



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

**Interim Consolidated Financial Statements**

**Six-month period ended June 30, 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 six-month period ended June 30, 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.

**LEONARD TEOLI**, Chief Financier Officer

Montréal, Québec  
August 28, 2008

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Balance Sheets

	<b>As at June 30, 2008</b>	<b>As at December 31, 2007</b>
	\$	\$
	(unaudited)	(audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,401,584	6,700,016
Sales tax and other receivables	2,294,204	1,609,506
Income tax receivable	873,427	722,515
Inventories from the pilot-mining program, at cost (note 6)	104,539	608,885
Temporary investment (note 7)	108,550	167,000
Prepaid expenses	119,963	12,839
	<u>5,902,267</u>	<u>9,820,761</u>
<b>Property, plant and equipment</b> (note 8)	198,105	233,000
<b>Mining assets</b> (note 9)	<u>43,342,883</u>	<u>36,837,706</u>
	<u>49,443,255</u>	<u>46,891,467</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,258,637	2,254,123
Mining concessions payable (note 9 (a) (ii), (iii) and (vi) (b) (d))	1,713,649	-
Trade payables (note 5)	184,536	1,368,164
Income taxes payable	-	42,166
Deferred tenant allowance	19,188	19,188
	<u>5,176,010</u>	<u>3,683,641</u>
<b>Long-term liabilities</b>		
<b>Mining concessions payable</b> (note 9 (vi) (d))	1,049,060	-
<b>Excess cost recovery – pilot mining</b> (note 9 (a))	5,185,831	4,263,442
<b>Deferred tenant allowance</b>	<u>59,162</u>	<u>68,756</u>
	<u>11,470,063</u>	<u>8,015,839</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 10)	53,291,786	53,218,198
<b>Contributed surplus</b> (note 13)	8,227,019	8,169,052
<b>Deficit</b>	<u>(23,545,613)</u>	<u>(22,511,622)</u>
	<u>37,973,192</u>	<u>38,875,628</u>
	<u>49,443,255</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

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Income</b>				
Interest income	18,066	222,207	61,771	332,099
Change in value of temporary investment	-	374,000	-	484,500
Net gain on variation of commodity market prices	-	951,763	770,654	-
Gain on currency exchange	81,882	-	173,081	-
Miscellaneous revenues	24,971	769	64,512	769
	<u>124,919</u>	<u>1,548,739</u>	<u>1,070,018</u>	<u>817,368</u>
<b>Expenses</b>				
Administrative expenses	506,527	456,861	1,113,405	974,113
Stock-based compensation costs (note 12)	74,093	726,152	74,093	768,146
Interest expenses	4,371	10,657	7,984	25,421
Amortization of property, plant and equipment	18,943	20,185	37,810	27,376
Loss on disposal of land, exploration buildings and equipment	886	-	5,339	-
Write-off of mining assets	751,084	1,199,891	751,084	1,199,891
Net loss on variation of commodity market prices	603,051	-	-	330,652
Other project costs	-	6,080	-	6,080
Loss (gain) on change in value of temporary investment	(8,350)	-	58,450	-
Loss on currency exchange	-	574,303	-	720,310
	<u>1,950,605</u>	<u>2,994,129</u>	<u>2,048,165</u>	<u>4,051,989</u>
<b>Loss before income taxes for the period</b>	(1,825,686)	(1,445,390)	(978,147)	(3,234,621)
<b>Future income tax provision (recovery) (note 15)</b>				
Current	(11,685)	37,000	55,844	130,000
Future	-	714,000	-	255,000
	<u>(11,685)</u>	<u>751,000</u>	<u>55,844</u>	<u>385,000</u>
<b>Loss and comprehensive loss for the period</b>	(1,814,001)	(2,196,390)	(1,033,991)	(3,619,621)
<b>Deficit – Beginning of period</b>	(21,731,612)	(14,751,154)	(22,511,622)	(13,727,423)
Change in accounting policy related to financial instruments (note 3)	-	-	-	399,500
<b>Deficit – End of period</b>	<u>(23,545,613)</u>	<u>(16,947,544)</u>	<u>(23,545,613)</u>	<u>(16,947,544)</u>
<b>Basic and diluted loss per share</b>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.01)</u>	<u>(0.03)</u>
<b>Basic and diluted weighted average number of outstanding shares</b>	<u>111,373,027</u>	<u>110,192,899</u>	<u>111,373,027</u>	<u>109,929,586</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Statements of Cash Flows

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash flows from</b>				
<b>Operating activities</b>				
Loss for the period	(1,814,001)	(2,196,390)	(1,033,991)	(3,619,621)
Adjustments for				
Stock-based compensation costs (note 12)	74,093	726,152	74,093	768,146
Amortization of property, plant and equipment	18,943	20,185	37,810	27,376
Amortization of deferred tenant allowance	(4,797)	(6,396)	(9,594)	(6,396)
Loss on disposal of land, exploration buildings and equipment	886	-	5,339	-
Write-off of mining assets	751,084	1,199,891	751,084	1,199,891
Unrealized (gain) loss on variation of commodity market prices	707,629	(951,763)	(116,520)	330,652
Loss (gain) on change in value of temporary investment	(8,350)	(374,000)	58,450	(484,500)
Loss on currency exchange	-	574,303	-	720,310
Future income taxes	-	714,000	-	255,000
	(274,513)	(294,018)	(233,329)	(809,142)
Changes in non-cash working capital items (note 17)	(1,611,261)	(887,574)	(1,599,725)	476,914
	(1,885,774)	(1,181,592)	(1,833,054)	(332,228)
<b>Financing activities</b>				
Issuance of share capital	32,000	816,587	44,000	1,034,587
	32,000	816,587	44,000	1,034,587
<b>Investing activities</b>				
Increase in mining assets (excluding land, exploration buildings and equipment)	(6,331,739)	(8,413,660)	(14,641,355)	(17,155,772)
Increase in land, exploration buildings and equipment	(163,914)	(2,303,182)	(553,576)	(5,003,739)
Proceeds from sales of concentrates	6,999,035	6,329,934	12,664,279	13,428,013
Disposal of land, exploration buildings and equipment	15,324	-	24,189	-
Acquisition of property, plant and equipment	(424)	(32,856)	(2,915)	(186,045)
	518,282	(4,419,764)	(2,509,378)	(8,917,543)
<b>Decrease in cash and cash equivalents during the period</b>	(1,335,492)	(4,784,769)	(4,298,432)	(8,215,184)
<b>Cash and cash equivalents – Beginning of period</b>	3,737,076	16,274,172	6,700,016	19,704,587
<b>Cash and cash equivalents – End of period</b>	2,401,584	11,489,403	2,401,584	11,489,403
<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 June 30, 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.A. de C.V., Servicios de Minería de la Sierra S. de R.L. de C.V and Bolivar Administradores S.A. de C.V.

## **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 hereafter. The disclosure provided hereafter 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 June 30, 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 June 30, 2008

## 4 Financial instruments and risk management

### (a) Financial Instruments

The Company has classified financial instruments as follows:

	<b>As at June 30, 2008</b>	<b>As at December 31, 2007</b>
	<u>\$</u>	<u>\$</u>
<b>Financial Assets</b>		
Held-for-trading, measured at fair value		
Cash and cash equivalents	2,401,584	6,700,016
Temporary investments	108,550	167,000
Loans and receivable – measured at amortized costs		
Sales tax and other receivables	2,294,204	1,609,506
Income tax receivable	873,427	722,515
<b>Financial Liabilities</b>		
Held-for-trading, measured at fair value		
Trade payables	184,536	1,368,164
Other liabilities, measured at amortized costs		
Accounts payable and accrued liabilities	4,991,474	2,315,477

The Company had no held-to-maturity financial instruments during the quarter ended June 30, 2008 or during the year ended December 31, 2007.

### (b) Allowance account for credit losses

	<b>As at June 30, 2008</b>	<b>Year ended December 31, 2007</b>
	<u>\$</u>	<u>\$</u>
Sales tax and other receivables	2,294,204	1,609,506
Income tax receivable	873,427	722,515
Allowance for doubtful accounts	-	-
	<u>3,167,631</u>	<u>2,332,021</u>

As at June 30, 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 June 30, 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), accounts payable and accrued liabilities and mining concessions payable 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, mining concessions payable, as well as certain revenues and expenses, include amounts that are exposed to currency fluctuations.

As at June 30, 2008, the following balance sheet items included amounts in foreign currencies as follows:

			<b>As at June 30, 2008</b>
	<b>US\$</b>	<b>Mx Pesos</b>	<b>Equivalent CA\$</b>
Cash and cash equivalents	483,216	1,039,073	594,917
Trade receivables	(181,166)	-	(184,536)
Sales tax and other receivables	-	23,208,856	2,294,204
Accounts payable and accrued liabilities and income tax receivable and payable	(3,771)	(24,129,500)	(2,385,210)
Mining concessions payable	(1,682,500)	-	(1,713,649)
Net balance	<u>(1,384,221)</u>	<u>118,429</u>	<u>(1,394,274)</u>

## Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

			As at December 31, 2007
	US\$	Mx Pesos	Equivalent CA\$
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 income tax receivable and payable	(12,788)	(16,452,464)	(1,501,416)
Trade payables	(1,384,958)	-	(1,368,103)
Net balance	(275,306)	1,025,311	(179,175)

### *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 date of the balance sheet, the Company does not use derivative instruments to mitigate this risk. In July 2008, the Company initiated a quotation period ("QP") hedging program on its open copper position which will guarantee final settlement prices on approximately 90% of the shipped copper concentrate. The Company is planning to use the same procedure with future zinc concentrate shipments.

### *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 June 30, 2008

## 5 Trade receivables (payables)

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

	<b>As at June 30, 2008</b>	<b>As at December 31, 2007</b>
	\$	\$
Receivables from pilot mining	33,338	1,048,690
Provision for final settlement*	(217,874)	(2,416,854)
	<u>(184,536)</u>	<u>(1,368,164)</u>

\*The provision for final settlement represents the estimated amount which would be recovered or paid back as at June 30, 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 June 30, 2008, shipments that had not reached the final settlement stage comprised approximately 4,341 tonnes of zinc concentrate (9,566,952 lbs. payable) and 1,393 tonnes of copper concentrate (3,070,520 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

	<b>As at June 30, 2008</b>	<b>As at December 31, 2007</b>
	\$	\$
Broken material (at plant site)	-	37,600
Concentrate	104,539	571,285
	<u>104,539</u>	<u>608,885</u>

## 7 Temporary investment

	<b>As at June 30, 2008</b>	<b>As at December 31, 2007</b>
	\$	\$
Pershimco Resources Inc. ("Pershimco")		
835,000 common shares – at quoted market value (December 31, 2007 – 835,000 common shares at quoted market value)	108,550	167,000
	<u>108,550</u>	<u>167,000</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

## 8 Property, plant and equipment

	As at June 30, 2008			Estimated useful life
	Cost	Accumulated amortization	Net	
	\$	\$	\$	
Computer equipment	87,036	46,767	40,269	3 years
Office equipment	71,133	34,648	36,485	3 years
Leasehold improvements	160,976	39,625	121,351	over the term of the lease
	<u>319,145</u>	<u>121,040</u>	<u>198,105</u>	

  

	As at December 31, 2007			Estimated useful life
	Cost	Accumulated amortization	Net	
	\$	\$	\$	
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>	

## 9 Mining assets

	As at June 30, 2008	As at December 31, 2007
	\$	\$
Costs and deferred exploration expenses (a)	27,323,165	21,470,782
Land, exploration buildings and equipment (b)	12,196,166	13,278,355
Supplies and spare parts inventory	3,155,769	1,812,324
Deposits on mining assets	667,783	276,245
	<u>43,342,883</u>	<u>36,837,706</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

(a) Cost and deferred exploration expenses

	Costs		Deferred exploration expenses		Total	
	As at June 30, 2008	As at December 31, 2007	As at June 30, 2008	As at December 31, 2007	As at June 30, 2008	As at December 31, 2007
	\$	\$	\$	\$	\$	\$
<b>Mexico (State of Chihuahua)</b>						
Bolivar projects						
Bolivar III and IV (Bolivar Mine property)* (iv) (note 20)	-	-	-	-	-	-
La Chaparrita (ii)	86,488	-	-	-	86,488	-
Bolivar (iii)	86,378	-	-	-	86,378	-
San José (v)	-	243,835	-	506,009	-	749,844
Other	462,551	459,605	2,195,178	2,195,178	2,657,729	2,654,783
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)	1,459,339	1,545,056	21,182	13,112	1,480,521	1,558,168
San Miguel – La Bamba (c) (option)	222,063	221,726	2,539,355	2,532,400	2,761,418	2,754,126
Mineria Cusi – Santa Edwiges/						
San Nicolas (d) (option)	5,296,410	2,162,028	12,845,627	9,576,131	18,142,037	11,738,159
DBM	27,894	25,883	42,811	42,752	70,705	68,635
La Engañosa (i)	64,884	-	25,923	-	90,807	-
	<u>7,946,927</u>	<u>4,899,053</u>	<u>19,376,238</u>	<u>16,571,729</u>	<u>27,323,165</u>	<u>21,470,782</u>

	Costs		Deferred exploration expenses		Total	
	As at June 30, 2008	As at December 31, 2007	As at June 30, 2008	As at December 31, 2007	As at June 30, 2008	As at December 31, 2007
	\$	\$	\$	\$	\$	\$
<b>*Bolivar III and IV (Bolivar Mine property)</b>						
Costs and deferred exploration expenses	1,827,109	1,797,655	71,412,406	59,146,680	73,239,515	60,944,335
Less: accumulated sales of concentrates from pilot mining	(1,827,109)	(1,797,655)	(76,598,237)	(63,410,122)	(78,425,346)	(65,207,777)
	-	-	(5,185,831)	(4,263,442)	(5,185,831)	(4,263,442)
Less: transfer to excess cost recovery – pilot mining	-	-	5,185,831	4,263,442	5,185,831	4,263,442
	-	-	-	-	-	-

## **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

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(i) La Engañosa

In February 2008, the Company entered into an option agreement with Arnoldo Castañeda Martínez and Consorcio Minero Latinoamericano, S.A. de C.V. (“Martinez-Consorcio Minero”) whereby it could earn a 100% interest in the La Engañosa property by paying a total amount of \$1,289,134 (US\$1,265,000) as follows:

- a. \$66,814 (US\$65,000) at the date of signing (paid),
- b. \$76,395<sup>(1)</sup> (US\$75,000) in August 2008,
- c. \$76,395<sup>(1)</sup> (US\$75,000) in February 2009,
- d. \$152,790<sup>(1)</sup> (US\$150,000) in August 2009,
- e. \$203,720<sup>(1)</sup> (US\$200,000) in February 2010,
- f. \$305,580<sup>(1)</sup> (US\$300,000) in August 2010,
- g. \$407,440<sup>(1)</sup> (US\$400,000) in February 2011,

and by incurring minimum exploration expenditures of \$305,580<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 common shares of Dia Bras Exploration if the shares trade at or higher than \$1.25. The property was subject to a 2% NSR which could be bought back for \$1,527,900<sup>(1)</sup> (US\$1,500,000) over a period of 6 years, plus minimum annual royalties of \$48,893<sup>(1)</sup> (US\$48,000) after 5 years.

In August 2008, after the first phase of exploration, management decided not to pursue this option further. Therefore, the Company has abandoned the project, and all costs and deferred exploration expenses incurred will be written off during the third quarter of 2008.

(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 for a total amount of US\$85,000 to be paid as follows:

- \$15,419 (US\$15,000) at the date of signing (paid),
- \$15,279<sup>(1)</sup> (US\$15,000) in July 2008 (paid),
- \$56,023<sup>(1)</sup> (US\$55,000) in January 2009.

As at June 30, 2008, an amount of \$71,302<sup>(1)</sup> (US\$70,000) is included in mining concessions payable.

## **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

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(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 for a total amount of US\$85,000 to be paid as follows:

- \$15,419 (US\$15,000) at the date of signing (paid),
- \$15,279<sup>(1)</sup> (US\$15,000) in July 2008 (paid),
- \$56,023<sup>(1)</sup> (US\$55,000) in January 2009.

As at June 30, 2008, an amount of \$71,302<sup>(1)</sup> (US\$70,000) is included in mining concessions payable.

(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 \$164,272 (US\$166,250). As at June 30, 2008, an amount of \$28,648<sup>(1)</sup> (US\$28,125) remains to be paid.

(v) San José properties

In July 2003, the Company entered into an option agreement with El Paso Partners, Ltd. (“EPP”) and its wholly owned subsidiary Polo y Ron Minerales S.A. de C.V. to acquire a cumulative interest of up to 100% in the San José silver and base metal properties covering 823.16 hectares, in the State of Chihuahua, Mexico, for a total consideration of US\$349,500 and exploration expenditures of \$1,668,467<sup>(1)</sup> (US\$1,638,000) until July 2009. The remaining payment of \$38,546 (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.

On May 30, 2008, the Company decided to abandon the San José properties. Consequently, all costs and deferred exploration expenses accumulated on the related mining concessions as at that date amounting to \$751,084 have been written off in the second quarter of 2008. EPP has yet to officially accept the Company’s option termination letter.

## Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

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(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 \$1,527,900<sup>(1)</sup> (US\$1,500,000) with a \$1,018,600<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 \$1,527,900<sup>(1)</sup> (US\$1,500,000). The NSR can be purchased for \$1,018,600<sup>(1)</sup> (US\$1,000,000). As at June 30, 2008, an amount of \$12,733<sup>(1)</sup> (US\$12,500) remains to be paid. This amount is included in mining concessions payable. 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 June 30, 2008, the Company had earned a 50% interest in the San Miguel-La Bamba properties.

In June 2008, the Company and Pershimco Resources Inc. entered into a joint venture agreement ("JVA") for the San Miguel and La Bamba properties, which cover 36 hectares in the Cusi Silver Mining District. Pursuant to the terms of the JVA, Pershimco must incur US\$1.5 million of expenditures on the properties before having the right to acquire an additional 20% interest on the properties at a cost of US\$1.0 million. The JVA provides for Pershimco being the operator for all exploration and development of the properties which will be managed through a jointly owned Mexican subsidiary. Pershimco and Dia Bras each hold a 50% interest in the properties. The properties are subject to a 2% NSR of which 1% may be bought back for \$1,018,600<sup>(1)</sup> (US\$1,000,000).

- (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.

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), \$509,252<sup>(1)</sup> (US\$500,000) in November 2008 and four quarterly instalments of \$524,530<sup>(1)</sup> (US\$515,000) in March, June, September and December 2009. As at June 30, 2008, an amount of \$2,622,650 (US\$2,560,000) is included in mining concessions payable.

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 \$11.20<sup>(1)</sup> (US\$11.00) per ounce or 3% NSR if the price of silver exceeds \$11.20<sup>(1)</sup> (US\$11.00) per ounce.

<sup>(1)</sup> Converted at the rate of exchange in effect as at June 30, 2008.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

(b) Land, exploration buildings and equipment

			<b>As at June 30, 2008</b>
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Land	273,813	-	273,813
Buildings			
Plant	1,808,410	436,502	1,371,908
Camp	420,520	157,010	263,510
Machinery and equipment	13,229,693	5,093,587	8,136,106
Computers and office furniture	982,450	533,089	449,361
Rolling stock	3,438,028	1,736,560	1,701,468
	<b>20,152,914</b>	<b>7,956,748</b>	<b>12,196,166</b>
			<b>As at December 31, 2007</b>
	<b>Cost</b>	<b>Accumulated 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.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

## 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 six-month period ended June 30, 2008</b>		<b>For the year ended December 31, 2007</b>	
	<b>Number of shares</b>	<b>Amount \$</b>	<b>Number of shares</b>	<b>Amount \$</b>
Balance – Beginning of the period	111,371,269	53,218,198	109,550,905	51,308,067
Issued following exercise of compensation options (note 11)	-	-	996,364	1,181,141
Issued following exercise of stock options (notes 12 and 13)	130,000	73,588	824,000	728,990
Balance – End of the period	<u>111,501,269</u>	<u>53,291,786</u>	<u>111,371,269</u>	<u>53,218,198</u>

## 11 Compensation options

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

	<b>For the year ended December 31, 2007</b>	
	<b>Number of compensation options</b>	<b>Amount \$</b>
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	<u>-</u>	<u>-</u>

As at June 30, 2008, there are no outstanding compensation 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.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

## 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 June 30, 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. Beginning September 2006, up until November 2007, options granted were entirely vested at the date of grant. All options granted after November 2007 have a vesting period of two years as follows: 33 1/3% on the grant of the options, 33 1/3% one year after the grant and 33 1/3% two years after the grant of the options.

On April 14, 2008, the Board granted a total of 330,000 options to purchase common shares of the Company to a director and officer, an officer and an employee. The options are exercisable at any time at a price of \$0.61 until April 14, 2013.

On June 11, 2008, the Board granted a total of 300,000 options to purchase common shares of the Company to its new directors and a consultant. The options are exercisable at any time at a price of \$0.45 until June 11, 2013.

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

	<b>For the six-month period ended June 30, 2008</b>		<b>For the year ended December 31, 2007</b>	
	<b>Number of options</b>	<b>Average exercise price \$</b>	<b>Number of options</b>	<b>Average exercise price \$</b>
Beginning of the period	10,318,333	0.72	8,957,333	0.60
Granted	630,000	0.53	2,515,000	1.10
Exercised (note 10)	(130,000)	0.34	(824,000)	0.60
Cancelled	(40,000)	0.98	(330,000)	0.91
End of the period	<u>10,778,333</u>	<u>0.71</u>	<u>10,318,333</u>	<u>0.72</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

A summary of options outstanding and exercisable as at June 30, 2008 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	1,273,333	1,273,333	September 2010
0.22	125,000	125,000	September 2010
0.40	2,495,000	2,495,000	February 2011
0.90	1,890,000	1,890,000	September 2011
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
0.61	330,000	110,000	April 2013
0.45	300,000	100,000	June 2013
	<b>10,778,333</b>	<b>10,358,333</b>	

During the six-month period ended June 30, 2008, stock-based compensation costs amounted to \$87,555 including \$13,462 capitalized to mining assets, compared with \$1,541,044, including \$772,898 capitalized to mining assets for the same period in 2007, on the basis that the options were granted to officers and consultants involved in the exploration program in Mexico, and the balance of \$74,093 (\$768,146 in 2007) was recorded in the Consolidated Statements of Operations, Comprehensive Income (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 six-month period ended June 30, 2008	For the six-month period ended June 30, 2007
Average dividend per share	Nil	Nil
Estimated volatility	75%	94%
Risk-free interest rate	2.87%	3.93%
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	\$0.30	\$0.75
Exercise price	\$0.53	\$1.12

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

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## 13 Contributed surplus

	<b>For the six-month period ended June 30, 2008</b>	<b>For the year ended December 31, 2007</b>
	<u>\$</u>	<u>\$</u>
Balance – Beginning of the period	8,169,052	6,590,223
Stock-based compensation costs (note 12)	87,555	1,806,544
Exercise of options (note 10)	(29,588)	(236,990)
Compensation options expired (note 11)	-	9,275
Balance – End of the period	<u>8,227,019</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 June 30, 2008, the Company was not subject to any externally imposed capital requirements other than the mining concessions payable as described in note 9 (a) (ii), (iii) and (vi) (b), (d). However, it has committed to an 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)

As at June 30, 2008

## 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 six-month period ended June 30, 2008</b>	<b>For the six-month period ended June 30, 2007</b>
	<u>\$</u>	<u>\$</u>
Loss before income taxes	(978,147)	(3,234,621)
Combined federal and provincial income tax benefit at 31.9% (32% in 2007)	(312,028)	(1,035,079)
Income tax rate differential in Mexico	1,438	86,058
Expired tax losses	64,757	-
Stock-based compensation costs	23,636	247,343
Increase in temporary investment	18,646	(155,040)
Increase (decrease) in the valuation allowance	421,945	255,000
Write-off of mining properties	210,304	383,965
Foreign exchange gain (loss) taxable (deductible) in Mexico	(443,625)	392,554
Inflation taxable on losses and net financial liabilities in Mexico	44,443	168,172
Permanent difference		
Non-deductible items in Mexico	21,459	24,143
Increase in taxable loss	-	18,245
Other	4,869	(361)
	<u>55,844</u>	<u>385,000</u>

## 16 Asset retirement obligations

As at June 30, 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)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

## 17 Statements of cash flows

	<b>For the six-month period ended June 30, 2008</b>	<b>For the six-month period ended June 30, 2007</b>
	<u>\$</u>	<u>\$</u>
(a) The changes in non-cash working capital items are as follows:		
Sales tax and other receivables	(684,698)	320,491
Inventories from the pilot-mining program	504,346	(21,403)
Prepaid expenses	(107,124)	(16,065)
Accounts payable and accrued liabilities	(1,119,171)	121,316
Income tax receivable/payable	(193,078)	72,575
	<u>(1,599,725)</u>	<u>476,914</u>
	\$	\$
(b) Additional information – non-cash transactions		
Stock-based compensation costs capitalized into mining assets (note 12)	13,462	772,898
Additions of mining assets included in accounts payable and accrued liabilities	2,123,685	739,651
Variation in trade receivables (payables) included in mining assets	(1,067,108)	2,331,818
Capitalized amortization of exploration buildings and equipment	1,606,237	1,574,575
	\$	\$
(c) Interest and income taxes		
Interest paid	7,984	25,421
Income taxes paid and prepaid instalments	85,889	57,425

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the Interim Consolidated Financial Statements (unaudited)

As at June 30, 2008

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## 18 Related party transactions

During the six-month period ended June 30, 2008, companies controlled by officers of the Company charged consulting fees amounting to \$199,549 (for the six-month period ended June 30, 2007 – \$434,881), including \$132,002 capitalized to deferred exploration costs (for the six-month period ended June 30, 2007 – \$329,102). As at June 30, 2008, no balance was due to these companies (as at June 30, 2007 – \$35,770).

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). The State congress has just recently approved the transaction, and contracts are now being prepared. Payments will be over a two-year period including 50% at the signature of the sale agreement.
- (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 August 15, 2008, the Company has paid, on behalf of the Borrower, the full amount due on the financial lease and increased the advance due from the Borrower which stands at approximately \$123,500 (MX 1,249,323). 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 June 30, 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 June 30, 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)*

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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 but remain responsible until expiry in February 2009.

## **20 Contingency**

In 2005, a personal action was filed in Mexico against one of the Company's subsidiaries, Dia Bras Mexicana, S.A. de C.V., ("DBM"), by an individual claiming the annulment and revocation of the purchase contracts of two mining concessions, Bolivar III and IV (see note 9 (iv)), 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**

On July 14, 2008, the Company's wholly owned subsidiary Dia Bras Mexicana S.A. de C.V. entered into a US\$ 2,000,000 working capital loan facility with MRI Trading AG ("MRI"). This advance credit facility bears interest at the 3-month LIBOR rate plus 4% payable monthly over an 18-month period starting six months after the reception of the funds.

Along with this agreement, the Company has agreed to sell to MRI its full production of zinc, copper and lead-silver concentrates up until mid-2010.