



**DIA BRAS EXPLORATION INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS  
(AMENDED)**

**FOR THE THREE-MONTH PERIOD ENDED  
MARCH 31, 2006**



On May 29, 2006, Dia Bras Exploration Inc. (the "Company") filed its interim management's discussion and analysis for the period ended March 31, 2006 (the "MD&A") with the Canadian securities regulators.

A complete copy of the interim MD&A is attached hereto and is being refiled to reflect the changes made to the consolidated financial statements for three-month period ended March 31, 2006 and to disclose additional acquisitions, the signing of a drilling service agreement and the signing of a \$9,100,000 bought deal financing agreement which have all happened since the date of the original filing date.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

This management 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 unaudited consolidated financial statements for the three-month period ended March 31, 2006 and should be read in conjunction with those statements. It represents the view of management on the Company's current activities and its past and current financial results, as well as an outlook of the coming months. Unless otherwise specified, all dollar amounts in the MD&A are expressed in Canadian dollars.

### **1.1 YEAR END AND DATE OF MD&A**

In 2005, the Company changed its year end from March 31 to December 31 to coordinate with the statutory year end of its Mexican subsidiaries. The MD&A for the three-month period ended March 31, 2006 is as of July 21, 2006.

### **1.2 FORWARD LOOKING STATEMENTS:**

The MD&A contains forward-looking statements that express, as at the date of 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 outcome 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 NATURE OF ACTIVITIES AND OVERALL PERFORMANCE:**

Dia Bras Exploration Inc. (the "Company") is a mining exploration company with rights and options on approximately 80 properties covering in excess of 15,000 hectares in the State of Chihuahua in Mexico.

During the three-month period ended March 31, 2006, the Company continued its pilot mining program at the Bolivar mine property. The program provides essential data on mining, transport and milling costs, logistics, ore grade, mill recovery performance and metallurgy, as part of the pre-feasibility study undertaken at the Bolivar mine property. The short term objective of the pilot mining program is to generate sufficient cash flow from the production of zinc and copper concentrates to finance the development and exploration program at the Bolivar mine and elsewhere in the Bolivar project. The pilot program started generating positive cash-flow in December 2005 and continued throughout the first quarter of 2006.

Base metal prices continued their spectacular rise during the quarter.

The Company has just completed its most productive quarter since the start, in February 2005, of its pilot mining program, producing concentrate of US\$ 5.3 M in value including the March 2006 production of approximately US\$ 2.37 M. The Q1 production exceeds the forecast of US\$ 4.0 M due to higher zinc grade mined and to higher market prices for both zinc and copper over that period.

## Bolivar Mine Pilot Program

Summary of the First Quarter 2006 (1)

<b>Ore processed</b>		<b>Tonnes</b>	<b>Total Production Value (1) US \$ (Million)</b>	<b>Production cost (1) US \$ (Million)</b>
Actual		22,469	5.3	2.4
Forecast		22,500	4.0	2.5
Over (under)		(31)	1.3	( 0.1)
<b>Zinc</b>	<b>Grade Average</b>	<b>Recovery Rate</b>	<b>Zn Concentrate Production in DMT</b>	<b>Production value (1) in US\$ (million)</b>
Actual	13.62%	92.12%	4,898	3.7
Forecast	11.00%	85.00%	3,700	2.6
Over (under)	2.62%	7.12%	1,198	1.1
<b>Copper</b>	<b>Grade Average</b>	<b>Recovery Rate</b>	<b>Cu Concentrate Production in DMT</b>	<b>Production value (1) in US\$ (million)</b>
Actual	2.60%	78.04%	1,483	1.6
Forecast	2.50%	75.00%	1,600	1.4
Over (under)	0.1%	3.04%	(117)	0.2

The following table presents average data per tonne processed in the pilot mining program for the three-month period ended March 31, 2006:

	<b>US\$</b>
Net smelter revenue (1)	234.70
Direct operating cash costs (1)	104.60
Gross margin before amortization (1)	130.10

(1) Non-GAAP measures: The company reports production value, production costs, net smelter revenue per tonne, direct operating cash costs per tonne and gross margin before amortization per tonne even if it is a non-GAAP measure to inform about the approximate value of the quarter sales, isolate the measure of pilot-mining direct operation costs activities less amortization and depreciation. The Company believes this is useful supplemental information however they should not be considered as a substitute for measure of performance prepared in accordance with GAAP.

## Bolivar mine property

During the quarter, the Bolivar property remained the main exploration target in the Cieneguita region where the Company has spent close to \$5 million in property costs and exploration and development expenses.

During the month of March 2006, the company processed 7,983 dry metric tonnes (DMT) (its best monthly performance) of ore at its Malpaso Mill facility, for a total of 22,461 DMT processed for the quarter ended March 31, 2006 (22,500 DMT forecasted tonnage). Since the capacity was increased to 300 tpd in the last quarter of 2005, the Malpaso Mill has been running smoothly. Fine tuning performed since that time has allowed the mill to process over 350 DMT per day on several occasions during the quarter.

At the end of 2005, mining activities started in the Brecha Linda on level 1, a zone of high grade zinc and copper mineralization. Currently, the ore processed at the mill comes from working stopes at the Brecha Linda and also from the Foto zone on level 4. Grades averaged 13.5% zinc and 2.4% for copper since the beginning of 2006.

### Acquisition of Malpaso Mill

In September 2005, the Company exercised its option to acquire the Malpaso mill via the acquisition, through an agent, of the shares of Compania Minera Metalurgica Malpaso S. de R.L. de M.I. ("CMMM"), a Mexican company. As at March 31, 2006, the acquisition is yet to be completed. However, the Company controls all levels of operations at the mill. Since the start-up of the pilot program, the mill capacity has been increased from 100 tpd to 300 tpd, its current level of operations. It is expected that the mill will process a monthly average of 7,500 tonnes in 2006. Plans are to increase the capacity to 600 tpd by the end of 2006.

### Promontorio Property

At the end of the quarter the Company was preparing to resume exploration work at Promontorio. A six-hole drilling campaign, as part of the exploration program recommended by Roscoe Postle Associates in their February 2005 43-101 Report, has just been completed in mid-May. The Company is awaiting final results from assays which should be published shortly.

### 1.4 SELECTED ANNUAL INFORMATION:

	Nine-month period ended December 31,	Year ended March 31	
	2005 \$	2005 \$	2004 \$
Sales of concentrate i)	5,562,402	-	-
Write-off of mining assets	557,588	481,706	-
Loss	2,096,165	2,095,804	1,176,702
Loss per share	0.04	0.05	0.05
Total assets	25,420,216	20,668,572	11,910,623
Working capital	4,271,832	3,649,779	8,139,983
Cash and cash equivalents	3,541,961	2,954,870	4,707,091

- i) In accordance with its accounting policy, revenue from the sales of concentrate produced from the pilot-mining before commencement of commercial production is recorded as a reduction of deferred exploration expenses, and therefore does not appear in the Consolidated Statements of Operations and Deficit.

## 1.5 RESULTS OF OPERATIONS:

### Corporate

During the three-month period ended March 31, 2006, the Company incurred a loss of \$379,867 (<\$0.01 per share) compared to a net loss of \$496,456 (\$0.01 per share) for the three-month period ended March 31, 2005. The loss includes a stock-based compensation non cash cost of \$234,685 relating to the accounting cost of options vested during the period (\$ 115,466 in 2005). Since the start of 2006, the company has been very active in promoting its activities and meeting with financial institutions in Toronto, Calgary, Vancouver and Montreal. It participated in the PDAC mining show held in Toronto in March 2006 and will continue to be active in this regards throughout the year which had increased business development expenses.

Administrative expenses also increased compared to the same period in 2005 as the Company increased the number of its full time employees in Q3-2005.

Total interest income increased in the quarter compared to the same period in 2005 as the Company maintained a constant level of cash during the quarter. There was no interest income for the three month period ended March 31, 2005.

### Results of the pilot-mining program at Bolivar

In March 2006, the pilot program completed its fourth consecutive month of positive operating cash flow. Total sales of concentrate amounted to \$6,129,281 and exceeded forecast as zinc and copper prices continued to rise during the period. Total direct operating cash costs for the quarter amounted to \$2.4 M (see 1.3 (1)). Cash flow from pilot mining was used in the exploration and development of the property. All concentrates produced were delivered and sold to MRI Trading AG pursuant to a standard concentrate purchase agreement. Sales invoices are normally received within 48 hours of the billing. 90% of the shipment value is billed at the date of the shipment and the remaining 10% is billed later at the confirmed quotation date.

There were no revenues from the pilot mining program during the three-month period ended March 31, 2005, since the program at Bolivar had just started.

## 1.6 SUMMARY OF QUARTERLY RESULTS :

Quarter ended	Loss \$	Loss per share \$
March 31, 2006	379,867	0.01
December 31, 2005	1,287,232	0.02
September 30, 2005	471,501	0.01
June 30, 2005	337,432	0.01
March 31, 2005	496,456	0.01
December 31, 2004	1,201,814	0.02
September 30, 2004	254,940	0.01
June 30, 2004	142,594	0.01

Between September 2003 and December of 2004, the Company raised over \$21 million through private placement financings to initiate and then expand the exploration activities in Mexico. With the availability of funds, the Company increased personnel and consulting assistance in management and business development activities. During 2005, staff level was increased at the Montreal head office to the increasing work load.

## **1.7 LIQUIDITY:**

As at March 31, 2006, the Company has a working capital of \$5,292,279 including \$3,920,853 in cash and cash equivalent compared to \$4,271,832 as at December 31, 2005, including \$3,541,961 in cash and cash equivalent. This level of working capital is adequate to support current level of operations. The working capital and cash improvement is due to the Bolivar Pilot mining program during the quarter.

As at March 31, 2006, sales tax and other receivables amount to \$1,421,798 (\$1,037,122 as at December 31, 2005) and are mostly comprised of Mexican recoverable input tax credit. The Company is still facing delays in recovering the IVA (local sales tax) and with increasing activities monthly recovery filings are obviously larger in value. The Company is regularly monitoring with local Mexican IRL authorities which they have met on several occasions during the quarter to follow-up on new specific audit requests.

Accounts payable and accrued liabilities amount to \$741,824 (\$749,676 as at December 31, 2005) and include an obligation of \$145,875 (US\$125,000) (\$233,180 (US\$200,000 as at December 31, 2005) related to the acquisition of the shares of CMMM. This amount will be paid in monthly installments of US\$25,000 until August 2006.

## **1.8 CAPITAL RESOURCES, INVESTING AND FINANCING ACTIVITIES:**

The availability of funds is highly dependent on the capital markets. The main sources of financing of the Company are the issuance of equity shares and the sale of concentrates. During the quarter, the company did not complete any private placement.

During the quarter, the Company exercised 666,666 warrants to purchase 666,666 common shares of Ecu Silver Mining Inc. at a price of \$0.39 per share for a total amount \$260,000. The Company disposed of its total investment realizing a gain on disposal of \$152,800.

In November 2005, the Company completed private placements totalling \$4.5 million. The net proceeds were used to upgrade the Malpaso mill - increasing the capacity by about 10% and improving the recovery and the quality of the zinc and copper concentrates produced. Capital was also expended on mine development, transportation upgrade and to cover operating expenses while concentrate production increases on the pilot-mining program at the Bolivar mine.

The Company expects to self-finance its exploration and development effort at the Bolivar project with the cash flow generated from its pilot-mining program at the Bolivar mine.

The Company remains open to favorable opportunities on the capital markets to finance acquisitions and development that would help support the company's growth.

## **1.9 FINANCIAL COMMITMENTS:**

The Company's financial commitments are as follows:

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

2006	US\$395,000
2007	US\$325,000
2008	US\$450,000
2009	US\$3,062,500

## **1.10 OFF-BALANCE:**

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

## **1.11 RELATED PARTY TRANSACTIONS:**

During the period, the Company paid for services provided by companies controlled by officers of the Company. Those services relating to project management and corporate activities are essential to the Company and are recorded at their exchange value.

## **1.12 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION:**

There were no changes in accounting policies

## **1.13 CRITICAL ACCOUNTING POLICIES:**

### **Use of estimates:**

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

### **Mining assets:**

Mining assets include mining rights and options to acquire interests in mining properties, deferred exploration expenses, exploration building and equipment, supply inventories that will be used for exploration, and deposits on future mining assets. All costs directly related to projects are capitalized. Exploration expenses are deferred until the economic viability of the project has been established, at which time the expenses are added to mining properties, plant and equipment. Costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available for development over a period of three consecutive years or results from exploration work not warranting further investment.

Proceeds from the sale of a mining asset are applied against related carrying costs and any excess is reflected as a gain in the statement of operations. In the case of a partial sale, if carrying costs exceed the proceeds, only the loss is reflected.

Revenue from the sale of concentrate from the pilot mining program before 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 expects commercial production on the Bolivar project to commence no later than 2009 year end. Commercial production has been defined as being the stage where the Company had reached a production level of 65% for a consecutive period of 90 days with a maximum time period of six months. The production level will be calculated on the rated capacity of a mill on mine site which can process approximately 2,000 tonnes per day. The development of the mine and the construction of the mill on mine site are planned to start in mid - 2008 after reception of a bankable feasibility study to be commissioned in early 2007.

**This represents a critical accounting policy as it will impact on the presentation of revenues and expenses from mining activities, which are currently recorded as a reduction of the 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 to 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 has not recognised any asset retirement obligation as it does not have sufficient information to determine a realistic obligation maturity schedule. A liability stemming from any asset retirement obligation will be recorded in the period in which there is sufficient information to establish an obligation maturity schedule.

### **1.14 FINANCIAL INSTRUMENTS AND OTHER:**

The Company does not use financial or other instruments.

### **1.15 RISK AND UNCERTAINTIES:**

#### **Business risk:**

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

#### **Land title:**

The Company has taken reasonable measures in accordance with industry standards for properties at that stage of exploration to ensure proper title to its properties. However, there is no guarantee that title to any of its properties will not be challenged or impugned. The Company's properties may be subject to prior unregistered agreements or transfers and title may be affected, amongst other things, by undetected defects.

**Capital needs:**

The exploration, development, mining and processing of the Company's properties will require substantial additional financing. The only current sources of future funds available to the Company are the sale of additional equity capital, the borrowings of funds and the sale of concentrate. There is no assurance that such funding will be available to the Company or that it will be obtained on terms favorable to the Company or will provide the Company with sufficient funds to meet its objectives, which may adversely affect the Company's business and financial position. Failure to obtain sufficient financing may result in delaying 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 governed by laws 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 market price of base and precious metals is also a factor of risk that can have a direct impact on the success of the Company operations. The market price of the Company's common shares, its financial results and its exploration, development and mining activities may be significantly adversely affected by declines in the price of precious or base minerals.

**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 rate risk:**

The Company is operating in a foreign country and with foreign currencies and is therefore subject to exchange rate risk. It buys its currencies based on its exploration budget.

**Credit risk:**

**The Company is exposed to credit risk to the extent that its debtors may be unable to repay amounts owing to the Company. The totality of the Company receivable 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 believe it does not represent a significant credit risk.**

**Interest rate risk:**

The Company's receivable, tax and other receivables and accounts payable and accrued liabilities are non-interest bearing. The cash and cash equivalents bear interest at variable rates. The short term deposit and the obligation related to assets under capital lease bear interest at a fixed rate.

**1.16 OUTLOOK :**

The Company wants to take advantage of its well established situation in Mexico, mostly in the Chihuahua region, and is therefore keeping well aware of any opportunities that may arise. On May 31, 2006 the company announced the acquisition of the entire Cusihiuriachic (Cusi) silver district in the state of Chihuahua, Mexico and on July 17, it announced a \$9.1 million bought deal financing agreement to be closed around August 3<sup>rd</sup> 2006 which will serve to complete the Cusi acquisition, increase mill capacity at Malpaso and start

exploration and development of the Cusi project. The company also signed an agreement to outsource its drilling activities, using however its own drill rigs. The agreement is for 25,000 meters at a cost of US\$92.50 per meter.

Despite a recent decline in prices for base metals, copper and zinc market prices remain very strong. Zinc is currently trading around US\$1.60/lb and copper around US\$3.70/lb. With current access to high grade ore and with improved and efficient milling facilities, the Company is still in excellent position to benefit from the current high prices.

As at July 20, 2006, the Company currently has a working capital of approximately \$6.0 million. The Company remains open to favorable opportunities on the capital markets to finance acquisitions and development of its projects, including the increase in the capacity of the Malpaso mill, in order to help support the company's growth.

The objectives for 2006 are as follows:

- Bolivar Pilot mining program  
Mine and process between 85,000 and 90,000 tonnes of ore averaging 11.0% Zn and 2.5% Cu.
- Increase the Malpaso Mill capacity to 600 tpd by the end of 2006.
- Define sufficient resources at Bolivar to commission a feasibility study that will give us the parameters for eventual full-scale production, including construction of an appropriately sized mill on site.
- Analyse results from the Promontorio drilling campaign and evaluate the next step in developing the property potential with internal financial and technical resources, or through joint ventures or partnership.
- Evaluate, and if warranted, acquire projects with a history of small-scale production in the Sierra Madre district with the objective of contributing to the Company's mid and long term growth.

## 1.17 OTHER REQUIREMENTS IN THE MANAGEMENT DISCUSSION AND ANALYSIS:

(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 cost and deferred exploration expenses\*

	Three-month period ended March 31, 2006 \$	Nine-month period ended December 31, 2005 \$
<b>Balance at beginning of period</b>	13,537,347	10,197,775
Property acquisition and related costs	218,124	451,263
Sampling	74,686	179,671
Geology consulting and management	265,957	660,598
Geophysical survey	6,646	27,927
Drilling and mining development	1,235,151	1,352,627
Pilot milling	576,532	1,570,210
Supervision and local administrative costs	301,388	1,056,287
Transportation	1,445,026	2,530,748
Roads	-	41,725
Camp costs and food	305,739	550,053
Capitalized amortization of exploration building	322,374	833,442

and equipment		
Stock compensation costs	228,846	205,011
	4,980,469	9,459,562
Write-off of mining assets	-	(557,588)
Sale of concentrate	(6,129,281)	(5,562,402)
	(1,148,812)	3,339,572
<b>Balance at end of the period</b>	<b>12,388,535</b>	<b>13,537,347</b>

\* The majority of the above costs other than property costs have been incurred on the Bolivar mine.

(ii) National instrument 51-102 – Section 5.4

Disclosure of Outstanding Securities as at July 21, 2006

**Common shares:** 83,047,686

**Warrants:** (each warrant entitles the holder to purchase one common share of the Company at the exercise price indicated until expiry date): 12,002,068

Number of warrants	Exercise price	Expiry date
12,002,068	\$0.90	November 2006

**Options outstanding:** 7,132,333

Number of options	Exercise price	Expiry date
855,000	\$0.85	October 2008
40,000	\$1.30	January 2009
1,217,000	\$0.75	August 2009
500,000	\$0.75	February 2010
1,695,333	\$0.30	September 2010
125,000	\$0.22	September 2010
2,700,000	\$0.40	February 2011

# Corporate Information

## CORPORATE HEAD OFFICE

630 René-Lévesque Blvd. West  
Suite 2930  
Montréal (Québec) H3B 1S6

Telephone: (514) 393-8875  
Fax : (514) 866-9857

## TICKER SYMBOL

TSX Venture Exchange TSX  
Symbol : DIB

## AUDITORS

PRICEWATERHOUSECOOPERS LLP  
1250, René-Lévesque Blvd. West  
Suite 2800  
Montréal (Québec)  
H3B 2G4

## REGISTRAR AND TRANSFERT AGENT

Computershare Trust Company of Canada

## INVESTOR RELATIONS

Nicole Blanchard  
Managing Partner  
Sun International Communications

Telephone: (450) 627-6600

Email : [nicole.blanchard@suncomm.com](mailto:nicole.blanchard@suncomm.com)

## CHIEF FINANCIAL OFFICER

Léonard Teoli  
Téléphone : (514) 393-8875 # 226

## WEBSITE

[www.diabras.com](http://www.diabras.com)

## BOARD OF DIRECTORS

Thomas L. Robyn,  
Executive Chairman

James A. Culver

Réjean Gosselin

Robert D. Hirsh

Philip Renaud

## OFFICERS

Thomas L. Robyn, Ph.D.  
Executive Chairman

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

André St-Michel, P.Eng. M.Sc.  
Executive Vice-President and  
Chief Operating Officer

Leonard Teoli, C.A.  
Chief Financial Officer

Luce L. Saint-Pierre  
Secretary