



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") follows rule 51-102A of Canadian Securities Administrator regarding continuous disclosure for reporting issuers. It is a complement and supplement to the audited consolidated financial statements for the year ended December 31, 2006 and the nine-month period ended December 31, 2005 and should be read in conjunction with those statements. 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.

1.1 YEAR-END AND DATE OF MD&A

In 2005, the Company changed its year-end from March 31 to December 31. The MD&A for the year ended December 31, 2006 is as of April 27, 2007.

1.2 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.

1.3 YEAR 2006 HIGHLIGHTS

- Pilot-mining program at Bolivar mine meets forecasts and generates positive cash flow;
- Sales of concentrate total \$35.6 million;
- New exploration sites are discovered at the extension of the Bolivar project;
- Important acquisition of an entire exploration silver district, the Cusi project, is made in May 2006, and the preliminary exploration program is started;
- Company closes a \$10.5 million bought deal financing on August 17, 2006;
- Exercise of warrants raises \$10.3 million in November 2006; and
- New processing circuit installed at Malpaso increases mill capacity to 850 tonnes per day.

1.4 NATURE OF ACTIVITIES AND OVERALL PERFORMANCE

Dia Bras Exploration Inc. (the "Company") is an exploration-stage company with rights and options on approximately 20 properties covering more than 15,000 hectares in the State of Chihuahua, Mexico.

In 2006, the Company's stock price performed very well, starting the year at \$0.26 and closing at \$1.19. During that period, the Company strengthened its operations through its continuing development at Bolivar, by making a very promising acquisition in the silver area with its Cusi project, by improving its overall operational facilities and by hiring additional highly qualified personnel.

During the year, the Company continued its pilot-mining program at the Bolivar Mine property. The short-term objectives of the pilot-mining program are: (i) to provide essential data on mining, transport and milling costs, logistics, mineralization rock grade, mill recovery performance, and metallurgy, which will be useful for pre-feasibility and feasibility studies at the Bolivar Mine property; and (ii) generate sufficient cash flow from the production of zinc and copper concentrates to finance the development and exploration program at the Bolivar mine and elsewhere in the Bolivar project. The pilot-mining program started generating positive cash flow in December 2005 and continued throughout 2006.

Well supported by high market prices for zinc and copper, the Company completed a very productive year with its Bolivar pilot-mining program, where the Company met its 2006 targets in terms of tonnes processed and sales of concentrate.

It is important to note that the Bolivar Mine property has not yet reached the commercial production stage. The completion of a feasibility study is required to confirm the economic viability of a property before a property is brought into commercial production. The Company believes that it will take approximately 24 months before the Bolivar Mine property reaches the commercial production stage, but there is no assurance that the Bolivar mine will ever reach the commercial production stage. The pilot-mining program will end with the completion of the feasibility study. Until the Company reaches the commercial production stage, revenue from sales of concentrate from a pilot-mining program prior to commencement of commercial production is recorded as a reduction of the related costs and deferred exploration expenses capitalized to the Bolivar mine property. If the accumulated revenue from sales of concentrate 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 net against construction costs, if any, of the new facilities, or (iii) the property is abandoned. This policy would apply to any project that would go into pilot-mining mode.

Bolivar Mine property

The Bolivar property remains the main exploration target in the Cieneguita region. During the year ended December 31, 2006, total investment in property costs and exploration and development expenses on the Bolivar project and the pilot-mining program amounted to approximately \$19.7 million.

During the year, the Company processed 96,575 dry metric tonnes ("DMT") of material averaging grades of 10.63% Zn and 2.03% Cu. Recoveries at the Malpaso mill averaged 91.9% for zinc and 80.59% for copper resulting in the production of 16,183 DMT of zinc concentrate and 5,507 DMT of copper concentrate and total sales from pilot mining of \$35,588,838.

Bolivar pilot-mining program

Summary – 2006

Summary of production and net smelter ("NS") production value

Note: Amounts are in US\$.

Material Processed		Tonnes	Total Estimated NS Production Value⁽¹⁾ US\$ (Millions)	Direct Operating Cash Costs⁽¹⁾ US\$ (Millions)
Actual		96,575	26.8	11.5
Forecast		90,000	16.0	10.0
Over (under)		6,575	10.8	1.5
Zinc	Average Grade %	Recovery %	Zn Concentrate Production (DMT)	NS Production Value⁽¹⁾ US\$ (Millions)
Actual	10.63	91.90	16,183	18.1
Forecast	11.00	85.00	14,800	10.4
Over (under)	(0.37)	6.90	1,383	7.7
Copper	Average Grade %	Recovery %	Cu Concentrate Production (DMT)	NS Production Value⁽¹⁾ US\$ (Millions)
Actual	2.03	80.59	5,507	8.7
Forecast	2.50	75.00	6,400	5.6
Over (under)	(0.47)	5.59	(893)	3.1

Financial results

	Actual Year ended December 31, 2006 US\$ (Millions)
Net smelter production value ⁽¹⁾	26.8
Direct operating cash costs ⁽¹⁾	11.5
Direct operating cash margin before amortization ⁽¹⁾	15.3

Note: The net smelter production value is estimated based on the monthly average prices of metal and consequently is different from the annual sales figure due to the timing of final settlement billings and the overall sales adjustments on final settlements of 2005 shipments.

Net smelter production value and Cash operating costs/tonne processed

	Actual Year ended December 31, 2006 US\$
Net smelter production value ⁽¹⁾	277.78
Direct operating cash costs ⁽¹⁾	119.64
Direct operating cash margin before amortization ⁽¹⁾	158.14

(1) Non-GAAP measures: The Company reports net smelter production value, direct operating cash costs, direct operating cash margin before amortization, net smelter production value per tonne, direct operating cash costs per tonne, and direct operating cash margin before amortization per tonne, even if it is a non-GAAP measure, to convey the approximate value of sales for the year, as well as isolate the measure of pilot-mining direct 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 the measure of performance prepared in accordance with GAAP.

Malpaso mill

During the year, following recommendations from a consulting metallurgist, the Company put in place a program to improve the overall efficiency of the Malpaso mill. Increased supervision combined with the installation of automated reagent controls and modifications to the equipment maintenance schedule have led to peaks of 410 tonnes per day (“tpd”) of material processed and high plant availability.

The following are some of the results that have been achieved:

- Increased recovery for both copper and zinc to respective averages of over 80% and 90%;
- Minimal down time, starting in the third quarter; and
- Reduction of penalties due to the presence of other metals in the concentrate.

The installation of the Triunfo circuit, in the fourth quarter of 2006, will enable the feeding of material from Cusi as part of a bulk sample to begin in 2007. This circuit comprises a 500-tpd ball mill, which will increase the overall capacity to 850 tpd with design space provided for another similar ball mill. Recovery will be obtained from flotation cells, gravity and table systems.

The Triunfo circuit is in a building adjacent to the Malpaso circuit. Additional equipment has been and will be added to complete the overall facility.

Cusi 2006 exploration

In mid-2006, the Company initiated exploration activities at Cusi, which included geological mapping, topographic surveying, diamond drilling and sampling.

A total of 11,700 metres of drilling was completed in the Cusi camp, of which 5,500 metres were drilled at San Miguel and La Bamba and the rest equally split between Santa Edwiges/San Nicolas and La India. The San Miguel and Promontorio mines are being dewatered, and former underground workings refurbished. The Company aims to define sufficient mineralization so that an initial resource calculation can be made over the course of 2007.

The highlight of the 2006 program was the intersection of 35.4 kg/t Ag over 0.4 metres from La India and the channel sampling in Santa Edwiges that yielded 2.7 kg/t Ag over 3.62 metres.

Geological mapping identified a large vein and alteration system hosted by a thick felsic ignimbrite near a fault contact with a younger andesite. More than 90 kilometres of strike length of veins have been identified. The two major directions of the mineralized structures are ENE and WNW.

La India

This former mine (100% owned by Dia Bras) has two accessible levels. The Company collected a total of 166 samples along three veins, with adjacent breccia zones, over a distance of 300 metres. A section from level 2, comprising 19 composite channel samples on seven different sections, gave an average of 231 g/t Ag along a 40-metre strike length with an average width of 1.87 metres. Sixteen diamond drill holes totaling 2,832 metres were completed in this area. Drill core from La India property yielded 35.4 kg/t Ag over 0.4 metres. These results represent bonanza grade; at the very least they indicate the potential for finding major deposits of silver in the district; they support our belief that Cusi has barely been touched insofar as modern mining is concerned.

Santa Edwiges (option)

In 2006, the Company mapped and sampled part of the underground workings of this inactive mine. In total, 457 samples were collected along an access drift of 650 metres cutting four mineralized structures ranging in thickness from 1.5 to 30 metres. In addition, approximately 533 metres of drilling were completed in five diamond drill holes. Perhaps most significantly, subsequent to year-end, channel sampling in Santa Edwiges encountered 2.7 kg/t Ag over 3.62 metres. The cleaning and opening of the old workings at Santa Edwiges is being performed to prepare a test bulk sample of sulfide material to be treated at the Company's Malpaso mill.

Promontorio (option)

The Promontorio mine was formerly mined underground, but its operations ceased when silver prices fell. The Promontorio workings are being dewatered and rehabilitated. Unsubstantiated historical mine records indicate areas of high-grade blocks of ore, and within a short time we anticipate confirming their presence. We could then rapidly begin extracting significant amounts of ore from the Promontorio mine.

La Bamba and San Miguel (option)

Dia Bras holds an option to earn an interest of up to 70% in the La Bamba and San Miguel properties.

The statement of exploration expenditures incurred to date on those properties received a preliminary approval. Upon final acceptance, which is expected shortly, Dia Bras will exercise its first option to earn 50% in the properties.

La Bamba: La Bamba was formerly mined as an open pit. Diamond drilling results in 2006 included mineralized intersections ranging from 113 g/t Ag over 22.5 metres in hole DC06B37 to 981 g/t Ag over one metre in hole DC06B30. Over 250 truckloads of material from La Bamba were sampled and assayed at our Malpaso laboratory. The average head grade was 247.8 g/t Ag, 0.17% Zn, 0.21% Pb and 0.04% Cu.

San Miguel: The San Miguel mine shares the same mineralizing structure as La Bamba. In this mine of five levels (100, 200, 250, 300 and 500), the first three levels have been mapped and sampled by the Company. At the 100 level, two adjacent parallel zones (breccia and vein) extending north-south for 170 metres have been identified. At the southern end of the level, where the breccia zone ranges from 1.5 to 4 metres in width, seven channel samples were collected. Assay results of these seven 3-metre long samples ranged from 150 g/t Ag to 880 g/t Ag and averaged 565.7 g/t Ag or 18.19 oz/t Ag. The Company completed approximately 2,200 metres in eleven diamond drill holes at San Miguel. These holes were drilled to test mineralized areas that would be easily accessible from the shaft below level 300. Except for two holes, which were terminated at a fault, all holes intersected the targeted mineralized zone.

Promontorio project

The Company completed a drilling program in the first quarter of 2006 and made the necessary property payments to secure the land until June 2007. However, with the Cusi acquisition, management decided to focus its efforts on the Bolivar and Cusi areas for the rest of 2006.

The Company has had several discussions with interested third parties to option out the property with the objective to accelerate exploration activities. However, this was not a priority, and no agreement was reached.

1.5 SELECTED ANNUAL INFORMATION

	Year ended December 31, 2006 \$	Nine-month period ended December 31, 2005	Year ended March 31, 2005 \$
Sales of concentrate ⁽ⁱ⁾	35,588,838	5,562,402	-
Write-off of mining assets	280,117	615,658	481,706
Loss	1,913,016	2,096,165	2,095,804
Loss per share	0.02	0.04	0.05
Total assets	52,750,931	25,420,216	20,668,572
Working capital	27,735,607	4,271,832	3,649,779
Cash and cash equivalents	19,704,587	3,556,961	2,954,870

⁽ⁱ⁾In accordance with the Company's accounting policy, revenue from the sales of concentrate from a pilot-mining program prior to the commencement of commercial production is recorded as a reduction of related costs and deferred exploration expenses and, therefore, does not appear in the Consolidated Statements of Operations and Deficit.

1.6 RESULTS OF OPERATIONS

Corporate

During the year ended December 31, 2006, the Company incurred a loss of \$1,913,016 (\$0.02 per share) compared with a loss of \$2,096,165 (\$0.04 per share) for the nine-month period ended December 31, 2005.

This loss is comprised of the write-off of mining assets for \$280,117, which includes the abandonment of the El Magistral property in the Promontorio area, and the write-off of deferred costs – advance on royalty payment of \$350,000, as the Company did not foresee using the Nichromet technology nor benefitting economically from it.

The loss also includes a non-cash expense related to stock-based compensation of \$694,846 compared with \$249,808 for the nine-month period ended December 31, 2005. This important increase is explained by the fact that the options granted after August 2006 were immediately vested at the date of grant, resulting in their total costs being accounted for during the period. The increased value of the Company's stock price during the year also affected the stock-based compensation cost since it is an important factor of the cost calculation. Prior to September 2006, the options vesting period was eighteen months.

The loss includes a net gain on currency exchange of \$289,784 on monetary assets, due to the increased value of the Mexican peso versus the Canadian dollar, mostly in the latter part of the year.

Total investor relations and corporate development expenses amounted to \$395,968 during the year compared with \$50,586 for the nine-month period ended December 31, 2005. The Company launched an aggressive investor relations program by being very active in promoting its activities and meeting with financial institutions in Toronto, Calgary, Vancouver and Montreal. The Company also attended key industry exhibitions worldwide. In the fourth quarter of 2006, as the maturity date of the warrants was approaching, efforts were made to follow up on outstanding warrants including visits with warrant holders. These efforts were rewarded as the Company raised approximately \$10.3 million from the exercise of the warrants.

Administrative expenses increased compared with the nine-month period ended December 31, 2005, as the Company increased its number of full-time employees late in the third quarter of 2005. Those employees were employed full-time throughout 2006.

Results of the pilot-mining program at Bolivar

Total sales of concentrate in 2006, including provision for final billings, amounted to \$35,588,838 compared with \$5,562,402 for the nine-month period ended December 31, 2005. This amount exceeded the forecast of \$20,000,000 as zinc and copper market prices had a spectacular rise mainly in the first quarter of 2006 and remained much higher than overall forecasts for the year. Total direct operating cash costs for the year amounted to approximately \$13.5 million (US\$11.5 million) (see note ⁽¹⁾Non-GAAP measures in Section 1.4).

The sales increase is due to higher volumes of material being processed in 2006 (96,575 DMT compared with 50,371 DMT for the nine-month period ended December 31, 2005) and mostly to higher average grades of material processed of 10.63% Zn and 2.03% Cu (8.1% Zn and 1.89% Cu in 2005), combined with a major increase in metal prices with peaks as high as 108% for Zn and 77% for Cu, compared with average metal prices in 2005.

Cash flow from pilot mining was used in the exploration and development of the property. All concentrates produced were delivered and sold to MRI Trading AG pursuant to a standard concentrate purchase agreement. The total sale is provisionally priced and ninety percent of the sale's estimated value is billed at the date of the shipment, and the remaining final settlement billing is done later at the confirmed quotation date. Payment is normally received within 48 to 72 hours after billing is sent to the client.

1.7 SUMMARY OF QUARTERLY RESULTS

Quarter ended	Loss \$	Loss per share \$
December 31, 2006	417,065	< 0.01
September 30, 2006	406,545	< 0.01
June 30, 2006	709,539	< 0.01
March 31, 2006	379,867	< 0.01
December 31, 2005	1,287,232	0.02
September 30, 2005	471,501	< 0.01
June 30, 2005	337,432	< 0.01
March 31, 2005	496,456	< 0.01

1.8 RESULTS OF THE QUARTER ENDED DECEMBER 31, 2006

During the quarter ended December 31, 2006, the Company incurred a loss of \$417,065 (<\$0.01 per share) compared with a loss of \$1,287,232 (\$0.02 per share) for the same period in 2005. This loss is mainly attributable to the write-off of mining assets for \$280,117 which includes the abandonment of the El Magistral property in the Promontorio area and the write-off of deferred costs – advance on royalty payment of \$350,000.

Investor relations and corporate development expenses increased during the fourth quarter, which included the field trip of analysts and investors to our Mexican project, as well as the continuing investor relations program, which included visits in Europe at the approach of the maturity date of the warrants in November 2006.

The loss also includes a non-cash expense adjustment in reference to the stock-based compensation cost of \$67,071 and a net gain on currency exchange of \$382,247 on the translation of local Mexican monetary assets, as the Mexican peso increased by 4.5% during the fourth quarter. The remaining portion of the quarterly loss is in accordance with the monthly corporate cost budget.

During the quarter, revenues from sales of concentrate from the pilot-mining program at Bolivar amounted to \$9,101,459 including a provision for final settlement of \$1,778,363. The program generated an operating cash flow of approximately \$4.3 million, which helped finance exploration and capital expenditures as well as property payments.

1.9 LIQUIDITY

As at December 31, 2006, the Company has a working capital of \$27,735,607 including \$19,704,587 in cash and cash equivalents compared with \$4,271,832 as at December 31, 2005, including \$3,556,961 in cash and cash equivalents. This level of working capital is adequate to support the current level of operations and the exploration program for 2007. The increase of working capital and cash improvement as compared to 2005 is due to the closing of the \$10.5 million bought deal financing in August, the exercise of warrants for \$10.3 million in November, and cash flow generated from the Bolivar pilot-mining program.

As at December 31, 2006, sales tax and other receivables amount to \$3,981,826 (\$1,037,122 as at December 31, 2005) and are mostly comprised of Mexican recoverable input tax credits. The Company is still facing delays in recovering the IVA (local sales tax) mostly from 2005. As at December 31, 2006, no allowance has been taken with respect to any of the amounts receivable. The Company is regularly monitoring and meeting with local Mexican IRL authorities and has hired a consultant to address the situation.

Receivables of \$3,347,046 (\$327,000 as at December 31, 2005) include a provision for settlement billings of \$1,778,363 as at December 31, 2006. The actual final billing could be higher or lower depending on the fluctuation of commodity prices.

Accounts payable and accrued liabilities amount to \$830,978 (\$749,676 as at December 31, 2005) and are comprised of current usual business transaction balances.

1.10 CAPITAL RESOURCES, INVESTING AND FINANCING ACTIVITIES

The availability of funds is partially dependent on capital markets. The Company's main sources of financing are the issuance of equity shares and the sales of concentrate from the ongoing pilot-mining program at the Bolivar mine.

During the year, the Company completed an offering of 14,950,000 common shares at a price of \$0.70 per common share for gross proceeds of \$10,465,000. An underwriter fee of 7% (\$732,550) was paid, and a total of 1,046,500 compensation options (7% of total common shares issued) were issued in favour of the underwriters. During 2005, the Company raised \$4,500,000 through the completion of private placements.

During the year, 11,423,219 warrants were exercised at a price of \$0.90 for a total cash consideration of \$10.3 million, and 252,917 stock options were exercised for a total of \$84,037.

As indicated earlier, the pilot-mining program generated sales of \$35.6 million and cash flow of \$32.6 million of which positive cash flow was used in the development of the Bolivar property and to fund its exploration program.

During the year, the Company invested in capital expenditures including buildings, machinery, mining and transport equipment for a total amount of \$7.1 million, which includes the installation of the new Triunfo processing circuit at Malpaso and equipment to support exploration activities at Cusi.

As at December 31, 2006, there is no outstanding balance of obligation related to assets under capital lease (\$228,851, including a current portion of \$90,904 as at December 31, 2005). These obligations related to rolling stock acquired and financed over periods of up to 36 months but for which the Company accelerated payment.

1.11 FINANCIAL COMMITMENTS

The Company's financial commitments are as follows:

- A five-year lease signed jointly with two other companies in February 2004, at an annual rent of \$150,000. The rent is prorated between the three companies on the basis of the space used;
- A five-year lease for office premises at an annual rent of \$60,000; and
- In order to exercise its various options on the mining properties, the Company would have to make the following payments:

Year	Amount US\$
2007	2,572,500
2008	2,250,000
2009	2,562,500

1.12 OFF-BALANCE

The Company did not enter into any off-balance sheet arrangement.

1.13 RELATED PARTY TRANSACTIONS

During the year, 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 are recorded at their exchange value.

1.14 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

There were no changes in accounting policies during the year. The Company evaluated that the new sections on financial instruments, effective January 1, 2007, of the Handbook of the Canadian Institute of Chartered Accountants (Sections 1530, 3855 and 3865) will have an impact on the consolidated financial statements as the embedded derivative included in the sales agreement for concentrate will need to be recorded at the fair value at each balance sheet date with the corresponding change in fair value recorded in the Consolidated Statements of Operations and Deficit.

1.15 CRITICAL ACCOUNTING POLICIES

Use of estimates

The preparation of 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 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, 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 mining rights and options to acquire interests in mining properties, deferred exploration expenses, land, exploration buildings and equipment, supplies inventory that will be used for exploration, and deposits on future mining assets. All costs directly related to foreign 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. 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 over a period of three consecutive years or results from exploration work not warranting further investment.

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

Revenue from sales of concentrate from a pilot-mining program prior to commencement of commercial production is recorded as a reduction of the related costs and 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 concentrate is sold under pricing arrangements whereby final settlement prices are determined by quoted market prices in a period subsequent to the date of sale. The concentrate is provisionally priced at the time of sale based on forward prices for the expected date of the final settlement. Subsequent variations of the price are recognized as sales adjustments as they occur and until the price is settled.

If the accumulated revenue from sales of concentrate from the pilot-mining program exceeds the related costs and deferred exploration costs, 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 at the end of 2009. Commercial production has been defined as being the stage where the Company reaches a production level of 65% of mill capacity for a consecutive period of 90 days within a maximum period of six months. The production level will be calculated on the rated capacity of an on-site mill.

The development of the mine and the construction of the on-site mill are planned to commence in mid-2008 after reception of a bankable feasibility study to be commissioned in 2007.

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.

The inventory from pilot mining is recorded at the lower of cost and net realizable value.

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.

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

1.16 FINANCIAL INSTRUMENTS AND OTHER

The Company does not use financial or other instruments.

1.17 RISK AND UNCERTAINTIES

Business risk

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 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.

Land title

The Company has taken 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.

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 concentrate 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 favorable 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 does not use derivative instruments to mitigate this risk.

Uninsured risks

The Company's business is subject to a number of risks and hazards, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses, and possible legal liability.

Foreign exchange risk

The Company's sales of concentrate 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, receivables, sales tax and other receivables, 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, receivables, and sales tax and other receivables. The Corporation maintains substantially all of its cash and cash equivalents with major financial institutions in Canada and in Mexico. Therefore, credit risk of counterparty non-performance is remote. The totality of the Company's receivables 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.

Interest rate risk

The Company's receivables, sales tax and other receivables, and accounts payable and accrued liabilities are non-interest bearing. Cash and cash equivalents bear interest at variable and fixed rates.

1.18 OUTLOOK

The Company began 2007 with a very optimistic view, having just moved last February 2007 into its new corporate offices. With approximately \$16 million in cash currently on hand, nearly all of its equipment purchased, and no long-term debt or obligation other than the scheduled property payment, the Company was therefore in an excellent position to initiate an aggressive exploration program on both the Bolivar and Cusi projects which will include a 50,000-metre drilling campaign (25,000 on each project), data compilation, surface and underground geological mapping, and geochemical sampling.

However, the Company will face challenges such as the understanding of the different geological structures and wide exploration surface at Cusi, which will necessitate an important investment during the first three to six months in 2007.

The Company has recently obtained very excellent results from underground drilling at the Bolivar mine. The Company can therefore expect increasing grades and to continue producing cash flow to support exploration activities.

The Company will work to obtain results for a feasibility study at Bolivar to confirm the decision to construct a mill on site and to prepare for development and the necessary infrastructures that will enable commercial production to commence in late 2008 or early 2009.

The objectives for 2007 are as follows:

- Pursue exploration programs around the Bolivar region and at the Cusi camp projects with the objective of testing expected potential and perhaps make a major discovery;
- Drill 50,000 metres of exploration diamond holes, 25,000 metres at Bolivar and 25,000 metres at Cusi;
- Bolivar pilot-mining program – Mine and process 129,000 DMT of material averaging 7.5% Zn and 1.5% Cu;
- Complete a feasibility study at Bolivar to obtain parameters for eventual full-scale production, including construction of an appropriately sized mill on site; and
- Initiate a bulk-sampling program and eventual pilot-mining activity at Cusi, and begin to produce and sell silver concentrate.

1.19 DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) evaluated the effectiveness of the Company’s disclosure controls and procedures as at the financial year ended December 31, 2006. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2006 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them in a timely fashion to enable management to decide if disclosure was required.

1.20 INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has designed internal control over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with Canadian generally accepted accounting principles. As at December 31, 2006, the CEO and the CFO evaluated the design of the ICFR.

Based on that evaluation, the CEO and the CFO concluded that a weakness existed in the design of the ICFR in regard to the determination and presentation of the current and future income tax provisions of the Company. The weakness identified in the Company’s ICFR resulted in a greater likelihood that a material misstatement would not be prevented or detected. Henceforth, additional controls related to the review of the provision for income taxes will be put in place.

There have been no changes in the Company’s ICFR that occurred during the most recent interim period ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

1.21 OTHER REQUIREMENTS

(a) Additional information is available on SEDAR at www.sedar.com and on the Company's Website at www.diabras.com.

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

Analysis of costs and deferred exploration expenses

	Bolivar \$	Cusi \$	Promontorio \$	For the year ended December 31, 2006 Total \$	For the nine-month period ended December 31, 2005 Total \$
Balance – Beginning of period	12,442,680	-	1,094,667	13,537,347	10,197,775
Costs and deferred exploration expenses					
Property acquisition and related costs	321,704	3,056,422	113,723	3,491,849	451,263
Sampling	128,177	252,448	12,778	393,403	179,671
Geology consulting and management	983,345	342,207	36,228	1,361,780	660,598
Geophysical survey	6,915	-	-	6,915	27,927
Drilling and mining development	3,295,102	2,530,875	37,841	5,863,818	1,352,627
Pilot milling	3,538,455	-	-	3,538,455	1,570,210
Supervision and local administrative costs	902,294	409,147	29,854	1,341,295	1,056,287
Transportation costs	6,866,742	96,082	6,389	6,969,213	2,530,748
Roads	1,275	14,718	-	15,993	41,725
Camp costs and food	1,369,021	61,334	-	1,430,355	550,053
Capitalized amortization of exploration buildings and equipment	1,417,937	260,876	7,926	1,686,739	833,442
Stock-based compensation costs	830,690	164,324	6,159	1,001,173	205,011
	19,661,657	7,188,433	250,898	27,100,988	9,459,562
Write-off of mining assets – Costs and deferred exploration expenses	-	-	(147,635)	(147,635)	(557,588)
Sales of concentrate	(35,588,838)	-	-	(35,588,838)	(5,562,402)
	(15,927,181)	7,188,433	103,263	(8,635,485)	3,339,572
Transfer to excess cost recovery – pilot mining	6,770,293	-	-	6,770,293	-
	(9,156,888)	7,188,433	103,263	(1,865,192)	3,339,572
Balance – End of period	3,285,792	7,188,433	1,197,930	11,672,155	13,537,347

(ii) NATIONAL INSTRUMENT 51-102 – SECTION 5.4

Disclosure of outstanding securities as at April 27, 2007

Common shares: 110,098,655

Warrants: nil

Compensation options: (Each compensation option entitles its holder to purchase one common share of the Company at the price of \$1.00 until August 16, 2007): 1,046,500

Options outstanding: 9,964,583

Number of options	Exercise price \$	Expiry date
600,000	0.85	October 2008
930,000	0.75	August 2009
500,000	0.75	February 2010
1,458,333	0.30	September 2010
125,000	0.22	September 2010
2,616,250	0.40	February 2011
1,920,000	0.90	September 2011
40,000	0.98	January 2012
1,775,000	1.10	April 2012

Corporate Information

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Symbol: DIB

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Réjean Gosselin

Robert D. Hirsh

Philip Renaud

André St-Michel

OFFICERS

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Executive Chairman

Réjean Gosselin, M.Sc.
President and Chief Executive Officer

André St-Michel, Eng., M.Sc.
Executive Vice-President

François Auclair
Vice-President, Exploration

Leonard Teoli, C.A.
Chief Financial Officer

Luce L. Saint-Pierre, LL.B., C.A.
Corporate Secretary