



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the first quarter ended March 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 unaudited consolidated financial statements for the three-month period ended March 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.

## 1.1 DATE OF MD&A

The MD&A for the quarter ended March 31, 2007 is as of May 30, 2007.

## 1.2 FORWARD-LOOKING STATEMENTS

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

## 1.3 Q1- 2007 HIGHLIGHTS

- The Company hires new Vice-President, Exploration, and launches 2007 exploration program at Bolivar and Cusi projects;
- The Company launches a 50,000-metre drilling programme, 25,000 metres on each of the Bolivar and Cusi projects;
- The Company meets work commitment at La Bamba /San Miguel (Cusi District) and awaits confirmation of earned interest of 50% in the project;
- First bulk sampling at Cusi is delayed due to necessary increased metal recovery testing to be performed at the Malpaso mill ;
- Sales of concentrate total \$5.7 million;
- New Triunfo processing circuit is installed at Malpaso and working efficiently, increasing mill capacity to 850 tonnes per day;
- Corporate head office in Montreal moves to new offices.

## 1.4 NATURE OF ACTIVITIES AND OVERALL PERFORMANCE

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

During the quarter the Company launched its exploration program on both the Cusi Silver prospects and the Bolivar property on which 25,000 metres of drilling is planned for 2007 on each project.

During the period, the Company continued its pilot-mining program at the Bolivar Mine property. The program continued generating positive cash-flow, and results were close to those forecasted.

A sudden drop in metal prices in early 2007 affected negatively the period's operating results and some final settlement billings of 2006 shipments. However, prices have mostly recovered from its early 2007 plunge which should help to avoid the materialization of losses at the final settlement stage.

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

### Bolivar Mine property

The Bolivar property and extensions remains the main exploration target in the Cieneguita region. During the three-month period ended March 31, 2007, total investment in property costs and exploration and development expenses on the Bolivar project and the pilot-mining program amounted to approximately \$6.4 million.

The summary of the pilot-mining program results for the quarter ended March 31, 2007 is as follows:

#### Amounts in US\$

<b>Material Processed</b>		<b>Tonnes</b>	<b>Total Estimated Production<sup>(1)</sup> in US\$ (Millions)</b>	<b>Operating Cash Cost<sup>(1)</sup> in US\$ (Millions)</b>
Actual		30,014	5.2	3.8
Forecast		24,000	4.2	3.2
Over (under)		6,014	1.0	(0.6)
<b>Zinc</b>	<b>Average Grade</b>	<b>Recovery</b>	<b>Zn Concentrate Production (DMT)</b>	<b>Production Value<sup>(1)</sup> in US\$ (Millions)</b>
Actual	6.77%	84.61%	2,987	3.6
Forecast	7.50%	92.20%	2,718	3.0
Over (under)	(0.83)%	(7.59)%	269	0.6
<b>Copper</b>	<b>Average Grade</b>	<b>Recovery</b>	<b>Cu Concentrate Production (DMT)</b>	<b>Production Value<sup>(1)</sup> in US\$ (Millions)</b>
Actual	1.34%	81.62%	1,172	1.6
Forecast	1.50%	79.20%	967	1.2
Over (under)	(0.16)%	2.42%	205	0.4

#### Financial Results (in US\$)

	<b>Actual Quarter ended March 31, 2007 US\$</b>
Net smelter production value	5.2 M
Direct operating cash costs	3.8 M
Direct operating cash margin	1.4 M

**Net Smelter Production Value and  
Cash Operating Costs / Tonne Processed (in US\$)**

	<b>Actual Quarter ended March 31, 2007 US\$</b>
Net smelter production value <sup>(1)</sup>	173.25
Direct operating cash costs <sup>(1)</sup>	126.20
Gross margin before amortization <sup>(1)</sup>	47.05

(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 it should not be considered as a substitute for measure of performance prepared in accordance with GAAP.

The Company's total concentrate production is sold to MRI Trading AG (MRI), a Swiss-based, privately owned commodity trading company, pursuant to a standard concentrate purchase agreement. Total billings to MRI during the quarter amounted to \$6.5 million (US\$5.4 million) and include final settlement from 2006 shipments, which suffered from the decrease in metal prices in early 2007.

For the same period in 2006, the Company had processed 22,469, producing 4,898 tonnes of zinc concentrate and 1,483 tonnes of copper concentrate for a total production value of US\$5.3 million, as the Company was mining high-grade material to increase cash flow.

The pilot-mining program provides essential data on costs, logistics, grade, recovery and metallurgy that will serve for a feasibility study on the Bolivar property. The short-term objective of the program is to generate sufficient cash flow from zinc and copper concentrate production to finance development and exploration at the Bolivar mine and elsewhere on the Bolivar project.

**Malpaso mill**

During the quarter ended March 31, 2007, many tests were done at the newly installed Triunfo circuit at Malpaso. Those tests were mainly aimed at improving, on a lower scale, metal recovery from material taken from different Cusi properties before initiating a larger-scale bulk-sampling program. These procedures revealed the necessity of adding some equipment in order to achieve this improvement which delayed the start of the Cusi bulk sampling program to later in the second quarter.

This circuit comprises a 500-tpd ball mill, which will increase the overall capacity to 850 tpd with design space provided for another similar ball mill. Recovery of Cusi material will be obtained from flotation cells, gravity and table systems.

## **a) Cusi Project**

The objectives for Cusi during 2007 are twofold: 1) define sufficient mill feed for two years of operation at 1,000 tpd and, 2) discover a high-value deposit.

These tasks are undertaken by continuing the program put in place in June 2006, which consists of:

- Regional mapping,
- Definition drilling,
- Development (dewatering, rehabilitation of old underground workings, etc.) of the previously exploited mines and identifying potential unknown resources.

### **Geology**

Basically, the program initiated in 2006 will continue as the program called for a large scale reconnaissance program, which was only achieved at about 10% in 2006 for various logistical reasons. Local detail mapping of the structures and veins making up the various showing of the Cusi project will also take place, at a scale 1:200.

### **Drilling**

Three orders of drilling will be implemented at Cusi. The first one will be for resource definition; the second, for the extension of the known resource area; and the third one will be to identify new targets.

For this purpose, the Cusi project area has been divided into four zones, the La India area, the San Miguel-La Bamba area (under option), the Santa Edwiges-San Antonio area and finally Cusi exploration.

Drilling has started during the quarter with three machines.

#### **Zone 1 - La India**

In this area, some 2000 metres of exploration drilling (5 holes) will take place to identify potential mineralization similar to the one observed in hole DC06B012 (an intersection of 4.9 metres at >3,355 g/t Ag, 0.56 g/t Au, 1.14% Cu, 0.65% Pb and 0.20% Zn including a section of 1.4 metre grading over 10,000 g/t Ag – press release October 3, 2006). The mineralization consisted of a white to dark grey quartz vein containing 12% of a green mineral (non identified silver chloride), within a brecciated dacitic tuff mineralized with hematite, pyrite and oxide, presenting kaolinitization at the vein contact.

#### **Zone 2 Santa Edwiges (option)**

The Santa Edwiges area is actually undergoing underground development and drilling performed by the mining group. The exploration group will further test the potential under the known sulphide mineralization and old workings. The sulphide mineralization contains grades of up to 6% combined lead and zinc over a width of 1 to 5 metres. Thus, some 2800 metres of «extension type» drilling will be undertaken in 7 to 8 holes.

In the San Antonio-San Marina area (part of Santa Edwiges), 2400 metres in 6 holes will be necessary to define resources under (and laterally to) the actual pit boundaries.

Furthermore, an exploration drilling program to test the 100- to 300-metre vertical level will be undertake to search for recorded resources which are shown on old longitudinal sections of the San Marina mine which would have (apparently) been left behind during previous mining operations.

#### **Promontorio Mine (option)**

The Promontorio Mine is actually undergoing dewatering for access to the 5th and 7th level of the mine. Furthermore, geological compilation of historical work is ongoing to rapidly develop drill targets in the mine area. Some 5 000 metres of drilling is plan in this area.

#### **Zone 3 – San Miguel-La Bamba (options)**

Two drilling programs are planned in this area.

The first one, which has begun, is aimed at defining resources under and laterally to the actual limit of the open pits and will consist of some 500 to 800 metres in 4 to 8 holes.

The second one will test for the potential extension of the known San Miguel-La Bamba resources at vertical depths varying from 100 to 300 metres.

### **EXPLORATION ACTIVITIES DURING THE THREE-MONTH PERIOD ENDED MARCH 31, 2007**

The Cusi property covers some 79 km<sup>2</sup> and is the site of a large, multifaceted exploration program, including regional and detailed mapping and geochemical sampling, trenching, drilling, etc.

From January 2007 to March 2007, 3801 metres of diamond core drilling has been performed on the Cusi property, and some 780 split core samples sent for analysis.

Of this total, 418.9 metres were done at Santa Edwiges, 940 metres at San Antonio, 1616.3 at San Nicolas and 826 metres at La Bamba.

Highlights of this drilling were in the Santa Marina-San Bartolo area, where hole DC07B89 intersected 6.6 metres at 2.6 g/t Au, 759 g/t Ag, 0.5% Cu, 2.0% Pb, 2.55% Zn. This intersection, combined with surface grab and chips channel samples from the nearby San Nicolas-San Bartolo area, where assays of up to 1.97 g/t Au and 568 g/t Ag have been recorded, could indicate a potentially new mineralized zone carrying gold silver mineralization.

Additional underground access has been provided by the advancement of the ramp at Santa Edwiges.

#### **La India**

Minimal work has been carried in this area in this quarter.

#### **Santa Edwiges (option)**

From January 2007 to March 2007, the cleaning and opening of the old working continued, and access has been prepared for the start of a ramp to access silver rich sulphide ore. The old ramp has been widened and prepared for a bulk sample which has just slowly started.

#### **Promontorio Mine (option)**

From January 2007 to March 2007, dewatering continued; with the water level brought down to the 5th level. Compilation of historical data that led to the identification of unsubstantiated potential ore resources between the 7th and 9th level of the mine has initiated an important drilling program which will take place in the second and third quarters.

#### **La Bamba and San Miguel (options)**

The Company filled its work commitment to earn a first 50% interest in these properties. The statement of exploration expenditures incurred to date on those properties received preliminary approval. Upon final acceptance, which is expected shortly, Dia Bras will exercise its first option to earn 50% in the properties. The Company has an option to acquire an additional 20% by increasing the cumulative amount of exploration expenditures to US\$4 million before November 2008.

From January to March 2007, this area was the site of a large scale exploration and bulk tonnage program to allow for resource estimates. Some 826 metres of core diamond drilling was performed and a bulk sample was shipped to the Malpaso mill for metallurgical testing and ore recovery testing.

As described earlier, milling on a larger scale has not yet been started.

Furthermore, mapping and chip channels sampling in an historical underground access below La Bamba, known as Las Cabras pit, allowed the mapping of approximately 135 metres of brecciated rock similar to the material which was mined in the La Bamba open pit. Assay results should be received in the second quarter.

## **b) Bolivar Projects**

### **Exploration**

The Bolivar project of Dia Bras Exploration in Mexico (Cieneguita region) is an advanced stage exploration project with pilot mining of approximately 350 tonnes per day of Cu-Zn (Ag) material. Large scale geological mapping combined with resource definition and reconnaissance drilling completed in 2006 has identified a number of economic ore bodies and significant mineralized structures, worthy of follow-up.

Skarn and mine workings occur almost continuously along a NW/SE trending zone of outcropping mineralization with a minimum 3 km strike length. From NW to SE, they are: the Bolivar mine (divided into Bolivar NW; Bolivar, with three high-grade trends termed Fernandez, Rosario-Rodolfo and Breccia Linda; and Bolivar Sur, with indicated resources of magnetite-Cu), El Gallo, where drilling is presently in progress, La Increíble, with Cu-Zn hosted by highly fractured and brecciated andesitic volcanic rock (currently being drilled), La Montura, which has a couple of drill holes and Area Central, La Pequeña, Arizona and El Val/Aliso.

Geophysical and geological information, as well as underground working tend to indicate that NW/SE and NE/SW cross structure appears to present a number of higher grade ore shoot. The pattern can be observed also on the surface when lines are traced from Bolivar to El Gallo and La Increíble to El Gallo. It is thought that the NW/SE fractures could have been feeders along which the mineralized fluid could have percolated.

### **Geology**

The mapping started in 2006 will continue and address the following points:

- Regional mapping of the El Gallo area, from the granodiorite to the UVG contact, between Increíble and El Val, at a scale of 1:2000, is of utmost priority at this moment. As mapping progresses, rock chip samples will be taken for economical geochemical analysis, as well as for geochemical research (whole rocks, major and trace element geochemistry, radio metric age determination);
- Detailed mapping of the various mineralized zones will take place at a scale of 1:200.
- Mapping the area north and northwest of Tiro de Bolivar is also very important as more potential targets for drilling should be identified in this area;
- Reconnaissance mapping southeast of El Val, using a helicopter for efficiency, will be done in order to identify and locate on a map skarn occurrences in the area. Identification of these areas will illustrate the significant exploration potential along the Bolivar trend.

### **Diamond Drilling**

A major drilling program has been undertaken which will focus on three different aspects of the exploration program. Drilling will aim firstly at defining resources, secondly to expand known resources and thirdly to explore for new ore-bearing structures.

The ore resource definition will be directed by Jacques Marchand, P. Eng., internal consultant to Dia Bras and a Qualified Person as defined by National Instrument 43-101, and the Company's mining exploration group.

The resource expansion program has been laid out to form a hexagonal pattern of 175 x 50 metres, to try to test maximum favourable geology, particularly in the Increíble and El Gallo area. This systematic drilling will allow the intercepting of ore-bearing and/or mineralized fracture zones which could, if deemed interesting, receive follow-up drilling.

The apparent strike and dip of the ore lenses envelope is generally 1070/330 while the general structures of the ore-bearing zones are mostly oriented at 3040 with a dip of 280. The structural pattern drawn from these observations corresponds basically to a lozenge with principal orientation NW-SE with a cross structure NNE-SSW. This structural trend can be observed both at the mine scale and on a more regional pattern. This pattern seems to control the mineralization in the Bolivar area and directly imposes the hexagonal drilling pattern.

To complement this program, short holes (<200 metres vertically) could be drilled to complete infill drilling of the lower skarn mineralization in the vicinity of El Gallo. These holes must be completed so that sufficient drill data is available to calculate the resource of the upper and lower skarn in this area.

Finally, the stratigraphic contact between the Lower Skarn Unit and the Granodiorite between El Gallo and El Val will receive a sufficient amount of drilling to demonstrate any potential. Drilling of 6-10 exploration holes along the El Val trend is the highest priority. The deep-drilling of El Val in the very near future and a series of holes stepped to the northwest at intervals of  $\pm 300$  metres will provide information on the depth to granite, alteration and/or mineralization of the upper and lower skarn units, and the thickness of the skarn/carbonate section.

Since January 2007, approximately 4605 metres of diamond core drilling has been performed: 1499 from underground and 3040 from surface.

Highlights came from the underground drilling in the newly discovered Selena Zone where drill hole DB07BM070 intersected 21.0 m grading 3.3% Cu and 22.3% Zn in the Fernandez trend. Furthermore, 4 holes intersected massive sulfide in the Rosario trend, where the best section returned 8 metres grading 33.8% Zn and 0.7% Cu. The Fernandez and Rosario lenses are part of the Upper Skarn Unit at Bolivar. More drilling results are expected in the next quarter.

## 1.5 SELECTED ANNUAL INFORMATION

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

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

## 1.6 RESULTS OF OPERATIONS

### **Corporate**

During the quarter, the Company moved its corporate head office in Montreal in order to facilitate overall operations and provide sufficient working space. During the first quarter ended March 31, 2007, the Company incurred a loss of \$1,423,231 (\$0.01 per share) compared with a loss of \$490,467 (<\$0.01 per share) for the three-month period ended March 31, 2006.

The important increase over the same period in 2006 is due to the change in accounting principles related to financial instruments. During the quarter, the Company recorded a loss on change in value of financial instruments of \$1,282,415 related to final settlement billings and provision change in value. Prior to January 1, 2007, any value changes at final settlement billing stage or final settlement provision revaluation were recorded as a sales adjustment. As the Company is applying sales of concentrate against the costs of exploration before commencement of commercial production, those changes did not have any affect on the results of operations.

Administrative expenses amounted to \$242,601 compared with \$127,682 for the three-month period ended March 31, 2006. This increase is explained by increased salaries and personnel, increased office expenses relating to the moving of premises, network and communication project expenses, increased tax on capital provision and travel expenses.

The loss includes a stock-based compensation non cash cost of \$41,994 relating to the accounting cost of options vested during the period (\$496,456 in 2006). During the period, only 40,000 options were granted compared with 2,700,000 in the same period last year.

The Company continued to be very active in promoting its activities and meeting with financial institutions throughout Canada and started activities in the United States, mainly New York and Boston. It participated in the PDAC International Mining Convention held in Toronto in March 2007 and will continue to be active in that area throughout the year. The investor relations and corporate development expenses amounted to \$99,607 during the quarter, a \$26,273 increase from last year.

All other corporate costs are consistent with last year's expenses and budget.

During the quarter, revenues from sales of concentrate from the pilot-mining program at Bolivar amounted to \$5.7 million. The program generated an operating cash flow of approximately \$1.4 million, which was used for exploration and capital expenditures as well as property payments.

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

In the first quarter ended March 31, 2007, the Company processed 30,014 DMT of material averaging grades of 6.77% Zn and 1.34% Cu, and produced 2,987 DMT of zinc concentrate and 1,172 DMT of copper concentrate for a total estimated production value of \$6.1 million (US\$5.2 million) compared with \$6.1 million (US\$5.3 million) in the first quarter of 2006. Total sales amounted to \$5.7 million compared with \$5.6 million in the same period of 2006. Operating cash costs amounted to \$4.5 million (US\$3.8 million) compared with \$2.75 million (US\$2.4 million) in the same quarter of 2006. The increase in costs is attributable mainly to an increased tonnage of material transported from the Bolivar site to Malpaso and new circuit start-up costs.

The grades obtained in the first quarter were below the forecast grades of 7.5% for Zn and 1.5% for Cu and below the grades from the same period of 2006 of respectively of 16.3% and 2.9% as the Company had entered at that period a very high grade zone and wanted to benefit from high metal prices to increase its cash position.

The Company is continuing to develop access to mineralization and has therefore processed, during the quarter, lower grade development material. The pilot-mining program is very sensitive to grades and metal prices. The Company is following closely the average *in situ* value of material in order to ensure the appropriateness of transporting lower grade material. Management is looking at procedures to reduce the volume of material transported, by screening out lower grade material on site in order to avoid dilution of material.

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

## 1.7 SUMMARY OF QUARTERLY RESULTS

<b>Quarter ended</b>	<b>Loss \$</b>	<b>Loss per share \$</b>
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
December 31, 2005	1,287,232	0.02
September 30, 2005	471,501	< 0.01
June 30, 2005	337,432	< 0.01

## 1.8 LIQUIDITY

As at March 31, 2007, the Company has a working capital of \$22,612,768 including \$16,274,172 in cash and cash equivalents compared with \$27,735,607 as at December 31, 2006, including \$19,704,587 in cash and cash equivalents. This level of working capital is adequate to support the current level of operations and the exploration program for 2007.

As at March 31, 2007, sales tax and other receivables amount to \$3,254,632 (\$3,981,826 as at December 31, 2006) and are mostly comprised of Mexican recoverable input tax credits. The Company is still facing delays in recovering the IVA (local sales tax) mostly from 2005. As at March 31, 2007, no allowance has been taken with respect to any of the amounts receivable.

Receivables of \$927,697 (\$3,347,046 as at December 31, 2006) include a negative provision for final settlement billings of (\$261,764) due the decrease in price of metal in the first quarter which impacted on the final settlement provision estimate as at March 31, 2007 (\$1,778,363 as at December 31, 2006). The actual final billing could be higher or lower depending on the fluctuation of commodity prices.

Accounts payable and accrued liabilities amount to \$1,352,900 (\$830,978 as at December 31, 2006) and are mainly comprised of current usual business transaction balances. A provision in the amount of \$50,000 for leasehold improvement has been recorded in the waiting of final invoice.

## 1.9 CAPITAL RESOURCES, INVESTING AND FINANCING ACTIVITIES

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

During the three-month period ended March 31, 2007, the Company did not complete any private placement. An amount of \$218,000 was raised from the exercise of 374,750 stock purchase options.

The pilot-mining program generated sales of \$5.7 million and cash flow of \$1.6 million of which positive cash flow was used in the development of the Bolivar property and to fund its exploration program.

During the quarter, the Company invested \$2.8 million in capital expenditures including \$2.7 million in machinery and equipment.

## 1.10 FINANCIAL COMMITMENTS

The Company's financial commitments are as follows:

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

Year	Amount US\$
Remaining 2007	2,535,000
2008	2,250,000
2009	2,562,500

## 1.11 OFF-BALANCE

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

## 1.12 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.

## 1.13 NEW ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

### **Financial Instruments – Comprehensive income**

Effective January 1, 2007, Dia Bras Exploration Inc. adopted the new Canadian Institute of Chartered Accountants (“CICA”) handbook sections accounting related to Financial Instruments Section 1530, “Comprehensive Income”, Section 3251 “Equity”, and Section 3855 “Financial Instruments-Recognition and Measurement”.

#### **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.

#### **Section 3855 “Financial Instruments-Recognition and Measurement”**

One of the basic principles of Section 3855 is that fair value is the most relevant measure for financial instruments.

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).

Financial liabilities, which include long-term debt and other similar instruments, must be accounted for at amortized cost, except for those classified as held for trading, which must be measured at fair value.

Sales of concentrate: Effective January 1, 2007, final settlement billings adjustments are recorded in the Consolidated Statements of Operations and Deficit instead of an adjustment to sales of concentrate which before commencement of commercial production is recorded as a reduction of the related deferred exploration expenses.

Variation of the value of provision for final settlement due to commodity prices and exchange rate changes are also recorded in the Consolidated Statements of Operations and Deficit.

#### 1.14 CRITICAL ACCOUNTING POLICIES

##### **Financial Instruments-Recognition and Measurement**

Refer to section 1.13 above.

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

##### **Use of estimates**

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

##### **Mining assets**

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

##### **Costs and deferred exploration expenses**

Costs and exploration expenses are deferred until the economic viability of the project has been established, at which time costs are added to property, plant and equipment. Costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available for development over a period of three consecutive years or results from exploration work not warranting further investment.

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

Revenue from sales of concentrate from a pilot-mining program prior to commencement of commercial production is recorded as a reduction of the related costs and deferred exploration expenses and is recognized when the following conditions are met:

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

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

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

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

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

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

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

### **Asset retirement obligations**

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

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

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

## **1.15 FINANCIAL INSTRUMENTS AND OTHER**

The Company does not use financial or other instruments.

## 1.16 RISK AND UNCERTAINTIES

### **Business risk**

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

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

### **Land title**

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

### **Capital needs**

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

### **Regulation and environmental requirements**

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

### **Commodity prices**

The Company is exposed to commodity price risk for variations in concentrate prices, as final prices are determined by quoted market price in a period subsequent to the date of sale. The Company does not use derivative instruments to mitigate this risk.

### **Uninsured risks**

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

### **Foreign exchange risk**

The Company's sales of concentrate and part of its purchases are denominated in foreign currencies, primarily in U.S. dollars and Mexican pesos. Consequently, certain assets and liabilities, namely cash and cash equivalents, receivables, sales tax and other receivables, accounts payable and accrued liabilities, as well as certain revenues and expenses, include amounts that are exposed to currency fluctuations.

## **Credit risk**

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

## **Interest rate risk**

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

## **1.17 OUTLOOK**

The Company will continue its exploration program on both the Bolivar and Cusi projects which will include a 50,000-metre drilling campaign (25,000 on each project), data compilation, surface and underground geological mapping, and geochemical sampling. Additional results should be obtained and disclosed in the upcoming quarter.

Bulk sampling analysis of Cusi project material has just begun and will amplify in the next few weeks.

The Company will continue to face challenges such as the understanding of the different geological structures and wide exploration surface at Cusi.

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

The objectives for 2007 are as follows:

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

## **1.18 CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes in the Company's internal control over financial reporting that have occurred during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## 1.19 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 \$	Cusi \$	Promontorio \$	For the three-month period ended March 31, 2007 Total \$	For the year ended December 31, 2006 Total \$
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	44,140	-	-	44,140	3,491,849
Sampling	45,275	133,027	-	178,302	393,403
Geology consulting and management	255,469	278,770	-	534,239	1,361,780
Geophysical survey	-	-	-	-	6,915
Drilling and mining development	861,307	1,302,209	-	2,163,516	5,863,818
Pilot milling	1,440,774	-	-	1,440,774	3,538,455
Supervision and local administrative costs	134,844	73,092	-	207,936	1,341,295
Transportation costs	2,576,020	73,007	-	2,649,027	6,969,213
Roads	-	26,069	-	26,069	15,993
Camp costs and food	516,119	165,936	-	682,055	1,430,355
Capitalized amortization of exploration buildings and equipment	576,912	138,908	-	715,820	1,686,739
Stock-based compensation costs	12,037	4,110	-	16,147	1,001,173
	6,462,897	2,195,128	-	8,658,025	27,100,988
Write-off of mining assets – Costs and deferred exploration expenses					(147,635)
Sales of concentrate	(5,696,533)	-	-	(5,696,533)	(35,588,838)
	766,364	2,195,128	-	2,961,492	(8,635,485)
Transfer to (from) excess cost recovery – pilot mining	(722,224)	-	-	(722,224)	6,770,293
	44,140	2,195,128	-	2,239,268	(1,865,192)
<b>Balance – End of period</b>	<b>3,329,932</b>	<b>9,383,561</b>	<b>1,197,930</b>	<b>13,911,423</b>	<b>11,672,155</b>

(ii) NATIONAL INSTRUMENT 51-102 – SECTION 5.4

Disclosure of outstanding securities as at May 30, 2007

Common shares: 110,288,655

Warrants: nil

Compensation options: (Each compensation option entitles its holder to purchase one common share of the Company at the price of \$1.00 until August 16, 2007): 871,500

Options outstanding: 9,949,583

Number of options	Exercise price \$	Expiry date
600,000	0.85	October 2008
930,000	0.75	August 2009
500,000	0.75	February 2010
1,453,333	0.30	September 2010
125,000	0.22	September 2010
2,606,250	0.40	February 2011
1,920,000	0.90	September 2011
40,000	0.98	January 2012
1,775,000	1.10	April 2012

# Corporate Information

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Robert D. Hirsh

Philip Renaud

André St-Michel

## OFFICERS

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Executive Chairman

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

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

François Auclair  
Vice-President, Exploration

Leonard Teoli, C.A.  
Chief Financial Officer

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