



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

**Interim Consolidated Financial Statements**

Three-and six-month periods ended June 30, 2010



AUGUST 25, 2010

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

Management is responsible for the preparation of the unaudited interim consolidated financial statements, which were prepared in accordance with Canadian generally accepted accounting principles and which necessarily include amounts based on estimates and judgments of Management.

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

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

The Board of Directors of the Company is responsible for ensuring that Management fulfills its responsibilities for financial reporting. The Board of Directors carries out this responsibility through its Audit Committee, which is composed of three members. The committee meets various times during the year and at least once per year with the external auditors, with and without Management being present, to review the financial statements and to discuss audit and internal control related matters.

The Audit Committee of the Board of Directors approved the Company's consolidated financial statements.

Daniel Tellechea,  
President and Chief Executive Officer

Mark Shonnard,  
Chief Financial Officer

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Balance Sheets

As at June 30, 2010 and December 31, 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 14,865,729	\$ 2,821,277
Trade receivables (note 5)	1,244,844	1,319,167
Sales tax and other receivables	3,248,688	2,178,931
Income tax receivable	65,967	89,424
Inventories (note 6)	3,489,974	3,032,370
Investment in exploration companies (note 7)	235,400	146,900
Prepaid expenses	214,344	283,858
	<u>23,364,946</u>	<u>9,871,927</u>
<b>Office assets</b> (note 8)	63,265	83,812
<b>Mining assets</b> (note 10)	<u>26,268,248</u>	<u>21,219,822</u>
	<u>\$ 49,696,459</u>	<u>\$ 31,175,561</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,792,144	\$ 3,532,102
Trade payables (note 5)	447,298	1,593,480
Advance payable (note 9)	-	686,570
Mining concessions payable (note 10 (c))	502,348	1,198,187
Deferred tenant allowance	19,188	14,391
	<u>4,760,978</u>	<u>7,024,730</u>
<b>Long-term liabilities</b>		
Asset retirement obligation (note 14)	103,139	104,660
Deferred tenant allowance	20,786	35,177
	<u>4,870,512</u>	<u>7,164,567</u>
<b>Shareholders' Equity</b>		
Share capital (note 11)	91,394,292	70,229,509
Contributed surplus (note 11)	10,656,951	10,993,531
Accumulated deficit	<u>(57,239,687)</u>	<u>(57,212,046)</u>
	<u>44,811,556</u>	<u>24,010,994</u>
	<u>\$ 49,696,459</u>	<u>\$ 31,175,561</u>
<b>Going concern assumption</b> (note 1)		
<b>Commitments and Contingencies</b> (notes 17 and 18)		
<b>Subsequent Events</b> (notes 11 and 19)		

Approved on behalf of the Board:

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Philip Renaud,  
Chairman of the Board

\_\_\_\_\_  
Alberto Arias,  
Chairman Audit Committee

*The accompanying notes are an integral part of these financial statements.*

# Dia Bras Exploration Inc.

*(an exploration-stage company)*

## Consolidated Balance Sheets

For the three and six months ended June 30

(unaudited – prepared by Management)

(expressed in Canadian dollars)

This needs to Say “Consolidated Statement of Deficit”	For the three-month period ended June 30, 2009		For the six-month period ended June 30, 2009	
	2010	2009	2010	2009
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Accumulated deficit – Beginning of period</b>	(56,059,635)	(58,007,753)	(57,212,046)	(56,079,260)
Net income (loss)	(1,180,052)	(521,226)	(27,641)	(2,449,719)
<b>Accumulated deficit – End of period</b>	<b>(57,239,687)</b>	<b>(58,528,979)</b>	<b>(57,239,687)</b>	<b>(58,528,979)</b>

*The accompanying notes are an integral part of these financial statements.*

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Statements of Operations and Comprehensive loss

(unaudited – prepared by Management)

(expressed in Canadian dollars)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	4,985,740	3,717,517	10,939,504	6,593,581
Cost of sales (excluding amortization)	2,500,178	2,222,493	5,042,913	4,557,846
Transportation of concentrate	449,506	351,239	905,499	768,392
Amortization of property, plant and equipment	536,966	658,211	1,035,842	1,225,406
General and administrative expenses	842,907	1,008,683	1,767,564	1,837,563
Exploration expenditures	741,341	645,986	985,743	1,437,045
Accretion expense	1,894	-	3,750	-
Write-off of mining assets (note 10 (b))	611,927	-	611,927	-
Stock-based compensation cost (note 11)	171,758	53,197	223,078	95,793
Loss on disposal of property, plant and equipment used in mining operations	163	(2,695)	11,116	(6,045)
Interest expenses	7,145	10,754	33,476	98,361
Interest income	(6,089)	66	(6,228)	(1,446)
Net (gain) loss variation of commodity market prices	287,113	(126,935)	444,706	(645,973)
(Gain) loss on change in value of temporary investment	(56,775)	4,175	(88,500)	(12,525)
(Gain) loss on foreign currency	59,559	(617,674)	(28,866)	(348,280)
	6,147,593	4,207,500	10,942,020	9,006,137
<b>Loss before income taxes</b>	(1,161,853)	(489,983)	(2,516)	(2,412,556)
<b>Income taxes</b> (note 13(a))				
Current tax expense	18,199	31,243	25,125	37,163
	18,199	31,243	25,125	37,163
<b>Loss and comprehensive loss</b>	(1,180,052)	(521,226)	(27,641)	(2,449,719)
<b>Basic and diluted loss per share</b>	(0.00)	(0.00)	(0.00)	(0.01)
<b>Basic and diluted weighted average number of outstanding shares</b>	433,248,853	208,911,516	395,980,085	183,935,378

The accompanying notes are an integral part of these financial statements.

# Dia Bras Exploration Inc.

(an exploration-stage company)

## Consolidated Statement of Cash Flows

For the three and six months ended June 30

(unaudited – prepared by Management)

(expressed in Canadian dollars)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net income (loss)	(1,180,052)	(521,226)	(27,641)	(2,449,719)
Adjustments for				
Stock-based compensation costs (note 11)	171,758	53,197	223,078	95,793
Amortization of property, plant and equipment	536,966	658,211	1,035,842	1,225,406
Amortization of deferred tenant allowance	(4,797)	(4,797)	(9,594)	(9,594)
Accretion expense	1,894	-	3,750	-
Write-off of mining assets (note 10 (b))	611,927	-	611,927	-
(Gain)loss on disposal of land, exploration building and equipment	163	(2,695)	11,116	(6,045)
Unrealized (gain) loss on variation of commodity market prices	(20,227)	(132,754)	71,709	(511,921)
Gain on change in value of temporary investment	(56,775)	4,175	(88,500)	(12,525)
Unrealized (gain) loss on currency exchange	39,474	(151,072)	6,631	(88,844)
Interest expense on mining concessions payable	-	10,522	-	60,265
	100,331	(86,439)	1,838,318	(1,697,184)
Changes in working capital items (note 15)	191,590	(1,017,907)	(2,273,053)	(2,091,036)
	291,921	(1,104,346)	(434,735)	(3,788,220)
<b>Financing activities</b>				
Advance payable (note 9)	(334,912)	(402,101)	(686,570)	(806,146)
Mining concessions payable (note 10)	(353,836)	-	(702,470)	-
Issuance of share capital	18,665,904	1,483,799	20,737,495	5,293,004
Share issue expenses	(94,381)	(39,959)	(132,370)	(115,283)
	17,882,775	1,041,739	19,216,085	4,371,575
<b>Investing activities</b>				
Increase in mining assets	(4,992,299)	(639,013)	(6,736,898)	(1,418,431)
Disposal of property, plant and equipment in mining operations	-	15,763	-	35,076
	(4,992,299)	(623,250)	(6,736,898)	(1,383,355)
<b>Decrease in cash and cash equivalents during the year</b>	13,182,397	(685,857)	12,044,452	(800,000)
<b>Cash and cash equivalents – Beginning of year</b>	1,683,332	983,426	2,821,277	1,097,569
<b>Cash and cash equivalents-End of year (note 15)</b>	14,865,729	297,569	14,865,729	297,569
<b>Additional cash flow information (note 15)</b>				

The accompanying notes are an integral part of these financial statements.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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## 1 Nature of operations and going concern assumption

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 owns or controls several mining concessions located in the States of Chihuahua, Sonora, Zacatecas and Durango in Mexico, which are presently at the exploration stage. The economic viability of these mining properties has not yet been assessed. The recoverability of costs relating to the mining properties is dependent upon the determination of economically recoverable reserves and resources, maintenance 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 at least equal to the Company’s net investment therein.

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 (notes 10 and 18).

Although these interim consolidated financial statements have been prepared on a going concern basis in accordance with generally accepted accounting principles (“GAAP”), the reasonableness of this assumption is dependent on the long-term operation of the new Piedras Verdes Mill at the Bolívar Property and successful exploration and development efforts, among other factors.

As of June 30, 2010, the Company has working capital of \$18,603,968 and an accumulated deficit of \$57,239,687 and has generated a net loss of (\$27,641) for the six-month period ended June 30, 2010. On May 13, 2010, the Company closed a Rights Offering of \$16,341,000, which funds are to be used to fund the construction of the new mill on site at the Bolívar Property (that is expected to significantly reduce operating costs and optimize life of mine resources) and to continue its activities as a going concern. The Company now considers itself fully funded for its projects, working capital requirements, property payments, general administrative expenses and commitments for exploration and development programs for the next twelve months, the period during which the mill is expected to be constructed.

There can be no assurance that the Company will be able to execute on its plans and there are no guarantees that measures taken by Management will be successful. Without completing its construction and development plans or new funding being available, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these interim consolidated financial statements.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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## 2 Acquisition of EXMIN Resources Inc.

On September 30, 2009, the Company acquired, by way of a plan of arrangement, all of the outstanding common shares of EXMIN Resources Inc. (EXMIN) in an all-equity transaction. The results of EXMIN's operations have been included in these interim consolidated financial statements since the date of acquisition.

Pursuant to the acquisition agreement, EXMIN shareholders received 0.204 common shares of the Company for each common share of EXMIN. The Company issued 21.2 million common shares on closing at a price of \$0.235 per share based on the closing stock price of the Company's common shares at the date of the transaction.

In addition, all of EXMIN's outstanding stock options and warrants as at the date of acquisition were exchanged for equivalent instruments in the Company. Approximately 1.4 million stock options and 1.6 million warrants were issued by the Company in the exchange. The transaction was accounted as an asset purchase for accounting purposes and following table summarizes the estimated preliminary fair value of the assets acquired and liabilities assumed as at the date of acquisition:

### PURCHASE CONSIDERATION

Common share capital	\$ 4,989,010
Stock options (note 11)	85,141
Purchase warrants (note 11)	16,230
Transaction costs	472,932
Purchase consideration	<u>\$ 5,563,313</u>

### NET ASSETS ACQUIRED

Cash and cash equivalents	\$ 129,909
Sales tax and other receivables	130,427
Temporary investments	55,000
Prepaid expenses	50,086
Property, plant and equipment	57,200
Mining interests	6,223,212
Accounts payable and liabilities	(806,423)
Future tax liabilities	(276,098)
	<u>\$ 5,563,313</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted

### (a) Significant accounting policies

#### *Basis of consolidation*

These interim 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., Bolívar Administradores S.A. de C.V. and for the period from October 1, 2009, until June 30, 2010, its wholly owned domestic subsidiary Dia Bras Exmin Resources Inc. and its wholly owned foreign subsidiaries EXMIN Inc. and EXMIN S.A. de C.V.

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

#### *Use of estimates*

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

#### *Cash and cash equivalents*

Cash and cash equivalents consist of bank balances and interest-bearing, short-term liquid investments repurchasable at all times without penalties with maturity of three months or less. Cash and cash equivalents are categorized as held-for-trading and are measured at fair value which value approximates cost.

#### *Investments in exploration companies*

Investments in exploration companies qualified as held-for-trading, are measured at fair value with changes in fair values recorded in the Consolidated Statement of Operations.

#### *Inventories*

Inventories consist of concentrate, broken material, supplies and spare parts. Broken material is comprised of in-process mineralized material awaiting processing at milling facilities and materials for use at milling operations. Concentrates include stockpiled concentrates at milling operations or at warehouses. Concentrates and broken material are valued at the lower of average production cost and net realizable value. Concentrate and broken material inventory cost includes all direct costs incurred in production including direct labour and materials, freight and amortization, and directly attributable overhead costs. Joint-product costing was used for concentrates of copper and zinc jointly produced in milling operations. Joint costing is applied to primary products, where the profitability of the operation is dependent upon the production of a number of primary products. Joint costing allocates total production costs based on its relative net realizable value at the end of production.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted (cont)

The supplies and spare parts inventories will be used for exploration and production and are valued at lower of average cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs.

### *Office assets*

Office assets represent assets located at the corporate head office and are recorded at the acquisition cost. Amortization is computed using the straight-line method based on the estimated useful life of the assets, which is 3 years. The amortization of leasehold improvements is computed using the straight-line method over the term of the lease.

### *Mining assets*

Assets related to mineral projects, include the cost to acquire mining concessions and options in mining properties, and property, plant and equipment used in mining operations. Until it is determined that the properties contain mineral reserves or resources that can be economically mined, they are classified as mining assets.

#### (a) Mining concessions

Costs are deferred until the economic viability of the project has been established, at which time a portion of the costs are separately aggregated into property, plant and equipment used in mining operations. Specific costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available for development in an area of interest over a period of three consecutive years or results from exploration work not warranting further investment. Areas of interest are defined by project.

Proceeds from the sale of a mining asset are applied against related carrying costs, and any excess proceeds are reflected as a gain and any excess carrying costs are reflected as a loss in the Consolidated Statement of Operations.

#### (b) Property, plant and equipment used in mining operations

Property, plant and equipment used in mining and milling operations are recorded at cost.

Amortization is computed using the following methods and rates or period:

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

### *Exploration expenditures*

Exploration and mine evaluation expenditures include engineering and metallurgical studies, drilling and other related costs to delineate an ore body. Costs incurred before a development decision is made are expensed and classified as *Exploration expenditures* in the Consolidated Statement of Operations.

## **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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### **3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted** *(cont)*

Capitalization of exploration and mine development expenditures that meet the definition of an asset begins once a development decision is made. Drilling and related costs are capitalized for an ore body where proven and probable reserves exist or a development decision for a discrete mining area has been made and the activities are directed at obtaining additional information on the ore body or converting non-reserve mineralization to proven and probable reserves and the benefit is expected to be realized over a period beyond one year. All other drilling and related costs are expensed as incurred.

#### *Revenue recognition*

Revenue from the sale of concentrates is recorded in the Consolidated Statement of Operations as sales and is recognized when the following conditions are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred under the terms of the arrangement;
- the price is fixed or determinable; and
- collection is reasonably assured.

The Company's concentrates are sold under pricing arrangements whereby final settlement prices are determined by quoted market prices in a period subsequent to the date of sale. The concentrates are provisionally priced at the time of shipment using forward prices for the expected month of final settlement. Subsequent variations of the price are recorded in the Consolidated Statement of Operations.

By-products credits related to mine production are included in net sales.

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

The Company applies the fair value method to account for options granted to its employees, officers, directors and consultants. Under this method, compensation expense is measured on the date of grant using the Black-Scholes option pricing model. Any consideration paid on exercise of stock options is credited to share capital. The stock-based compensation cost is charged to the Statement of Operations over the vesting period. The contributed surplus resulting from the stock-based compensation is transferred to share capital when the options are exercised.

#### *Foreign currency translation*

##### Foreign currency

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

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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## 3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted (cont)

### Foreign operations

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

### Income taxes

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

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

### Loss per share

Loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the year. Diluted loss per share are calculated using the weighted average number of shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities.

### Asset retirement obligations

As the Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment, asset retirement obligations are recognized at fair value in the year 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 with the offsetting amount charged to earnings and is adjusted for any change in the amount or timing of the underlying cash flows with the offsetting amount recorded as an adjustment to mining assets. The asset retirement cost is depreciated over the remaining life of the assets.

### Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment at least annually or when changes in circumstances suggest their carrying value may not be recoverable. An impairment loss is recognized then the carrying value is not recoverable. The impairment loss is measured by the amount by which the carrying value exceeds fair value.

## **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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### **3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted** *(cont)*

#### *Financial instruments – Recognition, Measurement and Disclosures*

All financial assets are measured at fair value on initial recognition and certain financial assets are measured at fair value subsequent to initial recognition;

- (i) Financial assets are categorized into one of the four following categories:
- Held-to-maturity investments (measured at cost);
  - Loans and receivables (measured at amortized cost);
  - Held-for-trading assets (measured at fair value with changes in fair value recognized in earnings immediately);
  - Available-for-sale assets, including investments in equity securities, held-to-maturity investments that an entity elects to designate as being available for sale and any financial asset that does not fit into any other category (measured at fair value with changes in fair value accumulated in Other Comprehensive Income until the asset is sold).
- (ii) All financial liabilities are measured at fair value if they are categorized as held-for-trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method.
- (iii) All derivative financial instruments are measured at fair value on the balance sheet.

The Company has implemented the following categorizations:

- (a) The Company's cash and cash equivalents, and its investments in exploration companies, are categorized as "held-for-trading" and are measured at fair value.
- (b) The Company's other receivables are categorized as "loans and receivables" and are measured at amortized cost. Similarly, its trade receivables are categorized as "loans and receivables" and are measured at cost with adjustments upon settlement taken to the Statement of Operations.
- (c) The Company's accounts payable and accrued liabilities, trade payable, advance payable are categorized as "other financial liabilities" and are measured at amortized cost using the effective interest rate method which is comparable to the carrying value due to the relatively short period to maturity of the instruments.
- (d) Mining concessions payable, also an "other financial liability", is measured at amortized cost.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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## **3 Significant accounting policies, new accounting pronouncements and accounting pronouncements not yet adopted (cont)**

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, 2009. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual audited consolidated financial statements and should be used in conjunction with the Company's annual audited consolidated financial statements and notes thereto for the year ended December 31, 2009.

### **(b) New accounting pronouncements**

#### *Section 1582, "Business Combinations"*

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

#### *Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests"*

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

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these new sections on the consolidated financial statements.

## **4 Financial instruments and risk management**

### **(a) Fair value and carrying amounts**

All financial instruments follow a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements.

#### *Fair value hierarchy*

The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

## 4 Financial instruments and risk management (cont)

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Trade receivables <sup>(a)</sup>	-	1,244,844	-	1,244,844
Sales tax and other receivables			3,248,688	3,248,688
Investments in exploration companies	235,400	-	-	235,400
Total financial asset instruments	\$235,400	1,244,844	\$3,248,688	\$4,728,932
Trade payables <sup>(a)</sup>	-	447,298	-	447,298
Mining concessions payable <sup>(b)</sup>	-	502,348	-	502,348
Totals	\$ -	\$949,646	\$ -	\$949,646

<sup>(a)</sup> Fair market value is dependent on quoted metals prices.

<sup>(b)</sup> Fair market value is dependent upon quoted interest rates for similar instruments and credit risk.

### (b) Risk management policies and hedging activities

The Company's financial position and results are sensitive to changes in commodity prices, foreign exchange risk, credit risk, liquidity risk 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 only enters into fixed sales contracts for its delivered concentrates for the short time until settlement of the contract with its customer. Similarly, derivative financial instruments are not used to reduce 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 as mentioned in note 15.

A 1% annual percentage rate decrease in interest rates would have an impact on the net (loss) for the six-month period ended June 30, 2010, as follows based on the balances as at June 30, 2010:

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### 4 Financial instruments and risk management (cont)

	Average for the six-months ended June 30, 2010	Decrease/ (increase) of loss
	\$	\$
Short-term deposits (balance at June 30, 2010 - \$13,025,638)	1,871,000	(9,400)

#### *Foreign exchange risk*

The Company's sales of concentrates and part of its purchases are denominated in foreign currencies, primarily in U.S. dollars and Mexican pesos. Consequently, certain assets and liabilities namely cash and cash equivalents, trade receivables and payables, sales tax and other receivables, income tax receivable and payable, accounts payable and accrued liabilities, advance payable, mining concessions payable, as well as revenues and certain expenses, include amounts that are exposed to currency fluctuations. As previously noted, the company does not mitigate these risks with hedging transactions.

The Company has exposure to monetary assets and liabilities denominated in Mexican pesos and U.S. dollar. Cash balances, trade receivables and payables, sales tax receivables, account payables, mining concession payable or advance payable denominated in Mexican pesos and U.S. dollar could expose the Company to a foreign exchange gain or loss. A decrease of 1% in the U.S. dollar exchange rate based on the balances as of June 30, 2010, would generate a increase of \$4,928 in the net (loss) for the six-month period ended June 30, 2010. A decrease of 1% in the Mexican peso exchange rate based on the balances as of June 30, 2010, would generate an decrease of \$2,043 in the net (loss) for the six-month period ended June 30, 2010.

#### *Credit risk*

The Company is subject to concentrations of credit risk through cash and cash equivalents, trade receivables, and other receivables. The Company maintains substantially all of its cash and cash equivalents with major financial institutions in Canada and in Mexico. Therefore, Management believes credit risk of counterparty non-performance is remote. The totality of the Company's trade receivables is with a sole client and is subject to normal credit risks. The sales and income taxes receivable are with the Governments of Mexico and Canada, and, as such, Management believes they also represent normal credit risk.

#### *Commodity price risk*

The Company is exposed to commodity price risk for variations in concentrate prices for sales for which the prices are not fixed, as final prices are determined by quoted market price in a period subsequent to the date of sale. As a result, the values of the unsettled sales of concentrate can change as the underlying commodity market prices vary, which the Company has eliminated by entering into a fixed price contract for each sale at the time of delivery. This component of the contract is an embedded derivative, which is short-term (less than four months) and recorded at fair value with changes in fair value recorded in net earnings.

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(an exploration-stage company)

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## 4 Financial instruments and risk management (cont)

The Company produces copper, zinc, silver and lead, in various forms, which exposes it to commodity price risk. Metals prices are affected by many factors, including global and regional supply and demand, the relative exchange rate of the United States dollar with other major currencies, political and economic conditions, central bank sales, producer hedging activities, global and regional demand and political and speculative hedging and investments. Many of these factors combine to produce high levels of short-term volatility. The Company may enter into derivative financial instruments to manage the Company's exposure to commodity price risk. However, at this time, the Company has elected not to engage in any long-term hedging to reduce its exposure to commodity price risk.

In 2010, with other variables unchanged, a 1% change in the average prices of its commodities would have increased or decreased the Company's net earnings/(loss) for the six-month period ended June 30, 2010 by \$137,500.

### 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. With the closing of the Rights Offering in May, 2010, the Company believes it has sufficient liquidity to meet these obligations and fund its projects in the next the next twelve months, the period during which the new mill is expected to be constructed.

## 5 Trade receivables (payables)

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

	As at June 30, 2010	As at December 31, 2009
	\$	\$
Receivables from pilot mining	659,810	655,189
Receivable for final settlement*	585,034	663,978
Trade receivables	<u>1,244,844</u>	<u>1,319,167</u>
Final settlement payable	<u>(447,298)</u>	<u>(1,593,480)</u>
Trade payables	<u>(447,298)</u>	<u>(1,593,480)</u>

\*The receivable for final settlement represents the estimated amount that would be recovered as at June 30, 2010 and December 31, 2009 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, 2010, shipments that had not reached the final settlement stage comprised approximately 2,745 tonnes of zinc concentrate (3,543,822 lbs. payable), 966 tonnes of copper concentrate (590,797 lbs. payable) and 464 tonnes of lead concentrate (121,866 lbs payable). As at December 31, 2009, shipments that had not reached the final settlement stage comprised approximately 2,507 tonnes of zinc concentrate (3,201,680 lbs. payable), 1,313 tonnes of copper concentrate (797,670 lbs. payable) and 52 tonnes of lead concentrate (28,555 lbs. payable). Final settlement value will be determined at the end of the quotational period under the terms of the arrangement and may vary from the current provisional amount.

## Dia Bras Exploration Inc.

(an exploration-stage company)

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(expressed in Canadian dollars)

### 6 Inventories

	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
	<u>\$</u>	<u>\$</u>
Broken material	1,020,466	1,032,321
Concentrates	395,243	312,651
Supplies and spare parts	<u>2,074,265</u>	<u>1,687,398</u>
	<u>3,489,974</u>	<u>3,032,370</u>

The cost of sales, which comprises site operating cost plus the amortization of property, plant and equipment used in mining operations as presented in the consolidated statement of operations represents the cost of inventories recognized as expenses.

For the six-month period ended June 30, 2010, the amortization of property, plant and equipment used in mining operations charged to inventories amounted to \$ 44,863 (for the year 2009 - \$132,986).

### 7 Investments in exploration companies

	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
	<u>\$</u>	<u>\$</u>
Pershimco Resources Inc. (“Pershimco”)		
835,000 common shares – at quoted market value (December 31, 2009 – 835,000 common shares at quoted market value)	200,400	116,900
Yale Resources Ltd. (“Yale”)		
500,000 common shares – at quoted market value (December 31, 2009 – 500,000 common shares at quoted market value)	<u>35,000</u>	<u>30,000</u>
	235,400	146,900

The change in the investment value during the six-month period ended June 30, 2010, was due to a net increase in the fair value of the common shares for a total amount of \$88,500 (for the year 2009 – \$16,700).

## Dia Bras Exploration Inc.

(an exploration-stage company)

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(unaudited – prepared by Management)

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### 8 Office assets

			As at June 30, 2010
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	87,037	85,686	1,351
Office equipment	71,133	71,133	-
Leasehold improvements	160,976	99,062	61,914
	<u>319,146</u>	<u>255,881</u>	<u>63,265</u>

  

			As at December 31, 2009
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	87,037	58,225	28,812
Office equipment	71,133	46,504	24,629
Leasehold improvements	160,976	54,484	106,492
	<u>319,146</u>	<u>159,213</u>	<u>159,933</u>

### 9 Advance payable

On July 14, 2008, the Company's wholly owned subsidiary Dia Bras Mexicana S.A. de C.V. entered into a \$2,012,200 (US\$ 2,000,000) working capital loan facility with MRI Trading AG ("MRI"), which is also the sole customer of the Company. This advance credit facility bears interest at the 3-month LIBOR rate plus 4% payable monthly over an 18-month period starting 6 months after the receipt of the funds. Such reimbursement shall be made through 17 monthly instalments of \$117,219 (US\$112,000) and a final instalment of \$100,473 (US\$96,000).

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

As of June 30, 2010, the Company has completed the final 18th instalment leaving accrued interest of \$119,148 owing at June 30, 2010. The accrued interest was paid by August 2010.

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

## 10 Mining assets

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
	\$	\$
Mining concessions (a)	14,424,490	14,051,510
Property, plant and equipment used in mining operations (d)	<u>11,843,758</u>	<u>7,168,312</u>
	<u>26,268,248</u>	<u>21,219,822</u>

As of December 31, 2009, the Company reviewed the carrying value of its mining assets concluding that no impairment of value had been incurred.

### (a) Mining concessions

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
	\$	\$
<b>Mexico</b>		
<b>Bolivar Property</b>		
Bolívar Mine (note 18)	1,583,730	1,586,799
La Chaparrita	70,703	71,379
Bolívar exploration concession	72,490	72,467
Piedras Verdes	312,485	315,347
Other	<u>100,121</u>	<u>96,506</u>
	<u>2,139,529</u>	<u>2,142,498</u>
<b>Cusi Property</b>		
India and Marisa	192,234	191,348
Holguin and San Juan	1,123,993	1,119,600
San Miguel – La Bamba (option)	177,732	176,374
Minera Cusi – Santa Eduvigis/San Nicolás	4,073,950	4,000,025
Other	<u>152,040</u>	<u>36,156</u>
	<u>5,719,949</u>	<u>5,523,503</u>
<b>EXMIN properties</b>		
Reyna de Oro	4,231,539	4,140,887
Maguarichic	92,775	23,755
Moris	780,294	730,156
Arechuyvo	241,610	160,133
Oribo	629,066	568,557
Batopilas	93,638	34,378
Melchor Ocampo	65,079	22,292
Horcon	-	387,560
Cerro Gordo	218,676	206,340
El Pino	-	111,451
Other	<u>212,335</u>	<u>-</u>
	<u>6,565,012</u>	<u>6,385,509</u>
	<u>14,424,490</u>	<u>14,051,510</u>

## Dia Bras Exploration Inc.

(an exploration-stage company)

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### 10 Mining assets (cont)

Various of the Company's projects are subject to option agreements, which require instalment payments if the Company chooses to continue under the agreement. During 2010 the Company will be required to make payments ranging from \$30,000 to \$50,000, with an aggregate of \$180,000, if it decides to keep all the properties under option.

#### (b) Write-off of mining assets

In June 2010, management decided not to pursue further the Horcon and El Pino options. Therefore, the Company abandoned the projects, and all costs in the amount of \$611,927 were written off during the second quarter of 2010.

In July 2003, the Company entered into an option agreement with El Paso Partners, Ltd. ("EPP") and its wholly owned subsidiary Polo y Ron Minerales S.A. de C.V. to acquire a cumulative interest of up to 100% in the San José silver and base metal properties, in the State of Chihuahua, Mexico. On May 30, 2008, the Company decided to abandon the San José properties. Consequently, all costs accumulated on the related mining concessions as at that date, amounting to \$245,076, were written off in the second quarter of 2008. EPP has yet to officially accept the Company's option termination letter (see also note 18).

#### (c) Mining concessions payable

The total mining concessions payable are included in the financial statements as follows:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>US\$</b>	<b>US\$</b>	<b>\$</b>	<b>\$</b>
Minera Cusi <sup>(1)</sup>	407,984	1,079,212	432,708	1,129,503
Bolívar III and IV	28,125	28,125	29,849	29,436
Cusi San Juan	12,500	12,500	13,258	13,083
Other	25,000	25,000	26,533	26,165
Mining concessions	473,609	1,144,837	502,348	1,198,187
Less: short-term portion	473,609	1,144,837	502,348	1,198,187
Long-term portion	-	-	-	-

<sup>(1)</sup> – On June 14, 2006, the Company entered into an option agreement, later changed to a purchase agreement, to earn a 100% interest in several mining concessions with Compañía Minera Cusi ("Minera Cusi"), a private Mexican company, for US\$5,000,000 payable over three years. In January 2009, the Company negotiated new terms with Minera Cusi in order to redefine the schedule of remaining payments as follows: US\$100,000 – paid on the date of signature of the new terms, 19 monthly payments of US\$100,000 – beginning March, 2009 and a final payment of US\$60,000 for a renegotiation of the remaining US\$2,060,000 to be paid under the original contract. As at June 30, 2010, the present value of the remaining payments due of US\$407,984 is included in mining concessions payable, including the IVA payable of US\$53,725.

Since mining concessions payable are non-interest bearing, the mining concession of Minera Cusi and the financial liability have been measured at fair value at the initial recognition based on an estimate of the present value of all future cash outflows discounted using prevailing market rates of interest for a similar instrument with a similar credit rating representing an effective interest rate of 8.31%.



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## 11 Share capital

### Common shares

#### Authorized

An unlimited number of common shares without par value

#### Issued

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

	For the six-month period ended June 30, 2010		For the year ended December 31, 2009	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of the period	355,006,279	70,229,509	136,501,269	54,966,786
Issued and paid in cash <sup>(i) (iv)</sup>	96,122,956	16,340,902	168,866,091	9,293,005
Less: value of warrants	-	-	-	(2,465,315)
Issued pursuant to acquisition of EXMIN Resources Inc.(note 2)	-	-	21,229,828	4,989,010
Issued following exercise of warrants <sup>(ii) (iii)</sup>	31,985,545	4,396,592	28,409,091	3,125,000
Plus: value of warrants	-	427,289	-	321,023
Balance – End of the period	<u>483,114,780</u>	<u>91,394,292</u>	<u>355,006,279</u>	<u>70,229,509</u>

<sup>(i)</sup> In May 2010, the Company closed a Rights Offering under which shareholders of record on April 10, 2010 had the rights to purchase one share, at \$0.17 per share, for each 4 shares of the Company's common stock owned. As a result of the offering, the Company raised \$16,340,902 and issued 96,122,956 common shares.

<sup>(ii)</sup> During the six-month period ending June 30, 2010, 31,985,545 warrants were exercised at prices from \$0.10 to \$0.15, for a total cash consideration of \$4,396,592. The warrants were exercised by directors and shareholders of the Company. Consequently, the Company issued 31,985,545 common shares.

<sup>(iii)</sup> During November, 2009, 28,409,091 warrants were exercised at the price of \$0.11, for a total cash consideration of \$3,125,000. The warrants were exercised by directors of the Company. Consequently, the Company issued 28,409,091 common shares.

<sup>(iv)</sup> From January to July 2009, the Company closed four private placements for a total amount of \$9,293,005 and issued 168,866,091 units, each unit being comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to subscribe, during periods from twelve to eighteen months, to one common share at an average price of \$0.111 per share, with 44,894,636 being exercised between November 2009 to March 2010 at a price of \$0.116 per share. During 2008, the Company closed a private placement for a total amount of \$2,000,000 and issued 25,000,000 units, each unit being comprised of one common share and one common share purchase warrant exercisable over the following twenty-four months to purchase one common share at a price of \$0.20 per share.

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### 11 Share capital (Cont)

#### Warrants

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

	<b>For the six-month period ended June 30, 2010</b>	<b>For the year ended December 31, 2009</b>
	<b>Number of warrants</b>	<b>Number of warrants</b>
Balance – Beginning of the period	166,649,562	25,000,000
Issuance of warrants	-	168,866,091
Issued pursuant to acquisition of EXMIN Resources Inc.(note 2)	-	1,636,262
Exercised warrants	(31,985,545)	(28,409,091)
Expired warrants	(850,000)	(443,700)
Balance – End of the period	<u>133,814,018</u>	<u>166,649,562</u>

A summary of outstanding warrants, entitling their holders to subscribe for an equivalent number of common shares, as at June 30, 2010, is as follows:

<b>Exercise price</b>	<b>Number of warrants</b>	<b>Expiry date</b>
\$		
0.15	8,250,000	August 2010
0.49	163,200	October 2010*
0.20	25,000,000	November 2010
0.49	86,816	November 2010*
0.49	92,546	December 2010*
0.10	70,545,455	January 2011
0.10	29,676,000	December 2011
Total	<u>133,814,018</u>	

\*Replacement warrants issued to EXMIN shareholders in the acquisition completed September 30, 2009.

# Dia Bras Exploration Inc.

(an exploration-stage company)

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## 11 Share capital (Cont)

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

	<b>For the year ended December 31, 2009</b>
Average dividend per share	Nil
Estimated volatility	93% - 106%
Risk-free interest rate	1.1% - 2.2%
Expected life of warrants issued	12 - 18 months
Average estimated fair value of warrants per share	\$0.011
Exercise prices per share	\$0.10 - \$0.15

### *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, 2010, 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 no more than 10% of the common shares outstanding at the time of the grant or the amount approved to be reserved by the Board, if less, (13,600,000 common shares as of June 30, 2010), and ii) that the maximum number of common shares that may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of grant.

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

During the six-month period ended June 30, 2010, the Board granted a total of 2,261,000 options to purchase common shares of the Company to various employees and an officer which options expire until 2014. During 2009, the Board granted a total of 4,750,000 options to purchase common shares of the Company to various officers, directors, consultants and employees, which options are exercisable until 2014.

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## 11 Share capital (Cont)

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

	For the six-month period ended June 30, 2010		For the year ended December 31, 2009	
	Number of options	Average exercise price \$	Number of options	Average exercise price \$
Beginning of the period	11,874,640	0.56	9,568,333	0.64
Granted	2,261,000	0.19	4,750,000	0.17
Issued pursuant to acquisition of EXMIN Resources Inc.	-	-	1,413,720	1.61
Cancelled/forfeited	(690,000)	0.90	(3,323,333)	0.65
Expired	(250,000)	0.75	(534,080)	0.76
End of the period	<u>13,195,640</u>	<u>0.46</u>	<u>11,874,640</u>	<u>0.56</u>

A summary of options outstanding and exercisable as at June 30, 2010 is presented below:

Exercise price \$	Number of options		Expiry date
	Outstanding	Exercisable	
0.30	920,000	920,000	September 2010
0.40	1,575,000	1,575,000	February 2011
0.90	370,000	370,000	September 2011
1.10	575,000	575,000	April 2012
1.28	100,000	100,000	June 2012
1.25	150,000	150,000	July 2012
0.89	300,000	300,000	October 2012
0.61	230,000	230,000	April 2013
0.45	225,000	225,000	June 2013
0.10	370,000	246,667	November 2013
0.15-0.20-0.25	1,000,000	666,666	March 2014
0.10	2,050,000	1,366,667	June 2014
0.18	20,000	6,667	August 2014
1.27	450,840	450,840	April 2011*
1.57	548,760	548,760	September 2016*
1.89	308,040	308,040	August 2017*
2.45	102,000	102,000	October 2010*
0.20-0.25	600,000	200,000	September 2014
0.23-0.28-0.33	500,000	166,666	November 2014
0.215	540,000	180,000	December 2014
0.185	1,721,000	573,667	April, 2015
0.20	540,000	180,000	June 2015
	<u>13,195,640</u>	<u>9,441,640</u>	

\*Replacement options issued to EXMIN shareholders in the merger completed September 30, 2009.

# Dia Bras Exploration Inc.

(an exploration-stage company)

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## 11 Share capital (Cont)

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:

	<b>For the six-month period ended June 30, 2010</b>	<b>For the year ended December 31, 2009</b>
Average dividend per share	Nil	Nil
Estimated volatility	99.00%	95.92%
Risk-free interest rate	3.01%	2.30%
Expected life of options granted	4 years	4 years
1,721,000 options granted in 2010 (1,160,000 – 2009) which exercise price equals the market price of the stock on the grant date:		
Estimated fair value of option	0.12	0.16
Exercise price	0.185	0.22
540,000 options granted in 2010 (3,590,000 – 2009) which exercise price exceeds the market price of the stock on the grant date:		
Estimated fair value of option	0.12	0.05
Exercise price	0.20	0.16
Stock price at date of grant	0.19	0.09
1,413,720 replacement options granted in 2009 as part of the acquisition of EXMIN:		
Estimated fair value of option	-	0.07
Exercise price	-	1.61
Stock price at date of grant	-	0.24
<i>Contributed surplus</i>	<b>For the six-month period ended June 30, 2010</b>	<b>For the year ended December 31, 2009</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of the period	10,993,531	8,620,044
Issuance of warrants	-	2,465,315
Issued pursuant to acquisition of EXMIN Resources Inc.(note 2)	-	16,230
Exercised warrants	(427,289)	(321,023)
Stock-based compensation costs	223,078	270,519
Capitalized option cost from acquisition of EXMIN (note 2)	-	85,141
Share issue expenses	(132,369)	(142,695)
Balance – End of the period	<u>10,656,951</u>	<u>10,993,531</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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## 12 Capital disclosure

In the definition of capital the Company includes: shareholders' equity, mining concessions payable and advance payable, net of temporary investment 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, and
- (b) To secure sufficient capital to be able to develop its mining projects and to potentially bring them to the commercial production stage.

The Company monitors capital on an ongoing basis by keeping close control over expenditures and adjusting when necessary its exploration and development programs consistent with business conditions.

As at June 30, 2010, the Company was not subject to any externally imposed capital requirements.

	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
	<u>\$</u>	<u>\$</u>
Advance payable	-	686,570
Mining concessions payable	502,348	1,198,187
Less:		
Cash and cash equivalents	(14,865,729)	(2,821,277)
Investments in exploration companies	(235,400)	(146,900)
	<u>(14,598,781)</u>	<u>(1,083,420)</u>
Shareholders' equity	<u>44,891,766</u>	<u>24,010,994</u>
	<u>30,292,985</u>	<u>22,927,574</u>

## Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

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### 13 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, 2010</b>	<b>For the six-month period ended June 30, 2009</b>
	<u>\$</u>	<u>\$</u>
Net (loss) before income taxes	<u>(2,516)</u>	<u>(2,412,556)</u>
Combined federal and provincial income tax (benefit) expense at 29.9% (30.9 % in 2009)	42,636	(745,480)
Income tax rate differential	1,411	44,260
Expired tax losses	159,507	37,624
Stock-based compensation costs	66,700	29,600
Impact on increase in income tax rate on future income tax balance	(658,189)	35,599
Increase in the valuation allowance	26,618	585,963
Foreign exchange loss deductible in Mexico	232,541	(39,965)
Exchange re-evaluation of future income tax assets	-	(31,951)
Inflation taxable on losses and net financial liabilities in Mexico	128,163	76,949
Non-deductible (non-taxable) items in Mexico	69,126	48,502
Other	<u>-</u>	<u>(3,938)</u>
	<u>25,125</u>	<u>37,163</u>

The balances of income taxes payable is presented net of income tax receivable.

## Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three- and six-months ended June 30, 2010 and 2009

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### 14 Asset retirement obligations

The Company recognizes the fair value of a liability for asset retirement obligations in the period in which incurred, on a discounted cash flow basis, if a reasonable estimate can be made, which first occurred as at December 31, 2009 since the Company started developing new areas requiring reclamation in its exploration/expansion efforts undertaken in the fourth quarter of 2009. The liability accretes to its full value over time through charges to earnings. The fair value is added to the carrying amount of the Company's mining assets, and is amortized over the expected lives of the associated assets.

	<b>For the six-month period ended June 30, 2010</b>	<b>For the year ended December 31, 2009</b>
Asset retirement obligation, beginning of period	\$104,660	\$0
Liabilities incurred	-	\$104,660
Liabilities settled	-	-
Revisions in estimated cash flows and changes in assumptions	(7,001)	-
Accretion	3,750	-
Foreign exchange	1,730	-
Asset retirement obligation	<u>\$103,139</u>	<u>\$104,660</u>

The Company estimates the asset retirement obligation based on the following assumptions for cost, discount period, credit-adjusted risk-free interest rate (discount rate), and inflation:

	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
Estimated undiscounted costs	\$205,861	\$152,011
Expected years until expenditure	10	1 - 11
Credit-adjusted risk-free interest rate	7.5%	6%
Inflation rate	5%	5%

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

## 15 Statements of cash flows

	For the six-month period ended June 30, 2010	For the six-month period ended June 30, 2009
	\$	\$
(a) The changes in affecting cash working capital items are as follows:		
Trade receivables	74,323	-
Trade payables	(1,217,891)	(2,547,750)
Sales tax and other receivables	(1,069,757)	(82,730)
Inventories	(412,741)	(115,731)
Prepaid expenses	69,514	137,028
Accounts payable and accrued liabilities	260,042	604,407
Income tax receivable/payable	23,457	(86,260)
	<u>(2,273,053)</u>	<u>2,091,036</u>
(b) Additional information – noncash transactions		
Amortization of property, plant and equipment used in mining operations charged to inventories	44,863	132,986
Decrease in estimates for asset retirement obligation	7,001	-
Sales tax receivable for the acquisition of mining concessions	-	272,025
(c) Interest and income taxes		
Interest paid	31,022	57,341
Income taxes paid	41,036	32,599
(d) Cash and cash equivalents		
Cash	1,840,091	266,526
Short-term deposits (interest rates 0.50% - 0.65%)	13,025,638	31,043
	<u>14,865,729</u>	<u>297,569</u>

# Dia Bras Exploration Inc.

(an exploration-stage company)

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

## 16 Related party transactions

During the six-month period ended June 30, 2010, the Company paid consulting fees of \$94,017 to a company controlled by one of its directors (\$148,249 for the same period of 2009). As at June 30, 2010, there is no outstanding balance due to this company (2009 - \$24,058).

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.

## 17 Commitments

- (a) The Company is obligated under premises leases to pay rents on offices and houses in its operating areas.

<u>For the year ended</u>	<u>Lease s<sup>(i)</sup></u>	<u>Purchase Commitment s<sup>(ii)</sup></u>
December 31, 2010	51,072	8,060
December 31, 2011	68,096	-
December 31, 2012	34,048	-
Thereafter	-	-

<sup>(i)</sup> – combination of Canadian and Mexican denominated operating leases.

<sup>(ii)</sup> – Mexican denominated purchase commitments for supplies and services.

## 18 Contingencies

- (a) On October 26, 2009, an action was filed in Mexico against the Company and one of the Company's subsidiaries, Dia Bras Mexicana, S.A. de C.V. ("DBM"), by Polo y Ron Minerales S.A. de C.V. claiming a penalty for the cancellation of the option agreement of the San Jose properties in the State of Chihuahua, Mexico and the cancellation of seventeen mining concession sale agreements that are already completed and paid. The Company maintains that it has complied with all its obligations with the related agreement, will defend this action and has recorded no related charge.
- (b) In 2005, a personal action was filed in Mexico against one of the Company's subsidiaries, DBM, by an individual claiming the annulment and revocation of the purchase contracts of two mining concessions, Bolívar III and IV (see note 10 (b)), 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. On July 1, 2009, the Eighth Court of Appeal of the Supreme State Court of Chihuahua, Mexico, has confirmed the favourable ruling issued by the Sixth Civil Court regarding the legal dispute involving the Bolívar III and Bolívar IV mining concessions. The confirmation of the decision rendered on January 22, 2009, in which the Sixth Civil Court determined the claim unfounded now stands in full legal force and effect.

The claimant did not file a constitutional trial against the Court of Appeal who confirmed the final resolution in favour of DBM. The claim is no longer in effect and the final resolution stands as issued by the Sixth Civil Court.

## **Dia Bras Exploration Inc.**

*(an exploration-stage company)*

Notes to the interim Consolidated Financial Statements (unaudited)

For the three-and six-months ended June 30, 2010 and 2009

(unaudited – prepared by Management)

(expressed in Canadian dollars)

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(c)

(d)

### **19 Subsequent Events**

- (a) Subsequent to quarter end, 8,250,000 warrants were exercised at an average exercise price of \$0.15, for a total cash consideration of \$1,237,500. All of the exercised warrants had expiry in July of 2010. The warrants were exercised by shareholders and a director of the Company. Consequently, the Company issued 8,250,000 common shares.
- (b) During July 2010, 73,306 options were exercised at an average price of \$0.10, for a total consideration of \$7,330. Consequently, the Company issued 73,306 common shares.
- (c) During July 2010, the Company received final approval for a 36-month term loan of 33 million Mexican pesos, about US\$2.6-million, from Fideicomiso de Fomento Minero (FIFOMI), a branch of the federal government of Mexico. Funds totalling 20 million Mexican pesos will be available for capital purchases of buildings, equipment and services related to the construction of the company's new Piedras Verdes mill plus 13 million Mexican pesos for general working capital, which was drawn on July 30, 2010.
- (d) During July and August, 2010, the Company renegotiated the option agreement for the acquisition of the 75% interest it did not own of a 20 hectare concession in a project close to its Bolívar operations, and entered into a purchase agreement to acquire the remaining rights for \$381,816 (US\$360,000) payable in four instalments of \$95,454 (US\$90,000). The first instalment was paid with the signing of the purchase agreement, and the second is to be paid in December 2010, the third in March 2011 and the last in June 2011.
- (e) The Company was notified in July 2010 of a suit filed in the Courts of Mexico for the collection of fees by a Mexican law firm. The Company maintains that all fees due have been previously paid, has not accrued for any additional charges, and will vigorously defend this action.
- (f) In August 2010, the Company received notification that a lawsuit had been filed against one of its Mexican subsidiaries, EXMIN, S.A. de C.V., claiming unpaid compensation under an option contract for the acquisition of property rights, which contract had expired. The Company maintains that all payments due under the contract had been paid and will vigorously defend this action.