



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the six-month period ended June 30, 2008

# MANAGEMENT'S DISCUSSION AND ANALYSIS

August 28, 2008

This Management's Discussion and Analysis ("MD&A") supplements the unaudited consolidated financial statements and related notes of Dia Bras Exploration Inc. ("Dia Bras" or the "Company") for the six-month period ended June 30, 2008 and follows rule 51-102A of the Canadian Securities Administrator regarding continuous disclosure for reporting issuers. Therefore, it should be read in conjunction with those financial statements and related notes as at June 30, 2008. Additional information relating to Dia Bras is also available on SEDAR at [www.sedar.com](http://www.sedar.com). It represents the view of management on the Company's current activities and its past and current financial results, as well as an outlook of the coming months. Unless otherwise specified, all dollar amounts in the MD&A are expressed in Canadian dollars.

## FORWARD-LOOKING STATEMENTS

The MD&A contains forward-looking statements that express, as at the date thereof, the Company's expectations, estimates and projections regarding its business, the mining industry and the economic environment in which it operates. Forward-looking statements are reasonable, but involve a number of risks and uncertainties and there can be no assurance that such statements will prove to be accurate. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements, and readers should not place undue reliance on such statements.

## NOTE TO READERS

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

## CORPORATE OVERVIEW AND BUSINESS

Headquartered in Montréal, Canada, Dia Bras focuses on the exploration and development of copper-zinc, lead-silver and zinc properties throughout its combined 18,071 hectares in the state of Chihuahua, Mexico. The Company's projects, Bolivar and Cusihiuriachic ("Cusi"), are located in the Sierra Madre Occidental mountains of northwestern Mexico and within transport distance to its Malpaso Mill. Dia Bras' Malpaso Mill can process up to a capacity of 850 tonnes per day ("tpd") with potential for 1,350 tpd.

The Company currently produces zinc, copper and lead-silver concentrates through its Bolivar and Cusi pilot-mining programs.

Dia Bras's goal is to focus on growing its mining operations through the development of existing properties, while maintaining production costs that will sustain the Company through most market conditions.

## SECOND QUARTER 2008 HIGHLIGHTS

- » During the second quarter of 2008, production of zinc increased 40% and production of copper decreased 30% compared with the first quarter of 2008. Both productions have an overall increase of 103% and 91.5% respectively over the same period in 2007 due to higher zinc and copper grades and higher tonnages.
- » Decrease of 14.5% of operating cash costs per dry metric tonne during the second quarter over 2007 and a 16.1% decrease over the cumulative six-month period for Bolivar pilot-mining activities.
- » Sales of approximately \$13.2 million at Bolivar Mine from pilot mining increased 24% compared with \$10.6 million in the corresponding period of 2007. For the three-month period ended June 30, 2008, sales amounted \$6.59 million, consistent with \$6.63 million in the first quarter of 2008.
- » Reduction of zinc market price of 42% compared to the same period in 2007 and 13% compared to the first quarter of 2008 has been an important factor that affected the Company's sales, cash flow and financial situation.
- » The Company's exploration program at Bolivar continues to generate excellent results.

## OVERALL PERFORMANCE – SECOND QUARTER 2008

### EXPLORATION, PILOT MINING AND MINING DEVELOPMENT ACTIVITIES - SECOND QUARTER 2008

The Company's overall performance was positive in the first half of 2008; the exploration programs generate encouraging results from both Bolivar and Cusi properties. Dia Bras achieved record production of copper and zinc concentrates from its pilot-mining activities at Bolivar. Despite cost pressures, such as increased diesel prices, the Company was able to reduce its operating cash costs for the first half of 2008 by 16.1% over 2007.

Dia Bras continues to focus its attention on the initiation of a feasibility study at Bolivar. Currently, most of the definition drilling has been completed, and the Company expects to issue a measured and indicated resource calculation at the end of the third quarter, which will be the foundation of the study.

Following the termination of the first phase of the exploration process, the Company has reduced its drilling expenditures and will now focus on mine geology development to improve its pilot-mining activities. Accordingly, staff levels on each project have been reduced due to the reduction of exploration activities.

### **Bolivar Project**

The Bolivar project is situated in the Piedras Verdes mining district of Chihuahua, approximately 250 km southwest of the city of Chihuahua, the capital of the state of Chihuahua in northern Mexico and, more specifically, approximately 10 kilometres southwest of Urique. It includes two units of exploration properties: the Bolivar and Mezquital groups, which comprise 12 mineral concessions that cover approximately 6,616 hectares.

The Bolivar project is covered by different purchase and option agreements including:

#### **Bolivar III and IV Option Agreement**

In 2004, the Company entered into a commercial agreement with the owners of Bolivar III and Bolivar IV. The agreement provided for the acquisition by the Company of 100% of the Bolivar Mine property for a consideration of US\$1,200,000. 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 US\$166,250. As at June 30, 2008, an amount US\$28,125 remains to be paid.

As at June 30, 2008, 50% interest is registered in the name of the Company and 50% is still registered under the name of Javier Bencomo Munoz and in process of registry under the name of the Company before the Public Mining Registry.

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, 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 (refer to note 20 on Contingency in the 2007 year-end audited consolidated financial statements).

#### **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:

- US\$15,000 at the date of signing (paid),
- US\$15,000 in July 2008 (paid),
- US\$55,000 in January 2009.

As at June 30, 2008, an amount of US\$70,000 is included in mining concessions payable.

## 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:

- US\$15,000 at the date of signing (paid),
- US\$15,000 in July 2008 (paid),
- US\$55,000 in January 2009.

As at June 30, 2008, an amount of US\$70,000 is included in mining concessions payable.

### Bolivar Project 2008 Exploration Program

Exploration efforts are focused on advancing the feasibility study. The objective of the program at Bolivar is to deliver sufficient resources in the measured and indicated categories to allow for a positive feasibility study to be undertaken in the third quarter of 2008. The view to assess the construction of a mill on site at Bolivar was addressed by the Company at the acquisition of the property and the inception of pilot-mining activities in 2005.

An updated resource calculation estimate as at February 28, 2008 was performed by Geostat Systems International Inc. Detailed results were announced and further disclosed in the 2007 annual and first quarter 2008 management discussion and analysis report.

In the second quarter of 2008, 8,433 metres of core diamond drilling were completed at Bolivar (surface and underground), for a year-to-date total of 14,605 metres. Drilling focused on three main areas: Alta Ley zone, the El Gallo zone and the La Montura trend.

	Area	Q1-2008			Q2-2008			Total
		Jan.	Feb.	March	April	May	June	
Underground	San Angel	-	-	-	-	-	165	165
	San Francisco	147	123	214	382	1,207	396	2,469
	Selena	387	318	-	-	-	-	705
	Titanic 2		202	416	86	606	261	1,571
<b>Mine Total</b>		<b>534</b>	<b>643</b>	<b>630</b>	<b>468</b>	<b>1,813</b>	<b>822</b>	<b>4,910</b>
Surface	El Gallo	248	484	527	1,070	1,298	521	4,148
	La Montura	-	135	726	270	954	354	2,439
	La Narizona	363	672	-	-	-	-	1,035
	Bolivar Alta Ley	509	386	114	-	-	-	1,009
	La Increíble	-	-	201	375	59	429	1,064
<b>Surface Total</b>		<b>1,120</b>	<b>1,677</b>	<b>1,568</b>	<b>1,715</b>	<b>2,311</b>	<b>1,304</b>	<b>9,695</b>
<b>Grand Total</b>		<b>1,654</b>	<b>2,320</b>	<b>2,198</b>	<b>2,183</b>	<b>4,124</b>	<b>2,126</b>	<b>14,605</b>

### Bolivar Alta Ley Zone

At the Bolivar Mine, more than 3,100 metres of underground drilling was performed during the second quarter, mostly in the Titanic 2 and the San Francisco areas.

During the course of the pilot-mining activities at the Bolivar Mine, the Company discovered a new wide zone of copper-zinc mineralization exposed below the San Angel zone on Level 2 of the mine. A highly altered granodiorite dyke, of variable width (5-20 metres), carrying bornite mineralization and producing a halo of alteration and copper-zinc mineralization on its margins, was exposed in the workings. This is the second important bornite zone encountered (refer to news release of May 28, 2008). Currently, underground drilling and development works are underway to explore and determine the overall size of the dyke and down deep continuation of the San Angel ore body.

A 160-metre positive ramp from the Alta Ley area reached the San Francisco zone in the beginning of July. This newly opened underground area, situated approximately 300 metres south of the main mine area, was discovered in 2004 and 2005 during surface drilling exploration. Underground drilling has enabled the defining of a block of mineralized material that will be included in the updated resource statement that should be announced at the end of the third quarter. The best underground intersections in the San Francisco area came from hole DB08BM165 that intersected 16.2 metres core length (estimated true width of 4.2 metres) of 1.0% Cu, 8.7% Zn, 30 g/t Ag and 0.18 g/t Au (refer to news release of July 29, 2008).

## **El Gallo Zone**

In the El Gallo zone, 2,889 metres of drilling were completed during the second quarter, mainly to upgrade the inferred resources to measured and indicated categories. Several holes were drilled east of the newly discovered bornite zone (refer to news release of April 8, 2008) and intersected widespread copper mineralization. Hole DB08B248 intersected 18.1 metres core length (estimated true width of 11.6 metres) of 2.2% Cu, 0.72 g/t Au, 32 g/t Ag and 26.4% Fe in the lower skarn horizon.

Drilling results further confirm the extent of the lower skarn horizon southeast and northwest of the main El Gallo area and will enable the resource base of the Bolivar project to be increased.

## **La Montura Trend**

In the La Montura trend, 1,578 metres of surface drilling were completed to further define the favourable upper and lower skarn horizons and lead to a potential resource evaluation of this area. The best results in this area were observed in hole B08B235 which intersected 9.38% Zn over 16.70 metres in upper skarn-type mineralization at La Narizona, including a higher grade section averaging 17.04% Zn over 6.90 metres (refer to news release of April 8, 2008).

## **Bolivar Mine Pilot-Mining Program**

During the second quarter of 2008, the Company processed 33,880 tonnes of material averaging grades of 1.64% Cu and 8.49% Zn from the Bolivar Mine, producing 1,676 DMT of copper concentrate and 4,580 DMT of zinc concentrate for a cumulative of 66,475 tonnes processed averaging grades of 1.94% Cu and 7.67% Zn, for a year-to-date production of 4,042 DMT of copper concentrate and 7,840 DMT of zinc concentrate.

Management maintains its 2008 production forecast to process 144,000 tonnes of material at average grades of 1.4% Cu and 8.0% Zn.

The second quarter production value amounted to US\$6.7 million, a 39.5% increase over last year's corresponding period of US\$4.8 million. The increase in production value compared to Q2-2007 is mostly attributable to the strong performance of copper market prices and increased mill throughput.

Cost improvement programs in all areas of the Company resulted in the reduction of direct operating cash costs per tonne during the second quarter of 14.5% over 2007 and 16.1% over the cumulative six-month period compared to 2007.

Increased production value from higher copper and zinc grades compared to last year's period was again affected by the lower zinc market prices during that period.

A summary of comparative statistics for 2008 and 2007 is shown in the following table. The cumulative statistics include adjustments made following reconciliation with final settlement data.

## Bolivar Pilot Mining / Summary of the Second Quarter 2008

	Actual Q2-2008	Actual Q2-2007	% Variation 2008 over 2007	Actual Cumulative 2008	Actual Cumulative 2007	% Variation 2008 over 2007
Tonnes processed	33,880	28,240	19.97	66,475	58,254	14.11
Daily throughput	387	323	19.81	760	666	14.11
Copper grade	1.64%	1.13%	45.13	1.94%	1.24%	56.45
Zinc grade	8.49%	5.27%	61.10	7.67%	6.04%	26.99
Copper recovery	80.06%	77.58%	3.20	84.11%	79.60%	5.67
Zinc recovery	90.01%	87.69%	2.65	85.77%	86.10%	(0.38)
Copper concentrate production DMT	1,676	875	91.54	4,042	2,048	97.36
Zinc concentrate production DMT	4,580	2,255	103.10	7,840	5,242	49.56
Total production of copper (pounds)	997,635	557,708	78.88	2,405,990	1,279,967	87.97
Total production of zinc (pounds)	5,684,701	2,867,854	98.22	9,731,016	6,656,004	46.20
Average price of copper per pound, \$US	\$3.83	\$3.45	11.01	\$3.64	\$3.07	18.57
Average price of zinc per pound, \$US	\$0.96	\$1.65	(41.82)	\$1.02	\$1.61	(36.65)
<i>(in US\$ millions)</i>						
Total net smelter production value <sup>(1) (2) (3)</sup>	\$6.7 M	\$4.8 M	39.58	\$13.7 M	\$10.0 M	37.00
Direct operating cash costs (including development) <sup>(1) (2) (3)</sup>	\$3.7 M	\$3.6 M	2.78	\$6.9 M	\$7.2 M	(4.17)
Direct operating cash margin (FOB Malpaso Mill) <sup>(1) (2) (3)</sup>	\$3.0 M	\$1.2 M	150.00	\$6.8 M	\$2.8 M	142.86
Operating cash costs/DMT (including development) <sup>(1) (2) (3)</sup>	\$108.91	\$127.48	(14.57)	\$103.98	\$123.91	(16.08)

(1) Non-GAAP measures: The Company reports net smelter production value (net treatment of refining charges), direct operating cash costs (including development), direct operating cash margin (FOB Malpaso mill) and operating cash costs/DMT (including development) even if they are non-GAAP measures to indicate the approximate value of the year's sales, and to isolate the measure of pilot-mining operation cost activities less amortization and depreciation. The Company believes this is useful supplemental information. However, it should not be considered as a substitute for measure of performance prepared in accordance with GAAP.

(2) Net smelter production value is calculated using quarterly average current metal prices which may be different from final prices.

(3) Before amortization

Since the beginning of 2008, the Company finalized negative settlement billings totaling US\$2.6 million which directly affected the Company's cash flow. Those settlements mainly related to 2007 zinc shipments which generated a loss in commodity prices of US\$3.10 million recorded in 2007 results. The commodity price effect of those shipments during 2008 was a gain of US\$70,000. Since September 2007, the zinc market price decreased by approximately 40.0% (including 21.2% since the beginning of 2008) from US\$1.35/lb to US\$0.96/lb at the end of the second quarter. In order to protect its cash flow, the Company initiated, in July 2008, 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.

### San José

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 have been written off in the second quarter of 2008. As of the date of this report, El Paso Partners, Ltd./Polo y Ron Minerales S.A. de C.V. has yet to officially accept the Company's option termination letter.

### Cusi Project

The history of the Cusihiurichic silver district spans three hundred-plus years. The abundance of silver initially attracted fortune hunters to Cusi in the late 1600s, and this centrally located district was an important factor that allowed Mexico to control approximately 33% of the world's silver production. These former mines historically produced high-grade silver but became inactive during plummeting silver prices; most have never been explored at depth and none with modern techniques. The acquired assets include 12 inactive mines, each located on a mineralized structure.

The Cusi project is subject to different purchase and option agreements (refer to quarterly financial statements and annual 2007 management's discussion and analysis: La India and La Marisa, Holguin properties, San Miguel-La Bamba (Pershimco) and Minera Cusi) all entered into in 2006, including the Minera Cusi agreement on which related properties' exploration expenditures were incurred during the second quarter of 2008.

### Minera Cusi Agreement

In June 2006, the Company entered into an option agreement to earn a 100% interest in several properties (1,133.5 hectares) with Compañía Minera Cusi ("Minera Cusi"), a private Mexican company, for a total amount of US\$5,000,000 payable over a three-year period.

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 the total outstanding amount of US\$3,060,000 to be paid as follows: US\$500,000 (paid at the date of signing), US\$500,000 in November 2008 and four quarterly instalments of US\$515,000 in March, June, September and December 2009. Those amounts are disclosed as mining concessions payable in the June 30, 2008 unaudited consolidated financial statements. 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 US\$11.00 per ounce or 3% NSR if the price of silver exceeds US\$11.00 per ounce.

### Cusi Exploration 2008 Program

The objectives of the drilling program at Cusi are: to upgrade resources in the Santa Edwiges and Promontorio sectors and to target individual structural corridors identified during the mapping program of 2007.

Drilling at Cusi during in the second quarter was reduced as more resources were allocated to the Bolivar project for the completion of the resource definition drilling.

From April to June 2008, 4,373 metres of diamond core drilling were completed on the Cusi project (2,987 metres from surface and 1,386 metres from underground) for a year-to-date total of 10,849 metres. The following table shows the distribution of drilling for 2008.

Metres Per Sector	Q1-2008			Q2-2008			Total
	January	February	March	April	May	June	
Santa Edwiges	422	792	795	501	243	642	3,395
Total Underground	422	792	795	501	243	642	3,395
Promontorio	920	789	126	-	-	350	2,185
San Antonio	-	-	-	-	-	63	63
Santa Edwiges	601	394	-	-	-	-	995
Santa Marina	176	521	374	495	561	432	2,559
Minerva	-	40	527	603	483	-	1,653
Total Surface	1,697	1,744	1,027	1,098	1,044	845	7,455
<b>Grand Total</b>	<b>2,119</b>	<b>2,536</b>	<b>1,822</b>	<b>1,599</b>	<b>1,287</b>	<b>1,487</b>	<b>10,850</b>

### Santa Edwiges / Santa Marina (Refer to the Minera Cusi Agreement)

From April to June 2008, 1,386 metres of underground drilling were completed at Santa Edwiges, as well as the development of more than 160 metres of the 303 ramp which should allow access to a mineralized zone containing possibly up to 40,000 tonnes of economic (Pb-Zn-Ag) material known as the Santa Rosa chimney. This zone has been intersected by a number of surface and underground drill holes (including hole DC07B091).

In the Santa Marina trend, 1,488 metres of surface drilling were completed to explore the depth extension of the mineralization. Drilling has allowed Dia Bras to delineate high-grade ore shoots along the Santa Rosa zone and along the Santa Marina trend. The best intersection was observed in hole DC08M023, which intersected 1345 g/t Ag, 14.05 g/t Au, 1.10% Zn, 1.60% Pb and 0.1% Cu, over a core length of 1.0 metre (true width estimated at 0.85 metre).

### Promontorio Mine (Refer to the Minera Cusi Agreement)

From April to June 2008, limited surface drilling was performed in this area.

## Regional Mapping

During the months of March and April, a wide-scale prospecting, mapping and sampling program was undertaken in the La Reina sector. This sector is located in the southern part of the Cusi property and includes a number of historical mineralized and mined areas. The program has revealed the presence of a number of gold-silver veins and breccias both from known historical producers and from zones unexplored in the past. A total of 446 samples were taken and sent for analyses. Eight samples returned values greater than 1,000 g/t Ag, 13 with values over 500 g/t Ag, 40 values above 300 g/t Ag and more than 156 samples (40%) returned results exceeding 100 g/t Ag. 50 samples were collected on claims that are still under negotiation with the owner (refer to news release of May 30 and July 25, 2008).

## Resource Estimate

A first National Instrument ("NI") 43-101 compliant resource calculation was completed for the most promising sectors of the Cusi camp, Santa Edwiges and Promontorio, as at March 31, 2008. These numbers are very promising, as only two of the known twelve mineralised areas have been included in the resource calculation, leaving a tremendous upgrade potential.

A copy of the report has been filed on SEDAR and may be viewed under the Company's profile at [www.sedar.com](http://www.sedar.com) or on the Company's website at <http://www.diabras.com>.

Resources - Total of Promontorio and Santa Edwiges									
Calculated by Yann Camus, Eng., Geostat Systems International Inc.,									
Resource situation on 2008-03-31									
Cutoff at 120 g/t AgEq, 2 m minimum horizontal width for structures, density of 2.7									
Classification	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	AgEq* (g/t)	Oz of Ag	Oz of AgEq
Measured	11,000	0.05	207	0.04	0.47	0.51	263	76,380	96,650
Indicated	223,000	0.12	186	0.05	0.81	0.84	282	1,336,870	2,024,500
<b>Measured + Indicated</b>	<b>234,000</b>	<b>0.12</b>	<b>187</b>	<b>0.05</b>	<b>0.80</b>	<b>0.82</b>	<b>281</b>	<b>1,413,260</b>	<b>2,121,160</b>
Inferred	1,394,000	0.24	188	0.06	1.15	1.14	326	8,434,810	14,614,410

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

### Notes:

1. CIM Definitions were followed for the resource estimate.
2. A minimum width of 2 m was used for a mineralized zone.
3. Densities of mineralized rock are indicated in the tables.
4. Equivalent Ag grades and contained ounces were estimated based on gold, silver, lead and zinc plant recoveries as per the most recent metallurgical test work and smelter terms.
5. Mineral resources that are not mineral reserves do not have demonstrated economic viability.
6. Price assumptions used for the AgEq calculation (US\$): Ag 11.00/oz, Au 600.00/oz, Cu 2.00/lb, Zn 1.00/lb, Pb 0.65/lb.

## **Cusi Pilot Mining**

In April 2008, the Company began processing Cusi material at its Malpaso mill facility in order to achieve further metallurgical testing. During this period, the Company processed 1,730 tonnes of material averaging 3.12% Pb, 116 g/t Ag and 2.2% Zn producing 61 DMT of lead-silver concentrate and 47 DMT of zinc concentrate which were sold to MRI Trading for an amount of approximately \$133,000. The recovery rate was of 64.56% for lead, 60.54% for silver and 61.90% for zinc. The Company will process additional Cusi material through July and the rest of 2008 at an expected rate of 3,000 tonnes per month.

Additional metallurgical testing is also planned on material from the Promontorio sector.

## **Pershimco Joint Venture Agreement**

In June 2008, the Company entered into a joint venture agreement (the "JVA") with Pershimco Resources Inc. 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 over a period of 18 months 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 by 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 US\$1,000,000.

Recently, the joint venture undertook structural mapping and a selective channel sampling program on the 5th Level to verify and validate the recent and historical underground works and had discovered a new silver zone at the historical San Miguel Mine. The *El Convento Chimney* is a higher grade silver, zinc and lead target with significant gold. This new zone adds, with the known La Bamba and San Miguel zones, a third chimney in the silver mineralized system.

Samples from the *El Convento Chimney* represent an area of approximately 535 square metres. The potential to extend to a vertical depth of -500 m based on the known silver mineralization in the Cusi mining camp appears promising, thus potentially increasing significantly the known mineralized structure. Further work will be required to define NI43-101 compliant mineral resources.

The exploration program, which will be carried out throughout the coming months, includes 10,000 metres of drilling to test the depth extension of the silver mineralization to a minimum 500-metre vertical depth, well below the current 150-metre vertical mine workings. The objective of the program is to delineate a mineral resource in compliance with NI43-101 in the coming months.

## **La Engañososa Property**

In February 2008, the Company entered into an option agreement with Arnoldo Castañeda Martínez and Consorcio Minero Latinoamericano, S.A. de C.V. ("Martinez-Consorcio Minero") whereby it could earn a 100% interest in the La Engañososa property by paying a total amount of US\$1,265,000 of which US\$65,000 was paid at the date of signature with the balance of \$1,200,000 to be paid over a three-year period and by incurring minimum exploration expenditures of US\$300,000 per year over the same three-year period.

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

## **RESULTS OF OPERATIONS – SECOND QUARTER 2008 VS 2007**

During the three-month period ended June 30, 2008, the Company realized a loss of \$1,814,001 (\$0.02 per share) (cumulative loss of \$1,033,991 (\$0.01 per share) compared with a loss of \$2,196,390 (\$0.02 per share) in 2007 and cumulative loss of \$3,619,621 (\$0.03 per share) for the six-month period ended June 30, 2007). Included in this quarter loss is the write-off of \$751,084 related to the abandonment of the San José project.

The period results are explained as follows:

### Income

Interest income amounted to \$18,066 during the quarter for a total of \$61,771 for the first six months of 2008 compared with \$222,207 and \$332,099 in 2007. This decrease in interest revenue is due to a lower average level of cash on hand in 2008 compared to 2007.

### Expenses

#### *Administrative Expenses*

Administrative expenses totalled \$506,527 (cumulative expenses of \$1,113,405 for the six-month period ended June 30, 2008) compared with \$456,861 and cumulative expenses of \$974,113 in 2007. This variance compared to 2007 is due to increased management salaries not capitalized to mining assets and higher corporate office expenses.

#### *Other Expenses*

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 \$751,084 were written off during the second quarter of 2008.

During the quarter, the Company accounted for noncash stock-based compensation costs in the amount of \$87,555 based on the proportion of options that were vested during the period (cumulative costs of \$87,555 for the six-month period) including \$13,462 capitalized to mining assets, and the balance of \$74,093 was recorded in the Consolidated Statements of Operations and Deficit. During 2007, those costs amounted to \$1,482,903 (cumulative costs of \$1,541,044) including \$756,751 (cumulative \$772,898) capitalized to mining assets and the balance of \$726,152 (cumulative costs of \$768,146) recorded in the Consolidated Statements of Operations and Deficit. Before 2008, all options were fully vested at the date of grant which increased the stock-based compensation cost in the period of grant.

During the quarter, due to the decreased market price of zinc, the Company recorded a loss on the variation of commodity market prices of \$603,051 related to final settlement billings and unsettled shipment provision change in value during the quarter (cumulative gain of \$770,654 for the first six months of 2008) compared with a gain of \$951,763 and a cumulative loss of \$330,652 for the same periods of 2007. As at June 30, 2008, 8.1 million lbs. of zinc and 2.9 million lbs. of copper remained open for final settlement.

During the three-month period ended June 30, 2008, the Company recorded a gain on currency exchange of \$81,882 (cumulative gain of \$ 173,081 for the six-month period ended June 30, 2008) compared with a loss of \$574,303 and cumulative loss of \$720,310 in 2007). This gain is mainly attributable to the conversion into Canadian currency of the monetary assets and liabilities in Mexico and on final billings and outstanding negative final settlement provision, as both the U.S. dollar and mostly the Mexican peso (6.3 % increase) gained value over the Canadian dollar since the beginning of 2008.

During the period, the Company recorded a noncash gain on the change in value of the temporary investment in Pershimco Resources Inc. of \$8,350 for a cumulative loss of \$58,450 for six-month period ended June 30, 2008, compared with a noncash gain of \$374,000 and a cumulative gain of \$484,500 in 2007. The Company still owns 835,000 common shares of Pershimco that are stated at fair market value.

### SUMMARY OF QUARTERLY RESULTS

<u>Quarter Ended</u>	<u>Profit (Loss)</u>	<u>Basic and Diluted Loss Per Share</u>
	\$	\$
June 30, 2008	(1,814,001)	(0.02)
March 31, 2008	780,010	0.01
December 31, 2007	(3,678,927)	(0.03)
September 30, 2007	(1,885,151)	(0.02)
June 30, 2007	(2,196,390)	(0.02)
March 31, 2007	(1,423,231)	(0.01)
December 31, 2006	(417,065)	(< 0.01)
September 30, 2006	(406,545)	(< 0.01)

## LIQUIDITY AND WORKING CAPITAL

As at June 30, 2008, the Company's working capital amounted to \$726,257, including \$2,401,584 in cash and cash equivalents, compared with \$6,137,120 as at December 31, 2007, including \$6,700,016 in cash and cash equivalents.

Decrease in cash compared to December 31, 2007 is mainly due to the settlement of negative final billings with MRI Trading amounting to \$2.7 million and investment in mining assets of \$15 million including the exploration program and property payments. Capital expenditures amounted to \$0.5 million. The liquidity and working capital are sufficient to meet current liabilities and to support current operations; however, it is dependent on metal market prices which directly affect cash flow generated by Bolivar pilot-mining activities.

As at June 30, 2008, sales tax and other receivables amounted to \$2,294,204 (\$1,609,506 as at December 31, 2007) and are mostly comprised of Mexican recoverable Value Added Tax credits "IVA". Income tax receivable in the amount of \$873,427 (\$722,515 as at December 31, 2007) represents 2007 provisional tax instalments receivable from the Mexican tax authorities. The income tax refund that was expected in August 2008 has been delayed until October 2008. As at June 30, 2008, no allowance was taken with respect to any of the amounts receivable.

As at June 30, 2008, accounts payable and accrued liabilities amounted to \$3,258,637 (\$2,254,123 as at December 31, 2007) which represents mostly current usual business transaction balances and an unpaid provision of approximately \$410,000 including approximately \$307,000 from year-end 2007. As at June 30, 2008, also included in current and long-term liabilities is the impact of the conversion of the Minera Cusi agreement from an option to a property purchase agreement entered into in the second quarter of 2008 and for which \$2,607,372 is included in mining concessions payable as at June 30, 2008.

As at June 30, 2008, and included in working capital, the Company has a net payable position of \$184,536 with MRI Trading (payable of \$1,368,164 as at December 31, 2007), resulting from a reduction of the prices of copper and zinc in November and December 2007 and during the second quarter of 2008 for zinc. This payable is disclosed separately as trade payables. The actual final settlement billings could be higher or lower depending on the future fluctuation of commodity prices.

The increase in payables is due to the longer delay in paying creditors as the Company was dealing with reduced liquidity due to final settlement.

## CAPITAL RESOURCES, INVESTING AND FINANCING ACTIVITIES

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

The Company's current near-term plans include the following objectives:

- (1) Initiation of a feasibility study to build a mill at the Bolivar Mine site to bring the project to the production stage;
- (2) Increase pilot-mining activities at Cusi to 3,000 tonnes per month;
- (3) Exploration:
  - (a) Block measured and indicated resources to reserves,
  - (b) Identify new mineral resources;
- (4) Mine development.

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

Current pilot-mining zinc production at Bolivar represents 80-85% of the Company's overall production. Decreasing zinc prices continued to affect the Company's financial situation. Negative final settlement in the second quarter and upcoming ones during the third quarter are maintaining significant pressure on the Company's liquidity level. Efforts have been deployed in order to reduce costs in different areas in order to help increase cash levels over the remainder of 2008. Capital expenditures will be kept to a minimum and exploration will be focused around the Bolivar pilot-mining area.

During the second quarter of 2008, the Company did not complete any private placement (nil in 2007). A total of 130,000 stock options were exercised for a total cash consideration of \$44,000 which also represents the cumulative amount for the six-month period ended June 30, 2008. (During the six-month period ended June 30, 2007, 562,750 stock options and 672,088 broker warrants were exercised for respective cash consideration of \$362,500 and \$672,088.)

The pilot-mining program at Bolivar generated sales of \$6.7 million during the second quarter for cumulative sales of \$13.3 million for the first six months of 2008, compared with \$5.0 million and cumulative sales of \$10.7 million in 2007. Funds were used for working capital and local operations in Mexico and for the settlement of final billings.

On July 14, 2008, the Company, through its wholly owned subsidiary Dia Bras Mexicana S.A. de C.V., secured a US\$2.0 million advance facility for its working capital needs (refer to Subsequent Event section on page 13).

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

Since the beginning of 2008, capital expenditures have been maintained at a minimal level. Capital expenditures in the second quarter of 2008 amounted to \$0.16 million (cumulative amount of \$0.5 million) and consisted of machinery and equipment at the project mill site, compared with capital expenditures for the same period in 2007 of \$2.3 million (cumulative amount of \$5.1 million) and \$2.3 million (cumulative amount of \$5.0 million) in machinery and equipment. Other mining asset expenses, including property payments, amounted to \$6.3 million in the second quarter (cumulative amount of \$14.6 million) compared with \$17.1 million in the same period of 2007.

Currently, the Company has the necessary equipment to complete its 2008 exploration program and the expected mining and development activities on both the Bolivar and Cusi projects. Other capital expenditures in 2008 will be limited to plant optimization, environmental capital expenditure investment at Malpaso and the purchase of the Malpaso land for a total expenditure of approximately \$1.0 million.

Property payments in the second quarter amounted to approximately \$516,893 (\$86,607 in 2007), including \$501,627 for the Minera Cusi property and \$15,266 for the Santa Rita property.

### **Long-Term Debt**

Following the new agreement entered into with Minera Cusi in April 2008, the Company has an obligation of US\$2,560,000, including US\$2,060,000 payable in 2009, which is disclosed as mining concessions payable (long-term portion \$1,049,060) in the consolidated financial statements as at June 30, 2008.

## **FINANCIAL COMMITMENTS**

At the date of this report, the Company's financial commitments are as follows:

- (a) A five-year lease for office premises at an annual rent of \$60,000 until August 2012;
- (b) A five-year lease signed jointly with two other companies expiring in February 2009, at an annual rent of \$150,000. This office space has been subleased for the remainder of the lease period but remain the responsibility of the Company and related parties until expiry in February 2009;
- (c) In January 2008, the Company entered into an 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 sales agreement.
- (d) In 2007, in the normal course of business, the Company guaranteed a financial lease for the purchase of transportation equipment by a third party (the "Borrower") for an amount of \$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 US\$115,000 to the Borrower. The Borrower provides transportation services to the Company pursuant to a transportation agreement. In March 2008, the Company was informed that the Borrower was in default of payments of its obligation. The Company does not have any recourse over any assets of the Borrower. The Company reached an agreement with the Borrower to secure repayment of the Borrower's debt directly from the proceeds of the Company's payment of transportation charges.

In addition, on April 15, 2008, the Borrower signed a promissory note in favour of the Company in the amount of 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; and

- (e) 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, no provision is recorded in accounts payable and accrued liabilities.

To exercise its various options on the mining properties, the Company's option payments and exploration expenses would be as follows:

Year	Option Payments	Exploration Expenses	Total
	\$	\$	\$
2008	28,125	-	28,125
2009	110,000	-	110,000

NOTE: Those amounts exclude payments due to Minera Cusi totalling US\$2,560,000 payable in quarterly instalments and which are included in mining concessions payable in the Company's consolidated financial statements.

### OFF-BALANCE SHEET ARRANGEMENT

During the period, the Company did not enter into any off-balance sheet arrangement.

### 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.

### RELATED PARTY TRANSACTIONS

During the second quarter of 2008, the Company paid for services provided by companies controlled by officers of the Company. Those services, relating to project management and corporate activities, are essential to the Company and were recorded at their exchange value which reflected the fair market value.

### NEW ACCOUNTING STANDARDS

Effective January 1, 2008, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") handbook sections as follows;

Section 3862, "Financial Instruments – Disclosures"; Section 3863, "Financial Instruments – Presentation"; Section 1535, "Capital disclosures"; Section 1400, "General Standards of Financial Statement Presentation; Section 3031 "Inventories" replaces the existing section 3030.

- (i) Section 3862, "Financial Instruments – Disclosures" describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- (ii) Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".
- (iii) Section 1535, "Capital disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.
- (iv) Section 1400, "General Standards of Financial Statement Presentation", was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. These new requirements will not have any impact on the consolidated financial statements as the Company is already assessing its ability to continue as a going concern.

- (v) Section 3031, "Inventories" replaces the existing section 3030. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also requires, when applicable, the reversal of any write-downs previously recognized.

## CRITICAL ACCOUNTING POLICIES

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

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

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where management judgment is applied are allowance for doubtful accounts, valuation of embedded derivatives, fair value of temporary investments, mining asset valuations, contingent liabilities and future income taxes. Actual results could differ from those estimates and such differences could be material.

### **Mining Assets**

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

#### *Costs and Deferred Exploration Expenses*

Costs and exploration expenses are deferred until the economic viability of the project has been established, at which time costs are added to property, plant and equipment. Specific costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as: 1) no financial resources are available for development in areas of interest for three consecutive years or 2) exploration results do not warrant further investment. Areas of interest are defined by project.

Proceeds from the sale of a mining asset are applied against related carrying costs and any excess is reflected as a gain in the Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit. In the case of a partial sale, if carrying costs exceed the proceeds, only the loss is reflected.

Revenue from the sale of concentrates from the pilot-mining program before commencement of commercial production is recorded as a reduction of the related deferred exploration expenses and is recognized when the following conditions are met:

- » Persuasive evidence of an arrangement exists;
- » Delivery has occurred under the terms of the arrangement;
- » The price is fixed or determinable; and
- » Collection is reasonably assured.

The Company's concentrates are sold under pricing arrangements whereby final settlement prices are determined by quoted market prices in a period subsequent to the date of sale. The concentrates are provisionally priced at the time of shipment, using forward prices for the expected month of final settlement. Subsequent variations of the price are recorded as a gain or loss in the Consolidated Statement of Operations, Comprehensive Income (Loss) and Deficit.

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

The Company expects commercial production on the Bolivar project to commence no later than the end of 2009. Commercial production has been defined as being the stage where the Company reaches a production level of 65% of mill capacity for a consecutive period of 90 days within a maximum period of 6 months. The production level will be calculated on the rated capacity of an on-site mill.

This represents a critical accounting policy, as it will impact the presentation of revenues and expenses from mining activities, which are currently recorded as a reduction of the related costs and deferred exploration expenses instead of being included in the determination of net income.

## **Asset Retirement Obligations**

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

This represents a critical accounting policy, as the Company, based on its review of the status of its operations under the current Mexican environmental legislation, determined it does not carry any asset retirement obligation and, therefore, has not recognized such obligation.

In view of the upcoming feasibility study, the Company will commission an environmental impact study at Bolivar from which asset retirement obligations may arise. A liability stemming from any asset retirement obligation will be recorded in the year in which such obligation arises.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

Other than the temporary investments and the guaranty, the Company does not use financial or other instruments. However, management considers that an embedded derivative is included in the Company's concentrate sales agreements.

## **RISK AND UNCERTAINTIES**

### **Business Risks**

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

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

Estimates of future production from the Bolivar pilot-mining operations derived from the mine plan prepared in fiscal 2007 and subsequently reviewed and/or revised by management. These estimates are subject to change. The Company cannot give any assurance that it will achieve its production estimates. Failure to achieve the anticipated production estimates could have a material and adverse effect on any or all of the Company's future cash flows, results of the pilot-mining operations and financial condition.

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

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

### **Land Title**

The Company is taking reasonable measures, in accordance with industry standards, for properties at that stage of exploration to ensure proper title to its properties. However, there is no guarantee that title to any of its properties will not be challenged or impugned. The Company's properties may be subject to prior unregistered agreements or transfers and title may be affected, amongst other things, by undetected defects (refer to notes 9 and 20 of the six-month period ended June 30, 2008, unaudited interim consolidated financial statements). As at June 30, 2008, some of the Company's property titles are in the process of being registered in the name of the Company's Mexican subsidiary at the Mexico Mining registry office.

## **Capital Needs**

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

## **Regulation and Environmental Requirements**

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

## **Commodity Prices**

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.

## **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.

## **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.

## **OUTLOOK AND OBJECTIVES**

### **2008 OBJECTIVES REMAIN AS FOLLOWS:**

- » Conclude exploration program to expand and upgrade current resources at Bolivar;
- » Continue exploration to increase the first resource estimate at Cusi;
- » Continue metallurgical testing and pilot mining at Cusi;
- » Pursue feasibility study at Bolivar to obtain parameters for eventual full-scale production, including construction of an appropriately sized on-site mill;
- » Process 144,000 tonnes of material from Bolivar at average grades of 1.4% Cu and 8.0% Zn for a production value of US\$24 million; and
- » Maintain cost improvement program in all areas of the Company.

## CONTROLS AND PROCEDURES

### **Disclosure Controls and Internal Controls over Financial Reporting**

The Company, under the supervision and with the participation of its management, including the chief executive officer and the chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of its internal control over financial reporting as of June 30, 2008, pursuant to the requirements of Multilateral Instrument 52-109. Based on this evaluation, the Company concluded that the disclosure controls and procedures are effective in making known to them in a timely manner material information relating to the Company and its subsidiaries, and that the design of internal control over financial reporting provides reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the Company's financial statements for external purposes in accordance with Canadian GAAP.

During the quarter, the Company encountered a problem with its new spare parts inventory system. A full physical inventory as at May 31, 2008 was performed and adjustments were made accordingly. A complete system review is currently in process in order to reassess and implement additional control procedures mainly at warehouses.

As part of the ongoing reassessment of its control systems and procedures the Company is reviewing the controls over all taxes applicable to the Company.

Other than the above, there have been no changes in the Company's internal control over financial reporting since the quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## OTHER REQUIREMENTS

(a) Additional information is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.diabras.com](http://www.diabras.com).

(b) (i) NATIONAL INSTRUMENT 51-102 – SECTION 5.3

### **Analysis of Costs and Deferred Exploration Expenses**

				For the six-month period ended June 30, 2008	For the Year Ended December 31, 2007
	Bolivar	Cusi	La Engañosa	Total	Total
	\$	\$	\$	\$	\$
Balance – Beginning of period	3,404,627	18,066,155	-	21,470,782	11,672,155
Costs and deferred exploration expenses					
Property acquisition and related costs	206,505	3,051,012	64,885	3,322,402	1,446,016
Sampling	155,611	116,375	-	271,986	2,174,022
Geology consulting and management	504,153	511,610	23,355	1,039,118	1,343,279
Drilling and mining development	3,212,166	1,809,954	-	5,022,120	9,265,331
Pilot milling and metallurgy testing	1,900,238	52,223	-	1,952,461	5,131,739
Supervision and local administrative costs	717,470	337,849	-	1,055,319	939,631
Transportation costs	4,227,104	40,838	-	4,267,942	9,999,427
Roads	16,840	13,397	-	30,237	145,722
Camp costs	290,347	70,524	-	360,871	2,817,404
Capitalized amortization of exploration buildings and equipment	1,274,713	328,994	2,530	1,606,237	3,526,437
Stock-based compensation costs	10,593	2,832	37	13,462	772,898
	12,515,740	6,335,608	90,807	18,942,155	37,561,906
Write-off of mining assets – Costs and deferred exploration expenses	(751,084)	-	-	(751,084)	(1,199,891)
Sales of concentrate	(13,217,569)	-	-	(13,217,569)	(24,056,537)
	(1,452,913)	6,335,608	90,807	4,973,502	12,305,478
Transfer to (from) excess cost recovery – pilot mining	878,881	-	-	878,881	(2,506,851)
	(574,032)	6,335,608	90,807	5,852,383	9,798,627
<b>Balance – End of period</b>	<b>2,830,595</b>	<b>24,401,763</b>	<b>90,807</b>	<b>27,323,165</b>	<b>21,470,782</b>

(ii) NATIONAL INSTRUMENT 51-102 – SECTION 5.4

Disclosure of Outstanding Securities as at August 28, 2008

Common shares: 111,501,269

Options outstanding: 10,703,333

<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
	\$	
600,000	0.85	October 2008
930,000	0.75	August 2009
400,000	0.75	February 2010
1,273,333	0.30	September 2010
125,000	0.22	September 2010
2,495,000	0.40	February 2011
1,830,000	0.90	September 2011
1,670,000	1.10	April 2012
250,000	1.28	June 2012
150,000	1.25	July 2012
300,000	0.89	October 2012
330,000	0.61	April 2013
300,000	0.45	June 2013
50,000	0.30	August 2013

# Corporate Information

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