 49,425  | -   |

# Dia Bras Exploration Inc.

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## 18 Related party transactions

During the three-month period ended March 31, 2008, companies controlled by officers of the Company charged consulting fees amounting to \$104,377 (for the three-month period ended March 31, 2007 – \$124,888), including \$77,457 capitalized to deferred exploration costs (for the three-month period ended March 31, 2007 – \$66,000). As at March 31, 2008, no balance was due to these companies (as at March 31, 2007 – \$8,033).

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.

## 19 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).
- (b) 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 (\$US115,000) 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 May 20, 2008, the amount due pursuant to the financial lease totalled \$135,703 (MX 1,420,823) and represents the maximum potential exposure for the Company under this agreement. The Balance outstanding under the advance is approximately \$64,848 (US\$65,305). 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 March 31, 2008 and December 31, 2007.

- (c) 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 March 31, 2008 and December 31, 2007, no provision is recorded in accounts payable and accrued liabilities.
- (d) In December 2006, the Company signed a five-year lease for office premises. The annual rent is approximately \$60,000.

# **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Interim Consolidated Financial Statements (unaudited)

As at March 31, 2008

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- (e) 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.

## **20 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, Bolivar III and IV (the Bolivar Mine property), entered into between DBM and Mr. Javier Octavio Bencomo Muñoz and Minera Senda de Plata, S.A. de C.V. Following the notification of said claim against DBM, a defense was filed based on the questionable legal standing of the claimant to file a lawsuit on behalf of the former owner. Although there can be no assurance regarding the outcome of such proceeding, management and its external legal advisors believe that, as the claimant purports the annulment and revocation of the purchase contracts, it will have no significant effects in the financial condition or results of operation of DBM. The remote success of such legal proceedings could result in an impairment of the value of the Bolivar Mine property.

## **21 Comparative figures**

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

## **22 Subsequent event**

- (a) 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.
- (b) On May 30, 2008, the Company decided to abandon the San José properties covering 823.16 hectares in Chihuahua, Mexico. Consequently, all costs and deferred exploration expenses accumulated on the related mining concessions as at that date amounting to approximately \$890,000 will be written off in the second quarter of 2008.