



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2007

# 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, 2007 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.

THIS MD&A HAS BEEN MODIFIED IN ORDER TO CORRECT THE DATE THEREOF.

## 1.1 DATE OF MD&A

The MD&A for the year ended December 31, 2007 is as at April 29, 2008.

## 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 2007 HIGHLIGHTS

- The Company obtains a favourable preliminary assessment from an independent engineering firm regarding its Bolivar project indicating a strong internal rate of return and net present value at Bolivar with the construction of a mill on-site;
- Pilot mining at Bolivar generates sales of approximately \$24.1 million in 2007 (see results in section 1.4);
- The Company drills a total of 47,001 metres, thereby achieving 94% of its 2007 objective;
- Discovery of a new massive sulphide lens in the Upper Skarn with grades of up to 2.2% Cu and 13.1% Zn at Bolivar mine;
- An additional exploration drilling program generates excellent results at both the Bolivar and Cusi projects;
- The Company processes 127,106 tonnes of material from the Bolivar Mine property, thereby achieving 99% of its objective of 129,000 tonnes for 2007;
- Dia Bras' Malpaso mill increases its operating capacity from 500 tpd to 850 tpd;
- Postponement of pilot mining at Cusi in order to continue metallurgical testing;
- Appointment of Daniel Tellechea as President and CEO.

## 1.4 NATURE OF ACTIVITIES AND OVERALL PERFORMANCE

### NATURE OF ACTIVITIES

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, with an additional option just recently acquired on a 315 hectare property in the State of Jalisco, Mexico.

Until it is determined that the mining properties contain mineral reserves or resources that can be economically mined, they are classified as mining properties. The economic viability of these mining properties has not yet been assessed. The recoverability of costs relating to the mining properties, including deferred exploration expenses, is dependent upon the discovery of economically recoverable reserves and resources, confirmation of the Company's interest in the underlying mineral mining concessions, receipt of necessary permits, the ability of the Company to obtain the necessary financing to complete the development and construction of processing facilities, as well as future profitable production or, alternatively, upon disposal of such properties at an amount equal to the Company's investment therein.

It is important to note that Bolivar is not at a commercial production stage. The completion of a feasibility study is required to confirm the economic viability of a property before it is brought to commercial production. The Company expects to complete sufficient exploration work on the Bolivar property and extensions to start a feasibility study in 2008.

#### **The Bolivar project**

The Bolivar project is situated in the Piedras Verdes mining district of Chihuahua some 250 km (392 km by road of which approximately 305 km are paved) southwest of the city of Chihuahua, the capital of the State of Chihuahua in Northern Mexico, and, more specifically, approximately 10 km southwest of Urique. It includes three groups of exploration properties: the Bolivar, Mezquital, and San José groups, which comprise seventeen mineral concessions that cover approximately 7,460 ha.

The Bolivar Cu-Zn skarn deposit is one of many base and precious metal deposits in the north-northwest trending Sierra Madre Belt and is the most advanced asset of the Company.

In 2005, the Company initiated a pilot-mining program at the Bolivar mine property. The material from the Bolivar mine is transported by truck and railroad to the Company's Malpaso milling facility.

#### **The Cusi project**

The history of the Cusi silver district extends over three hundred years. The abundance of this precious metal first attracted fortune hunters to Cusi in the late 1600s. The district is located centrally in the province that has helped make Mexico the source of one third of all the silver ever produced in the world. These former mines historically produced high-grade silver but became inactive at a time of plummeting silver prices; most have never been explored at depth, and none with modern techniques. The acquired assets include 12 inactive mines, each located on a mineralized structure.

The infrastructure in the area of Cusi is excellent and adequate for our needs. The district is located 40 kilometres from our Malpaso mill. Two thirds of that distance is flat paved highway, the rest a flat dirt farm road, resulting in lower transportation costs to our mill. Cusi is also 20 kilometres from Cuauhtemoc, a city of 200,000 citizens and a major farming and industrial center. Cusi owes its origins to the silver mines, so supplies and skilled labour are readily available.

#### **Malpaso mill**

The Malpaso mill, situated some 270 km by road and dirt roads from the Bolivar mine, processes material from the Bolivar mine property, where Dia Bras is carrying out pilot mining and produces copper and zinc concentrates.

## OVERALL PERFORMANCE-2007

The year 2007 was the first full year in which Dia Bras operated in both the Bolivar and Cusi projects, bringing its development activities to new levels since the Company's arrival in Mexico in 2003.

The Company made significant investments in the Cusi project in 2007 resulting in a decrease of the Company's cash position from \$19,704,587 at December 31, 2006 to \$6,700,016 at December 31, 2007.

The Company's original forecasts for 2007 included cash flow of \$10.0 million from the sale of lead-silver concentrates from the startup of pilot-mining activities. Pilot-mining results did not meet our forecast due to the delay in appropriate metallurgical testing. Additional metallurgical testing is underway, and management is confident that pilot mining will yield appropriate results by the second half of 2008.

## EXPLORATION ACTIVITIES DURING 2007

The mandate of our exploration group is to increase the mineral resources on Dia Bras' properties – add new low-cost silver, copper, zinc and lead resources through exploration or acquisition in Mexico.

The 2007 exploration program has opened up some significant new exploration opportunities with considerable upside potential.

During 2007, the Company carried out extensive exploration activities on both Bolivar and Cusi properties to evaluate their economic potential. The core drilling program initiated in February 2007 called for 50,000 metres of drilling to be performed equally between the Cusi and Bolivar projects. Other exploration work included surface and underground mapping, sampling and aerial photo interpretation.

A total of 25,189 metres of drilling was completed at Bolivar and 21,812 metres were drilled at Cusi for a combined total of 47,001 metres, just short of the year's objective, compared with 11,100 metres at Bolivar and 11,700 metres at Cusi for a total of 22,800 metres drilled in 2006. Total exploration expenditures amounted to approximately \$5.4 million and \$4.2 million, respectively for 2007 and 2006.

### a) Bolivar Projects – Exploration

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

#### **Bolivar III and IV (Bolivar mine property) option agreement**

In 2004, the Company entered into a commercial agreement with the owners of the Bolivar Mine property (Bolivar III and Bolivar IV). The agreement provides for the acquisition by the Company of 100% of the Bolivar Mine property for a consideration of US\$1,200,000 payable over a two-year period.

In 2005, a personal action was filed in Mexico against one of the Company's subsidiaries, Dia Bras Mexicana, S. de R.L. de C.V., ("DBM"), by an individual claiming the annulment and revocation of the purchase contracts of two mining concessions in the Bolivar mine 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 fact that DBM acquired the property as a bona fide purchaser as well as in the questionable legal standing of the claimant to file a lawsuit on behalf of the former owner. Management and its external legal advisors believe the claims are without merit as they are based on the claimant's personal perceptions of the circumstances surrounding the performance of such purchase agreement. Consequently, management is confident that, as the claimant purports the annulment and revocation of the purchase contracts, it will have no adverse effect on DBM. The remote success of such legal proceedings could result in an impairment of the value of the Bolivar Mine property (refer to note 19 on contingency in the 2007 year-end audited consolidated financial statements).

## **Piedras Verdes property**

In 2004, the Company entered into an option agreement to acquire a 100% interest in the Piedras Verdes property for a cash consideration of US\$200,000 payable over a two-year period. Option terms were met in 2007, and property titles were transferred to the Company.

## **San José project**

In 2003, the Company entered into an option agreement with El Paso Partners, Ltd. to acquire a cumulative interest of up to 100% in the San José silver and base metal property by incurring exploration expenditures of US\$1,638,000 by July 2009 and cumulative option and advance royalty payments of US\$324,500.

The Company is currently evaluating the status of this project and its terms of agreement in view of the Company's future development plans. Should the Company decide to abandon this project, related costs and deferred exploration expenses would then be written-off.

## **Bolivar 2007 exploration program**

Mineralization on this property is related to a copper porphyry system. Typically, such systems generate skarn deposits, replacement deposits, breccia pipe deposits and other types of deposits – all of which constitute attractive targets.

Exploration at Bolivar through a pilot-mining program resulted in the identification of feeders for mineralizing fluids and recognition that the major mineralized zones at Bolivar occur in two skarn horizons (the Upper and Lower skarns). The Upper Skarn hosts the high-grade copper-zinc mineralization now being exploited by the Company in the Bolivar mine, and the Lower Skarn hosts copper-iron mineralization.

Exploration efforts in fiscal 2007 focused mainly on the Bolivar Alta Ley and El Gallo sectors and the La Montura trend with three main objectives:

- To further define Upper and Lower Skarn Horizons, from the Bolivar mine to El Gallo, in order to obtain an updated NI43-101 resource definition of the Bolivar area.
- To evaluate the extension of the high-grade targets of the Upper Skarn Horizon and also test the Lower Skarn Horizon north and east of the Bolivar mine. This program will focus on the immediate area of the known mine resource and multiple showings (Bolivar NW, La Increible, El Gallo, La Montura).
- To demonstrate the tonnage potential of the Bolivar property. This drilling was designed to test the strike extension of the favorable Upper and Lower Skarn Horizons over 2,000 metres of strike length from La Montura to El Val.

During 2007, exploration expenditures in the Bolivar region amounted to approximately \$2.7 million. The exploration program reached its drilling target, as a total of 25,188 metres of drilling was completed (16,996 metres from the surface and 8,184 metres from underground) compared with 11,000 metres of drilling in 2006. Surface drilling was conducted at and around the mine site, in the El Gallo and the La Montura sectors, where several exploration successes were accomplished during the year. All underground drilling was performed at Bolivar Alta Ley.

Throughout fiscal year 2007, four surface drill rigs and two underground rigs were in operation at the Bolivar project.

## **Bolivar Mine Alta Ley area**

During fiscal year 2007, 12,883.1 metres were drilled in this area (4,199 from the surface and 8,184 from underground), including 3,899.5 metres during the fourth quarter (1,742 metres from surface and 2,157 metres from underground) which enabled a better definition of the newly discovered resource area.

Excellent results came from the underground drilling of the Selena and San Francisco zones, where the following holes intersected:

- (i) 2.02% Cu and 10.84% Zn over 3.3 metres (DB07BM124),
- (ii) 8.38% Cu and 4.03% Zn over 3.35 metres (DB07BM122),
- (iii) 1.12% Cu and 11.13% Zn (Selena) (DB07BM132),
- (iv) 3.90% Zn over 3 metres (San Francisco) (DB07BM133),
- (v) 5.3 metres true width of 6.1% Zn in the Upper Skarn horizon but at a vertical depth of more than 300 metres, which consist of one of the deepest Upper Skarn intersections at the project.

### **El Gallo area**

El Gallo is situated some 500 to 800 metres south-southeast of the Bolivar mine Alta Ley area. Following a thorough review in early 2007 of the relationship between the Upper Skarn and Lower Skarn mineralized trends, a drilling program was conducted to estimate resources in both skarn units.

Drilling in the El Gallo area was successful in 2006/2007, having intersected widespread disseminated copper mineralization in the magnetite-bearing Lower Skarn and high-grade zinc in the Upper Skarn. The 2007 drilling program at El Gallo focused on expanding and better defining Inferred Resources in this area.

Almost every drill hole in the El Gallo area intersected both Upper and Lower Skarn type mineralisation, and some of the best results were observed in the following intersections:

- (i) 1.2% Cu over 69.3 metres true width (LS) (DB07B225),
- (ii) 1.4% Cu over 16 metres true width (DB07B199), and
- (iii) 2.4% Cu over 18.3 metres true width (DB07B202, 211, 218).

### **La Montura trend**

In the La Montura area, located almost 2.5 km southeast of the mine area, 4,114 metres were drilled during the year, including 1,632 during the fourth quarter. The drilling objective was to determine if any mineralization could be encountered in this area, as the mapping program of 2006 had identified the favorable Upper and Lower Skarn type horizons.

Drilling in this area resulted in the discovery of a new mineralized unit:

- (i) 4.26% Zn over 32.5 metres, including a high-grade section that assayed 13.14% Zn over 7.9 metres (DB07B215);
- (ii) More drilling was conducted to establish if there are potential resources;
- (iii) 2.0 metres of 7.7% Zn in an Upper Skarn type environment, contained within a much broader mineralized section of some 30 metres (89 to 123 metre core length) (DB07B209).

In addition, drilling conducted in the La Montura trend enabled the identification of further potentially economic material in the Upper and Lower Skarn horizon which could significantly enhance the economic viability of the project.

### **Resource estimates**

A NI43-101-compliant resource evaluation was conducted by Geostat Systems International Inc. ("Geostat") during the third quarter of 2007, and an updated resource estimate was completed for the Bolivar project, as at February 29, 2008.

The new resource estimate has significantly increased from the previous evaluation and is summarized in the table below. (A copy of the resource estimate report by Geostat is available on SEDAR at [www.sedar.com](http://www.sedar.com).)

| <b>Total Resources of the Bolivar Project</b>                         |                             |           |                        |      |      |          |          |       |         |
|---|-----------------------------|-----------|------------------------|------|------|----------|----------|-------|---------|
| Calculated, Geostat Systems International Inc., 2008-02-28            |                             |           |                        |      |      |          |          |       |         |
| The cutoff grade applied in the Upper and Lower Skarns is 2.5% CuEq   |                             |           |                        |      |      |          |          |       |         |
| *: Copper equivalent - %CuEq=%Cu+0.5%Zn+0.33*Au (g/t)+0.0066*Ag (g/t) |                             |           |                        |      |      |          |          |       |         |
| Classification  | Cutoff on the %CuEq LS - US | Tonnes    | SG (t/m <sup>3</sup> ) | Cu % | Zn % | Au (g/t) | Ag (g/t) | % Fe  | % CuEq* |
| <b>Total Measured</b>   | 1.00 – 2.50                 | 299,900   | 3.33                   | 1.11 | 2.68 | 0.23     | 24.30    | 9.95  | 2.69    |
| <b>Total Indicated</b>  | 1.00 – 2.50                 | 645,600   | 3.32                   | 1.12 | 2.74 | 0.18     | 26.55    | 8.71  | 2.73    |
| <b>Measured + Indicated</b>   | 1.00 – 2.50                 | 945,400   | 3.34                   | 1.12 | 2.70 | 0.20     | 25.84    | 9.10  | 2.72    |
| <b>Total Inferred</b>   | 1.00 – 2.50                 | 4,056,100 | 3.28                   | 1.23 | 0.73 | 0.24     | 25.23    | 14.36 | 1.84    |

The table above shows the total resources for the Upper and Lower skarns at various % CuEq cutoff grades. Note that the first set of figures on the left side shows the cutoff grade for the Lower Skarn, and for the Upper Skarn, on the right side of the column. Total resources of the Bolivar Project include those from the Upper and Lower Skarn units in the Alta Ley area, the El Gallo area, the Incredible area, the North West area and the La Montura area.

| <b>Resources of the Upper Skarn of the Bolivar Project</b> |                   |         |                        |      |      |          |          |      |         |
|--|-------------------|---------|------------------------|------|------|----------|----------|------|---------|
| The cutoff grade applied in the Upper Skarn is 2.5% CuEq   |                   |         |                        |      |      |          |          |      |         |
| Classification   | Mineralized Areas | Tonnes  | SG (t/m <sup>3</sup> ) | Cu % | Zn % | Au (g/t) | Ag (g/t) | % Fe | % CuEq* |
| <b>Total Measured</b>                                      | All areas         | 84,000  | 3.48                   | 1.45 | 8.12 | 0.20     | 32.78    | 5.29 | 5.79    |
| <b>Total Indicated</b>                                     | All areas         | 210,900 | 3.48                   | 1.31 | 7.42 | 0.15     | 38.64    | 5.85 | 5.32    |
| <b>Measured+ Indicated</b>                                 | All areas         | 294,900 | 3.48                   | 1.35 | 7.62 | 0.16     | 37.0     | 5.70 | 5.45    |
| <b>Total Inferred</b>                                      | All areas         | 387,900 | 3.42                   | 1.54 | 5.64 | 0.14     | 44.37    | 8.84 | 4.70    |

Since the resource estimate of September 2007, and notwithstanding the ongoing pilot-mining program, Measured and Indicated resources of the Upper Skarn have remained basically constant while a net increase in Inferred Resources is noted (+100,000 tonnes). Thus, delineation and exploration drilling continue to upgrade both the Inferred resources of the Upper Skarn in Measured and Indicated and discover new high-grade Cu-Zn lenses. This is very important as it impacts directly on the economics of the mine and allows the continuation of mining the higher grade lenses while ongoing drilling and technical work is carried out with the objective of a full feasibility study to be initiated in the second part of 2008. It also allows for an extended mine life of the project at current capacity.

| <b>Resources of the Lower Skarn of the Bolivar Project</b> |                           |           |                        |      |      |          |          |      |         |
|--|---------------------------|-----------|------------------------|------|------|----------|----------|------|---------|
| The cutoff grade applied in the Lower Skarn is 2.5% CuEq   |                           |           |                        |      |      |          |          |      |         |
| Cutoff on the %CuEq  | Classification            | Tonnes    | SG (t/m <sup>3</sup> ) | Cu % | Zn % | Au (g/t) | Ag (g/t) | % Fe | CuEq %* |
| 1.00   | <b>Measured+Indicated</b> | 341,300   | 3.27                   | 1.18 | 0.12 | 0.33     | 22.5     | 17.2 | 1.50    |
|  | <b>Inferred</b>           | 3,196,000 | 3.27                   | 1.22 | 0.16 | 0.26     | 23.2     | 16.4 | 1.54    |
| 1.25   | <b>Measured+Indicated</b> | 235,400   | 3.27                   | 1.32 | 0.13 | 0.36     | 23.5     | 18.3 | 1.66    |
|  | <b>Inferred</b>           | 2,039,700 | 3.27                   | 1.41 | 0.18 | 0.31     | 26.7     | 17.6 | 1.78    |
| 1.50   | <b>Measured+Indicated</b> | 139,000   | 3.27                   | 1.50 | 0.14 | 0.40     | 24.8     | 19.1 | 1.86    |
|  | <b>Inferred</b>           | 1,252,800 | 3.27                   | 1.63 | 0.17 | 0.37     | 29.8     | 18.6 | 2.04    |

**Notes:**

1. CIM definitions were followed for the resource estimate.
2. A minimum width of 2 metres was used for a mineralized zone.
3. Densities of mineralized rock are indicated in the tables.

Price assumptions used for the CuEq calculation are (US\$): Cu 2.00/lb., Zn 1.00/lb., Ag 10.00/oz, Au 500.00/oz.

Furthermore, the Company received a Preliminary Economic Assessment Study dated November 2007 and concluded that the project proves economical with the construction of a 500 tonne- or 1000-tonne-per-day maximum capacity mill. <sup>(1)</sup>A copy of the study is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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*<sup>(1)</sup> Readers are cautioned that Inferred resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, as part of a preliminary assessment, and for the economic part of this preliminary assessment, inferred resources can be included. Some mining dilution has been added. However, and due to the preliminary nature of the report, there is no certainty that the preliminary assessment will be realized. Mineral resources that are not mineral reserves have not demonstrated economic viability.*

### **Bolivar 2008 exploration program**

A budget of US\$2.5 million is forecast in 2008, and exploration efforts will be focused in three areas with a view to accelerate the feasibility study.

#### **Bolivar – Alta Ley**

Drilling will be focused on increasing the measured and indicated resources at the Bolivar mine Alta Ley area, especially within the Titanic and Selena massive sulphide lenses, and along the Fernandez Trend. 10,000 metres of core diamond drilling (surface and underground) are planned in this area.

#### **Bolivar – El Gallo**

A further 5,000 metres of drilling is planned in this area to: 1) enable the upgrade of some of the Inferred Resources of the El Gallo Lower Skarn to Measured and Indicated; and 2) further increase the total tonnage of the Upper and Lower Skarn Horizons of this prospect.

#### **Bolivar - Exploration drilling**

An exploration drilling program of 5,000 metres will allow the Company to demonstrate the bulk volume potential of the Bolivar property. This drilling will be dedicated to evaluate the strike extension of the favorable Upper and Lower skarn horizons over 2,000 metres of strike length along the La Montura trend where 32.5 metres averaging 4.26% Zn have been intersected at La Narizona prospect.

#### **Bolivar Mine pilot-mining program**

During 2007, the Company continued its pilot-mining program at the Bolivar Mine property. This program will be run until an economic assessment of the overall Bolivar project is produced. Since 2005, the program generates interim cash flows which are used in the operations of the Company and the development of its assets.

In 2007, despite the increased volume of material processed, the program generated sales of \$24.1 million compared with \$35.6 million in 2006. This sales decrease is explained by a combination of factors:

- Lower grades of material mined at Bolivar, mostly in the first and second quarters of 2007. In 2007, average grades mined and processed were 7.07% for zinc and 1.52% for copper compared with 10.63% and 2.03%, respectively, in 2006;
- The decline in the value of the U.S. dollar in 2007 compared to the Canadian dollar (yearly average decrease of 15.2% compared to 2006).

Average market prices of zinc were comparable with those of 2006 (US\$1.47/lb. in 2007 – US\$1.44/lb. in 2006) whereas the average price of copper was higher than in 2006 (US\$3.23/lb. in 2007 – US\$3.02/lb. in 2006). However, while during the last six months of 2007 the level of production was increasing, both metal market prices were declining, which affected total sales.

In 2007, pilot-mining direct operating cash costs increased due to increases in the tonnage of material being transported from the Bolivar site and processed at the Company's Malpaso milling facility, the transport costs attributable to the inconsistent availability of railroad services, and fuel. Costs per tonne milled remained constant with last year.

During the last six months of 2007, the market price of zinc declined by 34.1% from an average price of \$1.61/lb. in July to \$1.06/lb. in December, and the price of copper, by 17.4% from an average price of \$3.62/lb. in July to \$2.99/lb. in December. This decline also impacted negatively the year-end final settlement provision (see section 1.6). As at December 31, 2007, 10.2 million payable lbs. of zinc and 3.5 million payable lbs. of copper remained open for future final settlement representing an estimated payable provision of \$2,416,854 as at that date.

A summary of comparative statistics for 2007 and 2006 is shown in the table below.

Key statistics from the Bolivar pilot-mining program in 2007 and 2006, and 2008 forecast <sup>(1)(3)</sup>

|  | <b>2008<br/>Forecast</b> | <b>2007</b> | <b>2006</b> | <b>%<br/>Variation<br/>2007 over<br/>2006</b> |
|--|--------------------------|-------------|-------------|---|
| Tonnes processed   | 144,000                  | 127,106     | 96,575      | 31.6  |
| Grade zinc   | 8.0%                     | 7.07%       | 10.63%      | (33.4)  |
| Grade copper   | 1.4%                     | 1.52%       | 2.03%       | (25.1)  |
| Zn recovery  | 88.0%                    | 86.49%      | 91.90%      | (5.8)   |
| Cu recovery  | 82.0%                    | 81.66%      | 80.59%      | 1.3   |
| Average price zinc per pound, US\$                                 | \$1.00                   | \$1.47      | \$1.44      | 2.1   |
| Average price copper per pound, US\$                               | \$2.80                   | \$3.23      | \$3.02      | 7.0   |
| Total production of zinc (lbs.)                                    | 22.3 M                   | 17.13 M     | 20.90 M     | 18.0  |
| Total production of copper (lbs.)                                  | 3.6 M                    | 3.53 M      | 3.51 M      | 0.5   |
| <b>(in US\$ millions)</b>  |                          |             |             |   |
| Total net smelter production value <sup>(2)(3)</sup>               | \$24.0 M                 | \$26.4 M    | \$26.8 M    | (1.5)   |
| Operating cash costs (including development) <sup>(2)(3)</sup>     | \$14.1 M                 | \$15.0 M    | \$11.5 M    | 30.4  |
| Direct operating cash margin (FOB Malpaso Mill) <sup>(2)(3)</sup>  | \$9.9 M                  | \$11.4 M    | \$15.3 M    | (25.4)  |
| <b>(in US\$ / DMT)</b>   |                          |             |             |   |
| Operating cash costs/DMT (including development) <sup>(2)(3)</sup> | \$98.00                  | \$118.18    | \$118.56    | nil   |

(1)It is important to note that Bolivar is not at a commercial production stage. The completion of a feasibility study is required to confirm the economic viability of a property before it is brought into commercial production. The Company expects to complete sufficient exploration work on the Bolivar property and extensions in order to start a feasibility study in 2008.

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

(3)Before amortization

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 concentrates from a pilot-mining program is recorded as a reduction of the related costs and deferred exploration expenses capitalized to the property.

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

## b) Cusi Project

The Cusi project is subject to different purchase and option agreements all entered into in 2006.

### **Minera Cusi agreement**

In 2006, the Company entered into an option agreement to earn a 100% interest in several properties (1,133.5 hectares) with Compañía Minera Cusi ("Minera Cusi"), a private Mexican company, for US\$5,000,000 payable over three years of which US\$2,000,000 has been paid as of April 2008. The properties are subject to a sliding scale royalty in favour of Minera Cusi as follows: 2% NSR if the price of silver is equal to a maximum of US\$11.00 per ounce or 3% NSR if the price of silver exceeds US\$11.00 per ounce.

In April 2008, the Company negotiated new terms of agreement with Minera Cusi in order to redefine the schedule of payments. The new agreement represents a purchase agreement for a total amount of US\$3,060,000 to be paid as follows: US\$500,000 (paid at the date of signing), US\$500,000 in November 2008 and four quarterly instalments of US\$515,000 in March, June, September and December 2009. The other terms of the original option agreement with regard to the NSR remain unchanged.

### **Villalobos and Rodriguez purchase agreement**

In 2006, the Company entered into a purchase agreement with Hector Sanchez Villalobos and Carmen Saenz Rodriguez ("Villalobos and Rodriguez") to acquire properties (La Marisa and La India) covering 21.08 hectares. The properties are subject to a 1.5% NSR of up to a maximum of US\$1,500,000 in favour of Villalobos and Rodriguez with a US\$1,000,000 buy-back option.

### **Pershimco option agreement**

In 2006, the Company entered into an option agreement with Pershimco Resources Inc. ("Pershimco") pursuant to which the Company could earn up to a 70% interest in the San Miguel-La Bamba property covering 36 hectares located in the Cusi District. The property is subject to a 2% NSR of which 1% may be bought back for US\$1,000,000. As at December 31, 2007, the Company had earned a 50% interest in the project. Transfer of title remains in process. The Company and Pershimco are currently negotiating the terms of a joint venture agreement.

### **Holguin Aragonez purchase agreement**

In 2006, the Company entered into a purchase agreement with Manuel Holguin Aragonez ("Holguin") to acquire mining concessions covering 1,676 hectares. The properties are subject to a 1.5% NSR up to a maximum of US\$1,500,000 in favour of Holguin with US\$1,000,000 buy-back option.

As of this date, the majority of the mining concessions have been registered in the Company's name and some are currently in the process of registration.

## **Cusi project**

Dia Bras acquired in May-June 2006 the Cusihiuriachic (Cusi) silver district in Chihuahua State, 125 km west of the city of Chihuahua and 40 km from the Malpaso mill. The acquired properties cover more than 10,000 hectares, including 12 former mines that historically produced high-grade silver. This region is very promising and the potential of these former mines at depth has never been explored.

The acquisitions include approximately 70 mining lots that were acquired through different transactions with Mexican families, one Mexican private company, one Canadian public company and also by claiming open ground.

Silver mineralization occurs in vertical quartz-veined breccia zones of epithermal origin, and silver and base metal sulphides enrichment are found at depth. At least nine mineralized structures of vein/stockwork and breccia types, each ranging from 500 metres to 2,000 metres in some places, and up to 50 metres in width, were exploited by previous operators.

### **Cusi 2007 exploration program**

The objectives of the 2007 exploration program were threefold: to test the downdip and strike extension of the silver veins in some of these mines; to define sufficient mineralization to initiate a resource estimate and to identify new targets in the area of interest – the northwestern area of the Cusi silver district.

During 2007, exploration expenditures in the Cusi camp amounted to approximately \$2.7 million.

A total of 21,800 metres of drilling was completed (20,115 metres from the surface and 1,697 metres from underground) compared with 11,700 metres of drilling in 2006 (5,500 were drilled at San Miguel-La Bamba and the rest equally split between Santa Edwiges and La India).

During fiscal year 2007, four surface drill rigs were in operation in the Cusi Camp, and one underground rig was purchased in the third quarter to start underground drilling at Santa Edwiges.

Due to the size of the property and the high number of potential targets, the Company decided to concentrate its efforts on four interconnecting former mines out of twelve situated in the NW area of the property. Most of the drilling has been aimed at discovering and defining mineralized structural trends and veins within two major sectors of the Cusi Project — Santa Edwiges and Promontorio, both historical producers.

### **Santa Edwiges sector (refer to the Minera Cusi option agreement)**

The Santa Edwiges–San Antonio–San Marina sector consists of multiple fracture-filled quartz-carbonate veins containing high sulphide contents that are typical of the middle portion (Pb, Zn, Cu) of a zoned, low-sulphidation epithermal vein. This middle portion of the vein transits upwards to the upper precious metal (Au, Ag) portion of the vein.

In the Santa Edwiges-San Antonio -San Marina sector, 9,743 metres of drilling was conducted throughout 2007, including 2,592 in the Santa Edwiges structures in the fourth quarter.

Furthermore, an exploration drilling program to test the 100- to 300-metre vertical level was undertaken to search for recorded resources which are shown on old longitudinal sections of the San Marina mine which would have been left behind by the previous owner.

Work performed at Santa Edwiges involved some mining development to allow for underground drilling and mapping in order to improve overall comprehension on the control of this structurally complex mineralized structure.

In excess of 800 metres of drifts were developed and over 10,000 tonnes of material was extracted and sent to the Malpaso milling facility for bulk sampling.

Some of the best drill-hole intersections in this area during the fourth quarter included results from the:

- (i) Santa Marina structure which included an interval of 0.4g/t Au, 269 g/t Ag, 0.1% Cu, 3.7% Pb and 5.3% Zn over 2.5 metres true width (DC07B139);
- (ii) Santa Edwiges structure which included an interval grading 2.1 g/t Au, 187 g/t Ag, 1.1% Pb and 0.6% Zn over a true width of 2.0 metres (DC07B143).

#### **Promontorio Mine** (refer to the Minera Cusi option agreement)

Mineralization at Promontorio is associated with fracture-filled, low-sulphidation veins with high precious-metal grades, typical of a high-level epithermal system.

In the Promontorio Mine sector, a series of NW-SE veins are mineralised. These veins are labelled from A to K. The A vein (Veta A) dips NE while the other veins (from B to K) dip SW. The Veta A is the most important mineralised system and contains some of the non NI43-101-compliant historical resources reported in the press release of May 8, 2007.

Work performed at the Promontorio Mine consisted in underground development as well as exploration and definition drilling for a first NI43-101 resource evaluation. The Promontorio Mine has been dewatering to access to the 5th and 7th levels of the mine. A ramp has been developed to access some of the better defined targets, in the El Gallo Vein and Promontorio Level 7 where a significant amount of unmined silver mineralized rock has been left by the previous owner. Furthermore, a geological compilation of historical data has been undertaken to rapidly develop drill targets in the mine area.

Some 42 drill holes representing 6,645 metres of diamond core drilling have been performed through the year. In the fourth quarter, 2,692 metres and 19 drill holes were completed.

Some of the best results from this area are from the:

##### *Promontorio Mine sector:*

- (i) 1.5 metre of 8,310 g/t Ag within 9.0 metres of 1,651 g/t Ag (DC07B101);
- (ii) 2.1 metres true width of 0.16g/t Au, 333 g/t Ag with trace sulphide (DC07B132);
- (iii) 3.7 metres true width of 0.1 g/t Au, 704 g/t Ag, 0.2% Cu, 1.2% Pb and 1.0% Zn (DC07B151);

##### *El Gallo sector:*

- (iv) 290 g/t Ag with trace Pb and Zn over a true width of 2.3 metres (DC07B142);
- (v) 195 g/t Ag over a true width of 8.5 metres (DC07B146).

#### **Regional mapping**

The regional geological mapping program revealed the presence of a number of gold-silver targets in the northwestern and central parts of the Cusi property. During 2007, the Company reported unusually high gold sample assays on the Gloria, Milagro and San Nicolas Tiro structures.

In total, some 115 samples were taken for geochemical analysis in the course of the regional mapping program. A review of this data prompted the Company to start a detailed mapping and sampling program in the area. The mineralization is hosted in a number of N-S structures, of variable width, the most important of which is the La Minerva system.

The southern extremity of the Minerva structure (N-S) intersects or deviates at another major system known as the Gloria structure (NE-SW). A total of 585 samples were taken during this detailed mapping program.

All samples were taken on the surface from the mineralized structures, and some of the best results include 1.46 g/t Au with 3,490 g/t Ag, 4.6 g/t Au with 1,530 g/t Ag, 2.49 g/t Au with 794 g/t Ag, 5.51 g/t Au with 719 g/t Ag in the Minerva area.

The high gold and silver contents are accompanied by low contents of lead, zinc and copper, which indicate that this vein system is high in the precious metal zone. This is very promising with respect to the amount of mineralized rock that could occur in these structures and others like them in the immediate vicinity. This area has received limited exploration in the past and has never been drilled.

An exploration drilling program is planned for the beginning of 2008 to follow up on these excellent results.

### **Cusi development**

20,000 tonnes of material from various accessible mineralized zones at Cusi were processed at the Malpaso mill, but recovery was too low to warrant the economic sale of concentrates, especially from the oxide and transition zones (mixed oxide and sulphide zones). Metallurgical testing will continue during 2008 for the sulphides zones.

### **Cusi 2008 exploration program**

A budget of US\$2.5 million is forecasted for 2008. Activities will be focused on metallurgical testing with the objective of improving metal recovery, especially for the material from the transition zones (mixed oxides and sulphides) and sulphide zones to a commercial level to allow the start-up of the pilot-mining program.

Some 15,000 metres of drilling are planned at Cusi to further define the resources at Santa Edwiges and Promontorio, as well as to evaluate, by drilling, the potential of the Minerva area discovered during the surface mapping program. The Company intends to drill some 2,000 metres in this area to evaluate the potential of this sector. A first NI43-101 resource estimate will be initiated, and results are expected shortly.

Furthermore, Dia Bras plans to initiate a surface mapping and sampling program at the La Reina prospect, situated in the southeastern area of the Cusi property. This area has seen limited work in the past. This area of interest is considered to hold some of the highest silver grades of the Cusi camp.

## **1.5 SELECTED ANNUAL INFORMATION**

|                                      | Year ended<br>December 31,<br>2007 | Year ended<br>December 31,<br>2006 | Year ended<br>December 31,<br>2005 |
|--------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|                                      | \$                                 | \$                                 | \$                                 |
| Sales of concentrates <sup>(i)</sup> | 24,056,537                         | 35,588,838                         | 5,562,402                          |
| Write-off of mining assets           | 1,199,891                          | 280,117                            | 615,658                            |
| Loss                                 | 9,183,699                          | 1,913,016                          | 2,096,165                          |
| Loss per share (basic and diluted)   | 0.08                               | 0.02                               | 0.04                               |
| Total assets                         | 46,891,467                         | 52,750,931                         | 25,420,216                         |

<sup>(i)</sup>In accordance with the Company's accounting policy, revenue from the sales of concentrates 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, Comprehensive Loss and Deficit.

## **1.6 RESULTS OF OPERATIONS**

During the year ended December 31, 2007, the Company incurred a loss of \$9,183,699 (\$0.08 per share) compared with a loss of \$1,913,016 (\$0.02 per share) for 2006.

The increase in the yearly loss is explained as follows:

### **Income**

Interest income amounted to \$508,750 (\$277,440 in 2006) due to a higher average level of cash on hand during the year compared to 2006 and increased interest rates.

### **Expenses**

Total administrative expenses amounted to \$2,181,129 in 2007 compared with \$1,595,474 in 2006. This cumulative increase is explained by higher salaries and workers compensation costs, increased office expenses related to the moving of head office premises, and higher network and communication project expenses. In 2007, the Company recorded directors' fees amounting to \$75,250 (nil in 2006). Also during the last quarter, changes in management and other restructuring measures resulted in increased costs amounting to approximately \$237,500 for which a termination payment provision of \$187,500 is included in accounts payable and accrued liabilities as at year-end. Business development and other corporate expenses, included in administrative expenses were consistent with those of 2006.

During the year, following the adoption as of January 1, 2007 of the new accounting principles related to financial instruments, the Company recorded a loss of \$3,395,514 (nil in 2006) on the variation in value of financial instruments (embedded derivative included in the Company's concentrate sales agreements) which was reflected in the final settlement billings and estimated provision. This loss was in majority incurred during the last quarter (see section 1.7) as metal prices suffered a significant drop mostly in November and December. Prior to January 1, 2007, any changes in value at the final settlement billing stage or final settlement provision revaluation were recorded as a sales adjustment. Since the Company was applying the amount of its sales of concentrates against the costs of deferred exploration expenses before commencement of commercial production, those changes did not have, in 2006, any effect on the results of operations.

At the beginning of the year, also following the new rules related to financial instruments, the Company adjusted, at fair market value, the investment in Pershimco Resources Inc. (see section 1.14) thus increasing its value by \$399,500. During the year, the Company recorded a loss on change in value of the temporary investment in Pershimco Resources Inc. of \$413,601 after Pershimco released information concerning the sudden abandonment of its option on the Las Minitas project. This news, together with the volatile market, impacted negatively the Pershimco market share value, which has not recovered since. The Company still owns 835,000 common shares of Pershimco that are stated at fair market value.

During the year, the Company recorded a stock-based compensation non-cash cost of \$1,033,646 related to the grant of 2,515,000 entirely vested options. The majority of these options were granted when the Company's stock price was near its highest level in 2007 resulting in a higher cost per individual option. The average exercise price of options granted in 2007 was \$1.10. In 2006, stock-based compensation costs amounted to \$694,846 (4,700,000 options granted).

In 2007, the Company recorded a loss on currency exchange of \$1,059,206 due to the devaluation of the U.S. dollar (15.2%) and the Mexican peso (5.1%) against the Canadian dollar (gain of \$289,784 in 2006). This loss is mainly attributable to the conversion into Canadian dollars of the outstanding final settlement provision and the monetary assets and liabilities in Mexico.

During the year, the Company decided to abandon the Promontorio project (Sierra Madre region) due to difficult mineral content and unsatisfactory results. Consequently, all accumulated costs and deferred exploration expenses on the property, amounting to \$1,199,891, were written off during the second quarter. In 2006, write-offs amounted to \$280,117 and included mainly the Magistral property (Promontorio project).

During 2006, the Company wrote off the deferred cost-advance on royalty payment of \$350,000 since it had no further plans to use the Nichromet technology.

The loss includes amortization of property, plant and equipment in the amount of \$64,231 which represents the amortization of office furniture, computer equipment and leasehold improvements of the Montreal office premises.

## 1.7 SUMMARY OF QUARTERLY RESULTS

| <b>Quarter ended</b> | <b>Loss</b> | <b>Basic and diluted<br/>loss per share</b> |
|----------------------|-------------|---|
|                      | \$          | \$  |
| December 31, 2007    | 3,678,927   | 0.03  |
| September 30, 2007   | 1,885,151   | 0.02  |
| June 30, 2007        | 2,196,390   | 0.02  |
| March 31, 2007       | 1,423,231   | 0.01  |
| December 31, 2006    | 417,065     | < 0.01                                      |
| September 30, 2006   | 406,545     | < 0.01                                      |
| June 30, 2006        | 709,539     | < 0.01                                      |
| March 31, 2006       | 379,867     | < 0.01                                      |

## 1.8 FOURTH QUARTER RESULTS

During the fourth quarter of 2007, the Company incurred a loss of \$3,678,927 compared with a loss of \$417,065 in 2006 which is mainly attributable to the variation of zinc and copper market prices as described below.

### **Income**

During the fourth quarter of 2007, interest income amounted to \$69,787 (cumulative \$508,750) (\$117,962 and a cumulative \$277,440 for the corresponding 2006 period). Interest income has decreased from the third quarter of 2007, due to a reduction in the level of cash on hand.

### **Expenses**

The fourth quarter loss includes a \$2,401,055 loss on variation of commodity market prices and assay adjustment caused by the important decrease in the average market prices of zinc (17.7%) and copper (13.8%) which impacted negatively on the valuation of the final settlement provision of open shipments. The Company also incurred a loss on currency exchange of \$50,709 as the U.S. dollar lost 2.5% over the Canadian dollar during the quarter. This loss is mainly attributable to the conversion value of the outstanding shipments final settlement provision into Canadian dollars and of the conversion of monetary assets and liabilities in Mexico.

The Company recorded, during the quarter, a non monetary loss on change in value of the temporary investment of \$337,101 in reference to the drop in market price of the Pershimco Resources Inc. common shares (see section 1.6).

Administrative costs amounted to \$823,411 and include costs related to changes in management and other restructuring measures resulting in costs amounting to approximately \$237,500 for which a termination payment provision of \$187,500 is included in accounts payable and accrued liabilities as at year-end. During the quarter, a provision for workers' compensation costs was recorded in the amount of \$142,853.

## 1.9 LIQUIDITY AND WORKING CAPITAL

The Company made significant investments in the Cusi project in 2007 resulting in a decrease of the Company's cash position from \$19,704,587 as at December 31, 2006 to \$6,700,016 as at December 31, 2007.

As at December 31, 2007, the Company's working capital amounted to \$6,137,120 including \$6,700,016 in cash and cash equivalents compared with \$27,735,607 as at December 31, 2006, including \$19,704,587 in cash and cash equivalents.

Decrease in working capital is also due to the devaluation by 15.2% of the U.S. dollar and by 5.1% of the Mexican peso against the Canadian dollar compared to last year which affected mainly cash, accounts receivable and the final settlement provision value.

The liquidity and working capital are sufficient to meet the current liabilities and to support operations for the next twelve months.

As at December 31, 2007, sales tax and other receivables amounted to \$1,609,506 (\$3,981,826 as at December 31, 2006) and are mostly comprised of Mexican recoverable Value Added Tax credits or IVA. During the year, the Company recovered IVA receivable from 2005 in the amount of approximately \$350,000 and, as of this date still two months from 2005 remain receivable in the approximate amount of approximately \$170,000. To date, all of the 2007 IVA reimbursement filings have been recovered. Income taxes receivable in the amount of \$722,515 (nil in 2006) represent provisional tax instalments receivable from the Mexican tax authorities. As at December 31, 2007, no allowance was taken with respect to any of the amounts receivable.

As at December 31, 2007, accounts payable and accrued liabilities amounted to \$2,254,123 (\$830,978 as at December 31, 2006) and are comprised of the above mentioned provision (see 1.8) and normal business transactions.

As at December 31, 2007, the Company has a net payable position of \$1,368,164 with MRI Trading resulting from a reduction of metal prices in November and December 2007 (receivable of \$3,347,046 as at December 31, 2006) which has been disclosed separately as trade payables. The actual final settlement billings could be higher or lower depending on the future fluctuation of commodity prices.

## 1.10 CAPITAL RESOURCES, INVESTING AND FINANCING ACTIVITIES

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

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

- (1) Initiation of a feasibility study to build a mill at the Bolivar Mine site to bring the project to the production stage;
- (2) Exploration:
  - (a) Block measured and indicated resources to reserves,
  - (b) Identify new mineral resources,
  - (c) Regional exploration adjacent to the Bolivar Mine property and Santa Edwiges (Cusi) sector;
- (3) Mine development;
- (4) Corporate activities: to continue to identify and assess property and corporate acquisition or business combination opportunities to increase shareholder value.

The Company will continue to reassess on an ongoing basis the amount and timing of its currently planned expenditures to increase operating efficiencies. At the same time, Management will continually assess its capital requirements that may entail accessing capital markets.

During 2007, the Company did not complete any private placement. A total of 824,000 stock options and 996,364 broker compensation options were exercised raising respectively \$492,000 and \$996,364.

The pilot-mining program at Bolivar generated sales of approximately \$24.1 million during the 2007 compared with \$35.6 million in 2006. Sales forecasts for 2008 at Bolivar are estimated at \$24.0 million (see section 1.4).

During the year, the Company invested \$30.0 million in costs and deferred exploration expenses and capital expenditures.

### **Long term debt**

Following the new agreement entered into with Minera Cusi in April 2008 (see 1.4), the Company has an obligation of US\$2,560,000 including US\$2,060,000 payable in 2009.

### **Capital expenditures, development and property payments**

In 2007, the Company incurred capital expenditures in Mexico amounting to approximately \$6.4 million which consisted mainly in the expansion and improvement of the Malpaso mill facility and the purchase of additional (jumbos and scoops) mining and exploration equipment for the Cusi project.

With the purchase of a 5-yard scoop in Q1-2008, the Company has the necessary equipment to accomplish its 2008 exploration program along with the expected mining and development activities on both Cusi and Bolivar projects. Other capital expenditures in 2008 will be limited to plant optimization, investment in an environmental capital expenditure program at Malpaso and the purchase of the Malpaso land for a total expenditure of approximately \$1 million.

## **1.11 FINANCIAL COMMITMENTS**

The Company's financial commitments are as follows:

- (a) A five-year lease for office premises at an annual rent of \$60,000 until August 2012; and
- (b) A five-year lease signed jointly with two other companies expiring in February 2009, at an annual rent of \$150,000. This office space has been sub-leased until the end of the lease; and
- (c) In January 2008, the Company entered into a right purchase agreement with Minera Senda de Plata regarding the La Chaparrita property for a total amount of US\$85,000 to be paid as follows:
  - US\$15,000 at the date of signing
  - US\$15,000 in July 2008
  - US\$55,000 in January 2009
- (d) In January 2008, the Company entered into a right purchase agreement with Marina Fernandez regarding the Bolivar property for a total amount of US\$85,000 to be paid as follows:
  - US\$15,000 at the date of signing
  - US\$15,000 in July 2008
  - US\$55,000 in January 2009
- (e) In January 2008, the Company entered into a promise to purchase agreement with the state of Chihuahua to purchase the land at the Malpaso milling facility for a total amount of approximately \$270,000 (MX 2,874,143).

- (f) In February 2008, the Company entered into an option agreement with Arnoldo Castañeda Martínez and Consoscio Minero Latinoamericano, S.A. de C.V. whereby it can earn a 100% interest in the La Engañosa property by paying a total amount of US\$1,265,000 as follows:
- US\$65,000 at the date of signing,
  - US\$75,000 after 6 months from signing,
  - US\$75,000 after 12 months from signing,
  - US\$150,000 after 18 months from signing,
  - US\$200,000 after 24 months from signing,
  - US\$300,000 after 30 months from signing,
  - US\$400,000 after 36 months from signing,

and incurring minimum exploration expenditures of US\$300,000 per year over the same three-year period.

The payments from d) to g) (18 months to 36 months) could be converted into free-trading common shares of the Company if the share trades at or higher than \$1.25 at their option. The property is subject to a 2% NSR which can be bought back for US\$1.5 million over a period of 6 years, plus minimum annual royalties of US\$48,000 after 5 years.

- (g) In 2007, in the normal course of business, the Company guaranteed financial lease for the purchase of transportation equipment by a third party (the "Borrower") for an amount of \$400,000 (MX 4,420,380) in favour of the Borrower's lender. The original financial lease agreement had a duration of 12 months from the date of its signature in May 2007 and the Borrower's debt is secured by the transportation equipment. In addition, the Company advanced US\$115,000 to the Borrower. The Borrower provides transportation services to the Company pursuant to a transportation agreement. In March 2008, the Company was informed that the borrower was in default of payments of its obligation. The Company does not have any recourse over any assets of the Borrower. The Company reached an agreement with the Borrower to secure repayment of the Borrower's debt directly from the proceeds of the Company's payment of transportation charges.

In addition, on April 15, 2008, the borrower signed a promissory note in favor of the Company in the amount of US\$500,000 to secure any potential obligation for the Company. As of April 24, 2008, the amount due pursuant to the financial lease is approximately \$170,000 (MX 1,920,800) and represents the maximum potential exposure for the Company under this agreement. The Balance outstanding under the advance is approximately US\$79,000. The Company is confident it will not incur any loss resulting from this transaction and as such, no provision for contingent loss has been recorded under the guarantee in the consolidated financial statements of the Company as at December 31, 2007.

The fair value of the guarantee at initial recognition is approximately \$15,000.

- (h) The Company has elaborated an environmental capital expenditure program estimated at \$350,000 in order to secure an appropriate area for the management of its tailings at the Malpaso mill facility. The costs related to this program will be capitalized as they are incurred. Therefore, as at December 31, 2007, no provision is recorded in accounts payable and accrued liabilities.

In addition, for the Company to exercise its various options on the mining properties, the option payments and exploration expenses will be as follows:

| <b>Year</b> | <b>Option<br/>Payments</b> | <b>Exploration<br/>Expenses</b> | <b>Total</b> |
|-------------|----------------------------|---------------------------------|--------------|
|             | <b>\$</b>                  | <b>\$</b>                       | <b>\$</b>    |
| 2008        | 193,278                    | 859,473                         | 1,052,751    |
| 2009        | 392,730                    | 716,300                         | 1,109,030    |
| 2010        | 494,000                    | 296,400                         | 790,400      |
| 2011        | 395,200                    | -                               | 395,200      |

## 1.12 OFF-BALANCE

The Company did not enter into any off-balance sheet arrangement other than the one indicated in section 1.11 (h).

## 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 were recorded at their exchange value which reflected the fair market value.

## 1.14 NEW ACCOUNTING STANDARDS

Effective January 1, 2007, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") handbook sections accounting, related to Financial Instruments Section 1530, "Comprehensive income", Section 3251 "Equity", Section 3855 "Financial instruments-Recognition and Measurement", and Section 1506 "Accounting Changes".

### **Section 1530 "Comprehensive Income"**

Section 1530 introduced a new requirement to present certain revenues, expenses, gains and losses arising from transactions and other events from non-owner sources, that otherwise would not be immediately recorded in income, in a comprehensive income statement which is now required to constitute a complete set of financial statements. The accumulated effect of comprehensive income or loss can now be found in equity of the Consolidated Balance Sheet as Accumulated Other Comprehensive Income. This standard did not have any effect on the Company's consolidated financial statements.

### **Section 3251 "Equity"**

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity for the period arising from other comprehensive income. Accumulated changes in other comprehensive income are included in accumulated other comprehensive income and are presented as a separate component of shareholders' equity. This standard did not have any effect on the Company's consolidated financial statements.

### **Section 3865 "Hedges"**

Section 3865 expands the guidelines found in Accounting Guideline 13 "Hedging Relationships" and describes when and how hedge accounting can be applied as well as the disclosure requirements. As at December 31, 2007, the Company had no hedges.

### **Section 3855 "Financial Instruments-Recognition and Measurement"**

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This section requires that:

- (i) all financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;

Financial assets must be classified 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 be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method.
- (iii) all derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

### **Impact upon adoption of Section 3855**

The primary impact on the consolidated financial statements resulting from the adoption of Section 3855 is as follows:

- (a) The Company's investments in marketable securities are classified as held for trading and are measured at fair value. Under this classification, any change in value between balance sheet dates is recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.
- (b) The Company's investments in warrants are derivative instruments and classified as held for trading and are measured at fair value. During 2007, any change in fair value between balance sheet dates was recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.
- (c) The Company has recorded the following transition adjustments in its consolidated financial statements as at January 1, 2007, resulting from the adoption of Section 3855 (note 6):
  - (i) An increase of \$399,500 in temporary investments, representing a fair value adjustment of marketable securities and warrants.
  - (ii) A decrease of \$399,500 in deficit representing the fair value adjustment to the value of marketable securities and warrants net of Canadian taxes of nil. The Company elected to use April 1, 2003 as the transition date for embedded derivatives.
- (d) Sales of concentrates: Effective January 1, 2007, final settlement billing adjustments are recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit instead of an adjustment to sales of concentrates which, before commencement of commercial production, are recorded as a reduction of the related deferred exploration expenses.

Variation in the final settlement provision value due to commodity market price and exchange rate changes at each balance sheet date is also recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit.

### **Transaction Costs**

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective October 1, 2007, and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments will be required.

### **Section 1506 “Accounting Changes”**

Effective January 1, 2007, the Company adopted the revised CICA Section 1506 “Accounting Changes”, which requires that (a) a voluntary change in accounting principles can be made if the changes result in reliable and more relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. Furthermore, this section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below.

The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

### **Accounting standards issued but not yet adopted**

The CICA has issued the following new Handbook Sections and/or new recommendations which will be adopted by the Company on January 1, 2008:

- (i) Section 3862, "Financial Instruments – Disclosures" describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which entity is exposed and how the entity manages those risks. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.
- (ii) Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation". The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.
- (iii) Section 1535, "Capital disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.
- (iv) Section 1400, "General Standards of Financial Statement Presentation", was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. These new requirements will not have any impact on the consolidated financial statements as the Company is already assessing its ability to continue as a going concern.
- (v) Section 3031 "Inventories" replaces the existing section 3030. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also requires, when applicable, the reversal of any write-downs previously recognized. The new accounting standard and any consequential amendments will be effective for the Company beginning January 1, 2008. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.

## **1.15 CRITICAL ACCOUNTING POLICIES**

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

Refer to section 1.14 above.

This represents a critical accounting policy since it has an impact on the consolidated financial statements, as the embedded derivative included in the sales agreement for concentrate are recorded at the fair value at each balance sheet date with the corresponding change in fair value recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit. Prior to January 1, 2007, change in value was recorded as an adjustment to sales and therefore as a reduction of the related deferred exploration expenses in accordance with the Company's accounting policy.

## Use of estimates

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

## Mining assets

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

### *Costs and deferred exploration expenses*

Costs and exploration expenses are deferred until the economic viability of the project has been established, at which time costs are added to property, plant and equipment. Specific costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as 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 is reflected as a gain in the Consolidated Statements of Operations, Comprehensive Loss and Deficit. In the case of a partial sale, if carrying costs exceed the proceeds, only the loss is reflected.

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

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

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

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

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

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

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.

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

## **1.16 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

Other than the temporary investments and the guaranty (refer to note 1.11 (g)), the Company does not use financial or other instruments, however management considers that an embedded derivative is included in the Company's concentrate sales agreements.

## **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.

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

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

- actual ore mined varying from estimates in grade, tonnage and metallurgical and other characteristics;
- mining dilution;
- ramp wall failures or cave-ins;
- ventilation and adverse temperature levels underground;
- industrial accidents;
- equipment failures;
- natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes;
- encounter of unusual or unexpected geological conditions;
- changes in power costs and potential power shortages;
- shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; and
- restrictions imposed by government agencies.

**Land title**

The Company is taking reasonable measures, in accordance with industry standards, for properties at that stage of exploration to ensure proper title to its properties. However, there is no guarantee that title to any of its properties will not be challenged or impugned. The Company's properties may be subject to prior unregistered agreements or transfers and title may be affected, amongst other things, by undetected defects (refer to note 8 and 19 of the December 31, 2007 year end audited consolidated financial statements).

**Capital needs**

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

**Regulation and environmental requirements**

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

**Commodity prices**

The Company is exposed to commodity price risk for variations in base and precious metal prices, since 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 concentrates and part of its purchases are denominated in foreign currencies, primarily in U.S. dollars and Mexican pesos. Consequently, certain assets and liabilities namely, cash and cash equivalents, trade receivables and payables, sales tax and other receivables, income tax receivable and payable, accounts payable and accrued liabilities, as well as certain revenues and expenses, include amounts that are exposed to currency fluctuations.

## **Credit risk**

The Company is subject to concentrations of credit risk through cash and cash equivalents, trade receivables (payables), and sales tax and other receivables. The Company maintains substantially all of its cash and cash equivalents with major financial institutions in Canada and in Mexico. Therefore, according to management, credit risk of counterparty non-performance is remote. The totality of the Company's trade receivables (payables) is with a sole client and is subject to normal credit risks. The totality of sales tax receivable is with the Government of Mexico, and, as such, management believes it also represents a normal credit risk.

## **Interest rate risk**

The Company's trade receivables (payables) and accounts payable and accrued liabilities are non-interest bearing. Cash and cash equivalents bear interest at variable and fixed rates.

## **1.18 OUTLOOK**

### **2008 OBJECTIVES**

- Aggressive exploration program to expand and upgrade existing resources at Bolivar;
- Continue exploration and metallurgical testing at Cusi to establish initial resource estimate and start up pilot mining;
- Initiate a feasibility study at Bolivar to obtain parameters for eventual full-scale production, including construction of an appropriately sized on-site mill;
- Evaluate the full potential of the newly acquired property – La Engañosa;
- Process 144,000 tonnes of material from Bolivar at average grades of 1.4% Cu and 8.0% Zn for a production value of US\$24 million;
- Blue sky exploration outside Bolivar and Cusi mining areas;
- Cost improvement program in all areas of the Company.

The Company has planned a \$5.0 million exploration program for 2008 that will partially be financed from the cash flow generated by the Bolivar pilot-mining program. The program will include a total of 35,000 metres of exploration drilling at both the Bolivar and Cusi projects.

The Company obtained a positive recommendation from the NI43-101 preliminary assessment report from Geostat International and will pursue its plan of action in terms of exploration commitment, to bring the Bolivar project to the next level in view of an eventual commercial production status.

The program at Bolivar is run with the objective of accelerating the feasibility study. The view of assessing the construction of a mill on-site at Bolivar as been addressed by the Company since the acquisition of the property and the inception of pilot-mining activities in 2005; 2008 will be very important for achieving that goal.

Drilling will be focused on increasing the measured and indicated resources at the Bolivar Alta Ley section especially within the Titanic and Selena massive sulphide lenses and along the Fernandez trend where a total of 10,000 metres is planned.

Another 5,000 metres of exploration drilling is planned to demonstrate the bulk volume potential of the Bolivar property with the objective of evaluating the strike extension of the favourable Upper and Lower skarn horizons along La Montura trend.

## 1.19 CONTROLS AND PROCEDURES

### **Internal control over financial information**

Management has the responsibility for the design and implementation of controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

As at December 31, 2007, the Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's design and implementation of controls over financial reporting.

Based on the review of its internal control it was determined that a weakness existed in the design of internal control over financial reporting in relation to:

- Cut-off procedures regarding transport: Specific control will be implemented to ensure that provision for unbilled services are properly recorded;
- Sales valuation process: New procedures have been implemented in order to ensure the use of appropriate forward prices at the date of sales recognition.

During 2007, the Company hired a new employee to review, among others, calculations of deferred income taxes in Mexico. This significant change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2007 has materially affected the Company's internal control over financial reporting pertaining to the determination of the current and future income tax provisions of the Company.

### **Disclosure controls**

Management is responsible for the design and effectiveness of disclosure controls and other procedures to provide reasonable assurance that material information related to the Company is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls as of December 31, 2007. They concluded to a weakness in the design of the controls and procedures relative to the flow of communication regarding commitments concerning the Mexican subsidiary. Consequently, additional controls have been implemented to ensure the transmission and full disclosure of any material commitment agreement by the subsidiary. All managers will be asked to complete and sign a report, on a monthly basis, listing all the agreements or commitments involving the Company during the reporting period of which they have knowledge.

## 1.20 OTHER REQUIREMENTS

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

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

### Analysis of costs and deferred exploration expenses

|   | Bolivar<br>\$    | Cusi<br>\$        | Promontorio<br>\$ | For the<br>year ended<br>December 31,<br>2007<br>Total<br>\$ | For the<br>year ended<br>December 31,<br>2006<br>Total<br>\$ |
|---|------------------|-------------------|-------------------|--|--|
| Balance – Beginning of period   | 3,285,792        | 7,188,433         | 1,197,930         | 11,672,155   | 13,537,347   |
| Costs and deferred exploration expenses                                 |                  |                   |                   |  |  |
| Property acquisition and related costs                                  | 305,370          | 1,140,646         | -                 | 1,446,016  | 3,491,849  |
| Sampling  | 980,021          | 1,194,001         | -                 | 2,174,022  | 393,403  |
| Geology consulting and management                                       | 745,555          | 597,724           | -                 | 1,343,279  | 1,361,780  |
| Geophysical survey  | -                | -                 | -                 | -  | 6,915  |
| Drilling and mining development   | 5,079,736        | 4,185,595         | -                 | 9,265,331  | 5,863,818  |
| Pilot milling and metallurgy testing                                    | 4,404,805        | 726,934           | -                 | 5,131,739  | 3,538,455  |
| Supervision and local administrative costs                              | 624,334          | 313,645           | 1,652             | 939,631  | 1,341,295  |
| Transportation costs  | 9,438,703        | 560,724           | -                 | 9,999,427  | 6,969,213  |
| Roads   | 12,417           | 133,305           | -                 | 145,722  | 15,993   |
| Camp costs  | 1,777,742        | 1,039,662         | -                 | 2,817,404  | 1,430,355  |
| Capitalized amortization of exploration<br>buildings and equipment      | 2,739,746        | 786,545           | 146               | 3,526,437  | 1,686,739  |
| Stock-based compensation costs  | 573,794          | 198,941           | 163               | 772,898  | 1,001,173  |
|   | 26,682,223       | 10,877,722        | 1,961             | 37,561,906   | 27,100,988   |
| Write-off of mining assets – Costs and<br>deferred exploration expenses | -                | -                 | (1,199,891)       | (1,199,891)  | (147,635)  |
| Sales of concentrate  | (24,056,537)     | -                 | -                 | (24,056,537)   | (35,588,838)   |
|   | 2,625,686        | 10,877,722        | (1,197,930)       | 12,305,478   | (8,635,485)  |
| Transfer to (from) excess cost recovery – pilot<br>mining               | (2,506,851)      | -                 | -                 | (2,506,851)  | 6,770,293  |
|   | 118,835          | 10,877,722        | (1,197,930)       | 9,798,627  | (1,865,192)  |
| <b>Balance – End of period</b>  | <b>3,404,627</b> | <b>18,066,155</b> | <b>-</b>          | <b>21,470,782</b>  | <b>11,672,155</b>  |

(ii) NATIONAL INSTRUMENT 51-102 – SECTION 5.4

Disclosure of outstanding securities as at April 29, 2008

Common shares: 111,501,269

Options outstanding: 10,518,333

| Number of options | Exercise price<br>\$ | Expiry date    |
|-------------------|----------------------|----------------|
| 600,000           | 0.85                 | October 2008   |
| 930,000           | 0.75                 | August 2009    |
| 400,000           | 0.75                 | February 2010  |
| 1,313,333         | 0.30                 | September 2010 |
| 125,000           | 0.22                 | September 2010 |
| 2,455,000         | 0.40                 | February 2011  |
| 1,890,000         | 0.90                 | September 2011 |
| 40,000            | 0.98                 | January 2012   |
| 1,735,000         | 1.10                 | April 2012     |
| 250,000           | 1.28                 | June 2012      |
| 150,000           | 1.25                 | July 2012      |
| 300,000           | 0.89                 | October 2012   |
| 330,000           | 0.61                 | April 2013     |

# Corporate Information

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Symbol: DIB

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## BOARD OF DIRECTORS

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Daniel Tellechea

Réjean Gosselin

Robert D. Hirsh

Philip Renaud

Mario Caron

Eduardo Gonzalez

## OFFICERS

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*Chairman*

Daniel Tellechea  
*President and Chief Executive Officer*

François Auclair, M.Sc., Geo., FGAC  
*Vice-President, Exploration*

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*Chief Financial Officer*

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