



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2008

# MANAGEMENT'S DISCUSSION AND ANALYSIS

May 30, 2008

This Management's Discussion and Analysis ("MD&A") supplements the unaudited consolidated financial statements and related notes of Dia Bras Exploration Inc. ("Dia Bras" or the "Company") for the three-month period ended March 31, 2008 and follows rule 51-102A of the Canadian Securities Administrator regarding continuous disclosure for reporting issuers. Therefore, it should be read in conjunction with those financial statements and related notes as at March 31, 2008. Additional information relating to Dia Bras is also available on SEDAR at [www.sedar.com](http://www.sedar.com). 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.

## 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.

## NOTE TO READERS

Until it can be 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.

## CORPORATE OVERVIEW AND BUSINESS

Headquartered in Montréal, Canada, Dia Bras focuses on the exploration and development of silver, copper, lead and zinc properties throughout its combined 17,850 hectares in the states of Chihuahua and Jalisco, Mexico. Two of the Company's projects, Bolivar and Cusi ("Cusi"), are located in the Sierra Madre Occidental mountains of northwestern Mexico and within transport distance to its Malpaso Mill. Dia Bras' Malpaso Mill can process up to a capacity of 850 tonnes per day ("tpd") with potential for 1,350 tpd. In addition to Bolivar and Cusi, Dia Bras has also signed an option to acquire the La Engaños property in Jalisco, Mexico.

## FIRST QUARTER 2008 HIGHLIGHTS

- » Updated resource estimate at Bolivar: total of 945,400 tonnes at 2.72% CuEq in the Measured and Indicated categories and more than 4.0 Mt at 1.84% CuEq in the Inferred category, all at a 2.5% CuEq cut-off for the upper skarn and 1% CuEq cut-off for the lower skarn (see press release March 3, 2008);
- » Sales of approximately \$6.6 million at Bolivar III and IV ("Bolivar Mine property") from pilot mining, a 16% increase compared with \$5.7 million in the corresponding period of 2007;
- » Operating cash costs per dry metric tonne of US\$95.56 (see Non-GAAP measured), representing 21% decrease from US\$121.97 for the same period last year;
- » Acquisition of an option on the La Engaños property in the Jalisco State of Mexico, which has an historical resource (non-NI43-101 compliant) of 1 Mt and has averaged 1.2% Cu and 51 g/t Ag – with potential to hold a copper-silver ore body amenable to easy open pit mining;
- » 6,172 metres of drilling at Bolivar and 6,476 in Cusi, for a total of 12,645.5 metres, on target after the first quarter to reach 35,000 – 40,000 metres of drilling in 2008;

Subsequent to quarter end, on May 1, 2008, the Company received its first Mineral Resource estimates for Santa Edwiges and Promontorio sectors of the Cusi silver district: 2.12 M oz AgEq in the Measured and Indicated categories and 14.6 M oz AgEq in the Inferred category.

## OVERALL PERFORMANCE – FIRST QUARTER 2008

### EXPLORATION, PILOT MINING AND MINING DEVELOPMENT ACTIVITIES- FIRST QUARTER 2008

#### **Bolivar Project**

The Bolivar project is situated in the Piedras Verdes mining district of Chihuahua, approximately 250 km southwest of the city of Chihuahua, the capital of the state of Chihuahua in northern Mexico and, more specifically, approximately 10 kilometres southwest of Urique. It includes three units of exploration properties: the Bolivar, Mezquital and San José groups, which comprise 17 mineral concessions that cover approximately 7,460 hectares.

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

#### **Bolivar III and IV (Bolivar Mine Property) Option Agreement**

In 2004, the Company entered into a commercial agreement with the owners of Bolivar III and Bolivar IV (“the Bolivar Mine property”). The agreement provided for the acquisition by the Company of 100% of the Bolivar Mine property for a consideration of US\$1,200,000. In October 2007, the Company entered into a termination and transfer of rights agreement in reference to the commercial agreement and, upon signature, made a payment of US\$166,250. As at March 31, 2008, an amount US\$28,125 remains to be paid.

As at March 31, 2008, 50% interest is registered into the name of the Company and 50% is still registered under the name of Javier Bencomo Munoz and in process of registry under the name of the Company before the Public Mining Registry.

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, Bolivar III and IV (the Bolivar Mine property), entered into between DBM and Mr. Javier Octavio Bencomo Muñoz and Minera Senda de Plata, S.A. de C.V. Following the notification of said claim against DBM, a defense was filed based on the questionable legal standing of the claimant to file a lawsuit on behalf of the former owner. Although there can be no assurance regarding the outcome of such proceeding, management and its external legal advisors believe that, as the claimant purports the annulment and revocation of the purchase contracts, it will have no significant effects in the financial condition or results of operation of DBM. The remote success of such legal proceedings could result in an impairment of the value of the Bolivar Mine property (refer to note 20 on contingency in the 2007 year-end audited consolidated financial statements).

#### **La Chaparrita**

In January 2008, the Company entered into a right purchase agreement with Minera Senda de Plata regarding the La Chaparrita property covering 10.0 hectares adjacent to the Bolivar III and IV concessions (the Bolivar Mine property) for a total amount of US\$85,000 to be paid as follows:

- US\$15,000 at the date of signing (paid)
- US\$15,000 in July 2008
- US\$55,000 in January 2009

As at March 31, 2008, the total amount of US\$70,000 is included in accounts payable and accrued liabilities.

#### **Bolivar**

In January 2008, the Company entered into a right purchase agreement with the Fernandez Group regarding the Bolivar property covering 63.56 hectares adjacent to the Bolivar III and IV concessions (the Bolivar Mine property) for a total amount of US\$85,000 to be paid as follows:

- US\$15,000 at the date of signing (paid)
- US\$15,000 in July 2008
- US\$55,000 in January 2009

As at March 31, 2008, the total amount of US\$70,000 is included in accounts payable and accrued liabilities.

## Bolivar Project 2008 Exploration Program

A budget of US\$2.5 million is forecasted in 2008, and exploration efforts will be focused in three areas with a view to accelerate the feasibility study. 20,000 metres of drilling are planned at Bolivar as detailed below. The program at Bolivar has the objective to deliver sufficient resources in the Measured and Indicated categories to allow for a positive feasibility study to be undertaken in the third quarter of 2008. The view of assessing the construction of a mill on site at Bolivar has been addressed by the Company since the acquisition of the property and the inception of pilot-mining activities in 2005; the 2008 exploration program is very important for achieving that goal.

### 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 favourable 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 Exploration Q1-2008

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

#### Notes:

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

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

Drilling is focused on three main areas: the Bolivar Mine property (Alta Ley), the El Gallo zone and the La Montura trend. At the mine, more than 1,807 metres of underground and 1,009 metres of surface drilling was performed, mostly in the Selena and Titanic zone to delineate more resources, and in the San Francisco area, an undeveloped area situated some 300 metres south of the main mine area.

In the El Gallo area, 1,259 metres of drilling was completed, mostly to upgrade the inferred resources to Measured and Indicated categories. The Company continues to have success in the El Gallo area and announced the highest grade ever in this area of Cu-Au intersected in hole DB08B240, which intersected 7.5 metres of 4.53% Cu, 3.75 g/t Au and 383 g/t Ag, including a 4-metre section averaging 6.1% Cu, 6.78 g/t Au and 644 g/t Ag (press release of April 8, 2008).

In the La Montura trend, a further 1,035 metres of surface drilling has been completed to further define the favourable upper and lower skarn horizons and initiate a potential resource evaluation of this area.

| Area                     | Metres Drilled |              |              | Total        |
|--------------------------|----------------|--------------|--------------|--------------|
|                          | January        | February     | March        |              |
| San Francisco            | 147            | 123          | 214          | 484          |
| Selena                   | 387            | 318          | -            | 705          |
| Titanic                  | -              | 202          | 416          | 618          |
| <b>Total Underground</b> | <b>534</b>     | <b>643</b>   | <b>630</b>   | <b>1,807</b> |
| Bolivar Alta Ley         | 509            | 386          | 114          | 1,009        |
| El Gallo                 | 248            | 484          | 527          | 1,259        |
| El Val                   | -              | 135          | 726          | 861          |
| La Increíble             | -              | -            | 201          | 201          |
| La Montura               | -              | -            | -            | -            |
| La Narizona              | 363            | 672          | -            | 1,035        |
| La Pequeña               | -              | -            | -            | -            |
| <b>Total Surface</b>     | <b>1,120</b>   | <b>1,677</b> | <b>1,568</b> | <b>4,365</b> |
| <b>Total</b>             | <b>1,654</b>   | <b>2,320</b> | <b>2,198</b> | <b>6,172</b> |

#### **Bolivar III and IV (Bolivar Mine Property) Pilot-mining Program**

During the first quarter of 2008, the Company processed 32,595 tonnes of material from the Bolivar Mine property averaging grades of 2.35% Cu and 7.26% Zn, producing 2,249 DMT of copper concentrate and 3,448 DMT of zinc concentrate compared with 30,014 tonnes of material processed, with average grades of 1.34% Cu and 6.77% Zn, producing 1,172 DMT of copper concentrate and 2,987 of zinc concentrate for the same period in 2007.

First quarter production value amounted to US\$6.9 million, a 32.69% increase over last year's corresponding period of \$5.7 million. The increase in production value compared to the first quarter of 2007 is mostly attributable to higher copper grades, the strong performance of copper market prices and increased mill throughput. Increased production value from higher zinc grades compared to last year's period was offset by the decrease in zinc market prices during that period.

A summary of comparative statistics for 2008 and 2007 is shown in the table below.

### Bolivar Pilot Mining / Summary of the First Quarter 2008

|                                                                            | Forecast<br>Q1-2008 | Actual<br>Q1-2008 | Actual<br>Q1-2007 | %<br>Variation<br>2008 over<br>2007 |
|----------------------------------------------------------------------------|---------------------|-------------------|-------------------|-------------------------------------|
| Tonnes processed                                                           | 32,000              | <b>32,595</b>     | 30,014            | <b>8.60</b>                         |
| Daily throughput                                                           | 366                 | <b>373</b>        | 343               | <b>8.75</b>                         |
| Copper grade                                                               | 1.40%               | <b>2.35%</b>      | 1.34%             | <b>75.37</b>                        |
| Zinc grade                                                                 | 8.00%               | <b>7.26%</b>      | 6.77%             | <b>7.23</b>                         |
| Copper recovery                                                            | 82.00%              | <b>88.33%</b>     | 81.62%            | <b>8.22</b>                         |
| Zinc recovery                                                              | 88.00%              | <b>80.81%</b>     | 84.61%            | <b>(4.49)</b>                       |
| Copper concentrate production DMT                                          | 1,355               | <b>2,249</b>      | 1,172             | <b>91.89</b>                        |
| Zinc concentrate production DMT                                            | 3,949               | <b>3,448</b>      | 2,987             | <b>15.43</b>                        |
| Total production of copper (pounds)                                        | 806,560             | <b>1,479,684</b>  | 722,259           | <b>104.86</b>                       |
| Total production of zinc (pounds)                                          | 4,962,446           | <b>4,391,251</b>  | 3,788,150         | <b>15.92</b>                        |
| Average price of copper per pound, US\$                                    | \$2.80              | <b>\$3.45</b>     | \$2.69            | <b>31.59</b>                        |
| Average price of zinc per pound, US\$                                      | \$1.00              | <b>\$1.08</b>     | \$1.57            | <b>(31.21)</b>                      |
| (in US\$ millions)                                                         |                     |                   |                   |                                     |
| Total net smelter production value <sup>(1) (2) (3)</sup>                  | \$5.3 M             | <b>\$6.9 M</b>    | \$5.2 M           | <b>32.69</b>                        |
| Direct operating cash costs (including development) <sup>(1) (2) (3)</sup> | \$3.1 M             | <b>\$3.1 M</b>    | \$3.7 M           | <b>(13.5)</b>                       |
| Direct operating cash margin (FOB Malpaso mill) <sup>(1) (2) (3)</sup>     | \$2.2 M             | <b>\$3.8 M</b>    | \$1.5 M           | <b>146.66</b>                       |
| Operating cash costs/DMT (including development) <sup>(1) (2) (3)</sup>    | \$98.00             | <b>\$95.59</b>    | \$121.97          | <b>(20.80)</b>                      |

- (1) Non-GAAP measures: The Company reports net smelter production value (net of treatment and refining charges), direct 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.
- (2) Net smelter production value is calculated using quarterly average current metal prices which may be different from final prices.
- (3) Before amortization

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 sales during the quarter amounted to US\$6.62 million (US\$5.69 million in the corresponding period of 2007). Total provisional billings to MRI during the quarter amounted to US\$6.9 million.

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.

### Cusi Project

The history of the Cusi silver district spans three hundred-plus years. The abundance of silver initially attracted fortune hunters to Cusi in the late 1600s, and this centrally located district has allowed Mexico to control approximately 33% of the world's silver production. These former mines historically produced high-grade silver but became inactive during 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 Cusi project is subject to different purchase and option agreements all entered into in 2006, including the Minera Cusi agreement on which related properties' exploration expenditures were incurred during the first quarter of 2008 and the Pershimco Option Agreement.

## 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\$3,000,000 remained to be paid, at the option of the Company, as at March 31, 2008.

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. Those amounts are not included in accounts payables and accrued liabilities as at March 31, 2008, but are included since the date of this agreement and will, therefore, be part of accounts payable in the second quarter of 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.

## 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. The Company has earned a 50% interest in the project. Transfer of title remains in process. In April 2008, the Company and Pershimco have agreed to terms of a joint venture agreement.

## Cusi Exploration – Q1-2008

The objectives of 2008 are twofold: 1) define a large silver resource within the Cusi silver mining camp, and 2) identify sufficient Measured and Inferred resources at Santa Edwiges and Promontorio to begin a pilot-mining program in 2008.

## Regional Mapping

A regional mapping, prospecting and sampling program in the southern part of the Cusi property was initiated in the first quarter of 2008. The objectives were to define a zone of potential economic mineralization in silver and follow up with a limited drilling program. The exploration group evaluated a number of historical mineralized and mined areas – including La Reina, Princesa and Coyotes. Results will be announced in the second quarter of 2008.

## Cusi 2008 Exploration Program and Development Activities

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.

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 was released.

## Drilling

From January to March 2008, 6,476 metres of diamond core drilling was performed on the Cusi project (4,467 m from surface and 2,009 m from underground).

| Metres Per Zone      | January      | February     | March        | Total        |
|----------------------|--------------|--------------|--------------|--------------|
| Santa Edwiges Sector | 422          | 792          | 795          |              |
| Total Underground    | 422          | 792          | 795          | 2,009        |
| Promontorio Sector   | 920          | 789          | 126          | 1835         |
| Santa Edwiges Sector | 601          | 394          | 0            | 995          |
| Santa Marina         | 176          | 521          | 376          | 1,073        |
| Minerva              | 0            | 40           | 524          | 564          |
| Total Surface        | 1,697        | 1,744        | 1,026        | 4,467        |
| <b>Grand Total</b>   | <b>2,119</b> | <b>2,536</b> | <b>1,821</b> | <b>6,476</b> |

The highlights of the exploration program came from the publication of the first NI43-101-compliant resources estimates for two of the most promising sectors of the Cusi camp, the Santa Edwiges and Promontorio areas. These numbers are very promising, as only two of the known twelve mineralised areas have been included in the resource calculation, leaving a tremendous upgrade potential.

| <b>Resources - Total of Promontorio and Santa Edwiges</b><br><i>Calculated by Yann Camus, Eng., Geostat Systems International Inc.,</i><br><i>Resource situation on 2008-03-31</i><br><i>Cutoff at 120 g/t AgEq, 2 m minimum horizontal width for structures, density of 2.7</i> |                  |             |            |             |             |             |             |                  |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------|------------|-------------|-------------|-------------|-------------|------------------|-------------------|
| Classification                                                                                                                                                                                                                                                                   | Tonnes           | Au (g/t)    | Ag (g/t)   | Cu (%)      | Pb (%)      | Zn (%)      | AgEq* (g/t) | Oz of Ag         | Oz of AgEq        |
| Measured                                                                                                                                                                                                                                                                         | 11,000           | 0.05        | 207        | 0.04        | 0.47        | 0.51        | 263         | 76,380           | 96,650            |
| Indicated                                                                                                                                                                                                                                                                        | 223,000          | 0.12        | 186        | 0.05        | 0.81        | 0.84        | 282         | 1,336,870        | 2,024,500         |
| <b>Measured+Indicated</b>                                                                                                                                                                                                                                                        | <b>234,000</b>   | <b>0.12</b> | <b>187</b> | <b>0.05</b> | <b>0.80</b> | <b>0.82</b> | <b>281</b>  | <b>1,413,260</b> | <b>2,121,160</b>  |
| <b>Inferred</b>                                                                                                                                                                                                                                                                  | <b>1,394,000</b> | <b>0.24</b> | <b>188</b> | <b>0.06</b> | <b>1.15</b> | <b>1.14</b> | <b>326</b>  | <b>8,434,810</b> | <b>14,614,410</b> |

\*: Silver Equivalent  $AgEq = Ag + 70.1 * Au + 62.2 * Zn + 43.3 * Pb$

#### Notes:

1. CIM Definitions were followed for the resource estimate.
2. A minimum width of 2 m was used for a mineralized zone.
3. Densities of mineralized rock are indicated in the tables.
4. Equivalent Ag grades and contained ounces were estimated based on gold, silver, lead and zinc plant recoveries as per the most recent metallurgical test work and smelter terms.
5. Mineral resources that are not mineral reserves do not have demonstrated economic viability.
6. Price assumptions used for the AgEq calculation (US\$): Ag 11.00/oz, Au 600.00/oz, Cu 2.00/lb, Zn 1.00/lb, Pb 0.65/lb.

#### Santa Edwiges (Refer to the Minera Cusi Agreement)

From January to March 2008, 4,077 metres of core diamond drilling (surface and underground) was performed, as well as the development of more than 160 metres of the 303 ramp which should allow access to a mineralized zone containing possibly up to 40,000 tonnes of economic (Pb-Zn-Ag) material known as the Santa Rosa chimney. This zone has been intersected by a number of surface and underground drill holes (including hole DC07B091).

#### Promontorio Mine (Refer to the Minera Cusi Agreement)

From January to March 2008, 1,835 metres of surface drilling was performed in this area, as well as close to 100 metres of ramp advance towards both the El Gallo vein and the Veta A vein. The dewatering of the main shaft continued with the water level brought down to the 7th level and more underground mapping and sampling to assess the potential of the 7th level area.

#### Cusi Metallurgical Study

During the first quarter of 2008, batch test samples were sent to San Luis Potosi University for metallurgical testing. The study is headed by Dr Alejandro Lopez Valdivieso (Ph.D. Minerals Engineering, UC Berkeley and M.Sc.A. Metallurgy, South Dakota School of Mines) and Mr. Ruben Tello Flores, Metallurgist.

This program was initiated for Santa Edwiges and includes mineralogical studies and flotation tests to obtain both a silver-lead concentrate and a zinc concentrate. The first results from the flotation tests are very promising. They indicate that it is feasible to produce a lead concentrate with 60% Pb and 1 kg / ton Ag with a recovery of 75% for lead and 70% for silver and also to produce a zinc concentrate with 55% Zn with low levels of lead and iron for a zinc recovery of 70%. This metallurgical study is continuing to improve recoveries for silver, lead and zinc.

In respect to Promontorio, metallurgical testing is in process to obtain silver concentrate.

## **La Engañoso Property**

In February 2008, the Company entered into an option agreement with Arnoldo Castañeda Martínez and Consorcio Minero Latinoamericano, S.A. de C.V. ("Martinez-Consorcio Minero") whereby it can earn a 100% interest in the La Engañoso property by paying a total amount of US\$1,265,000 of which US\$65,000 was paid at the date of signature and the remaining option balance of \$1,200,000 to be paid as follows:

US\$75,000 in August 2008,

US\$75,000 in February 2009,

US\$150,000 in August 2009,

US\$200,000 in February 2010,

US\$300,000 in August 2010,

US\$400,000 in February 2011,

and incurring minimum exploration expenditures of \$308,370<sup>(1)</sup> (US\$300,000) per year over the same three-year period.

The last four payments totalling US\$1,050,000 could be converted (at the option of Martinez-Consorcio Minero), into common shares of the Company if the shares trade at or higher than \$1.25. 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.

## **RESULTS OF OPERATIONS FIRST QUARTER 2008 VS 2007**

During the quarter ended March 31, 2008, the Company realized a profit of \$780,010 (\$0.01 per share) compared with a loss of \$1,423,231 (\$0.01 per share) in 2007.

The period results are explained as follows:

### **Income**

Interest income amounted to \$43,705 compared with \$109,892 in 2007. This decrease in interest revenue is due to a lower average level of cash on hand in 2008 compared to 2007.

### **Expenses**

#### **Administrative**

Administrative expenses totalled \$606,879 compared with \$517,252 for the three-month period ended March 31, 2007. This increase is explained by increased management salaries not capitalized to mining assets (\$62,655), payment and accrual for termination payments totalling \$149,248 (nil in 2007), increased corporate office salaries for \$19,267 and increased lease operating expenses at the Montreal corporate office for the first quarter of 2008 in the amount of \$35,618. During 2007, the Company moved offices and benefited from free rent over a six-month period; however, the Company had incurred additional office expenses. Other office expenses and administrative travel were down \$89,363 compared to 2007.

Consulting fees increased by \$24,750 compared to 2007 due to additional services provided in 2008.

Business development expenses amounted to \$52,240 compared with \$137,038 in the first quarter of 2007, as the Company reduced investor relations consulting activities and participated in fewer industry events.

#### **Other**

Corporate expenses were consistent with the same period in 2007 and included directors' fees amounting to \$27,750 (nil in Q1-2007).

During the quarter, the Company did not account for any stock-based compensation cost since no options were granted nor vested during the period. In the first quarter of 2007, those costs amounted to \$58,141 including \$16,147 capitalized to mining assets and the balance of \$41,994 recorded in the Consolidated Statements of Operations and Deficit.

During the quarter, due to the increased market price of copper, the Company recorded a gain on the variation of commodity market prices of \$1,373,705 related to final settlement billings and unsettled shipment provision change in value during the quarter, compared with a loss of \$1,282,415 in the same period of 2007.

During the period, the Company recorded a non-cash loss on change in value of the temporary investment in Pershimco Resources Inc. of \$66,800 compared to a non-cash gain of \$110,500 in 2007. The Company still owns 835,000 common shares of Pershimco that are stated at fair market value.

During the three-month period ended March 31, 2008, the Company recorded a gain on currency exchange of \$91,199 (loss of \$146,007 in 2007). This gain is mainly attributable to the conversion into Canadian currency of the monetary assets and liabilities in Mexico and on final billings and outstanding negative final settlement provision, as both the U.S. dollar and Mexican peso gained value over the Canadian dollar.

## SUMMARY OF QUARTERLY RESULTS

| Quarter Ended      | Profit (Loss) | Basic and Diluted<br>Loss Per Share |
|--------------------|---------------|-------------------------------------|
|                    | \$            | \$                                  |
| March 31, 2008     | 780,010       | 0.01                                |
| 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)                            |

## LIQUIDITY AND WORKING CAPITAL

As at March 31, 2008, the Company's working capital amounted to \$5,369,001, including \$3,737,076 in cash and cash equivalents, compared with \$6,137,120 as at December 31, 2007, including \$6,700,016 in cash and cash equivalents.

Decrease in cash compared to December 31, 2007 is mainly due to the settlement of negative final billing with MRI Trading amounting to \$1.5 million and investment in mining assets of \$8,309,616 including exploration program and property payments. Capital expenditures amounted to \$389,662. The liquidity and working capital are sufficient to meet current liabilities and to support current operations.

As at March 31, 2008, sales tax and other receivables amounted to \$2,075,558 (\$1,609,506 as at December 31, 2007) and are mostly comprised of Mexican recoverable Value Added Tax credits "IVA". Income taxes receivable in the amount of \$799,476 (\$722,515 as at December 31, 2007) represents 2007 provisional tax instalments receivable from the Mexican tax authorities. As at March 31, 2008, no allowance was taken with respect to any of the amounts receivable. Income taxes receivable is expected to be received during the third quarter of 2008.

As at March 31, 2008, accounts payable and accrued liabilities amounted to \$2,917,683 (\$2,254,123 as at December 31, 2007) which represents mostly current usual business transaction balances and unpaid provision of approximately \$410,000 including \$307,000 from year-end 2007. The increase in accounts payable is also due to property purchase agreements entered into in the first quarter of 2008 of which \$140,000 is included in accounts payable and accrued liabilities as at March 31, 2008.

As at March 31, 2008, and included in working capital, the Company has a net **receivable** position of \$1,359,489 with MRI Trading, (**payable** of \$1,368,164 as at December 31, 2007, resulting from a reduction of metal prices in November and December 2007 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.

## 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 yet considered as being at the commercial production stage.

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

- (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) Explore region adjacent to the Bolivar Mine property and Santa Edwiges (Cusi) sector;
- (3) Mine development; and
- (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 periodically reassess 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 require accessing capital markets.

During the first quarter of 2008, the Company did not complete any private placement (nil in 2007). 40,000 stock options were exercised for a total cash consideration of \$12,000 (374,750 stock options for \$218,000 in 2007).

The pilot-mining program generated sales of \$6.6 million (\$5.7 million in 2007) and cash flow of approximately \$3.8 million (\$1.5 million in 2007) which was used in the exploration program and other project related costs in Mexico.

### **Capital Expenditures, Deferred Exploration Expenses and Property Payments**

Capital expenditures in 2008 amounted to \$0.3 million and consisted of machinery and equipment at the project mill site, compared with 2007 capital expenditures of \$2.8 million and \$2.7 million in machinery and equipment. Other mining asset expenses amounted to \$8,309,616 compared with \$6,998,138 in the same period of 2007. This increase is due to important purchases of spare parts for the mill, chemicals, fuel and explosives in the first quarter of 2008.

Currently, 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, environmental capital expenditure investment at Malpaso and the purchase of the Malpaso land for a total expenditure of approximately \$1 million.

Property payments in the first quarter amounted to approximately \$259,550 (\$43,150 in 2007), including \$64,789, \$85,089 and \$85,076, respectively, for the newly acquired La Engaños, Bolivar and La Chaparrita properties.

### **Long-term Debt**

Following the new agreement entered into with Minera Cusi in April 2008, the Company has an obligation of US\$2,560,000 including US\$2,060,000 payable in 2009 which will be reflected in the consolidated financial statements of the second quarter of 2008.

## 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;
- (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 subleased until the end of the lease;
- (c) In January 2008, the Company entered into an 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);

(d) 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 favour of the Company in the amount of US\$500,000 to secure any potential obligation for the Company. On May 20, 2008, the amount due pursuant to the financial lease totalled \$135,703 and represented the maximum potential exposure for the Company under this agreement. The Balance outstanding under the advance is approximately US\$65,305. 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 March 31, 2008 (nil as at December 31, 2007); and

(e) 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 March 31, 2008, no provision is recorded in accounts payable and accrued liabilities.

To exercise its various options on the mining properties, the Company's option payments and exploration expenses would be as follows:

| Year | Option Payments | Exploration Expenses | Total   |
|------|-----------------|----------------------|---------|
|      | \$              | \$                   | \$      |
| 2008 | 136,839         | 308,370              | 445,209 |
| 2009 | 344,347         | 308,370              | 652,717 |
| 2010 | 513,950         | 308,370              | 822,320 |
| 2011 | 411,160         | -                    | 411,160 |

NOTE: Those amounts exclude payments and expenses relating to the San José property since the decision to abandon the project was taken during May 2008.

#### OFF-BALANCE SHEET ARRANGEMENT

During the period, the Company did not enter into any off-balance sheet arrangement.

#### SUBSEQUENT EVENT

On May 30, 2008, the Company decided to abandon the San José properties covering 823.16 hectares in Chihuahua, Mexico. Consequently, all costs and deferred exploration expenses accumulated on the related mining concessions as at that date amounting to approximately \$890,000 will be written off in the second quarter of 2008.

#### RELATED PARTY TRANSACTIONS

During the first quarter of 2008, 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.

#### NEW ACCOUNTING STANDARDS

Effective January 1, 2008, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") handbook sections as follows;

Section 3862, "Financial Instruments – Disclosures"; Section 3863, "Financial Instruments – Presentation"; Section 1535, "Capital disclosures"; Section 1400, "General Standards of Financial Statement Presentation; Section 3031 "Inventories" replaces the existing section 3030.

- (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 the entity is exposed and how the entity manages those risks.
- (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".
- (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.
- (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. 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.

## CRITICAL ACCOUNTING POLICIES

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

This represents a critical accounting policy since it has an impact on the consolidated financial statements, given the embedded derivative included in the sales agreement for concentrate is 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 Income (Loss) and Deficit.

### **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: 1) no financial resources are available for development in areas of interest for three consecutive years or 2) exploration results do not warrant 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 Income (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 Income (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 6 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.

#### **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.

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

Other than the temporary investments and the guaranty, 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.

### **RISK AND UNCERTAINTIES**

#### **Business Risks**

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 of 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 9 and 20 of the three-month period ended March 31, 2008, unaudited interim 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.

#### **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.

## OUTLOOK AND OBJECTIVES

### **2008 OBJECTIVES REMAIN AS FOLLOWS:**

- » Pursue aggressive exploration program to expand and upgrade current resources at Bolivar;
- » Continue exploration to increase the first resource estimate at Cusi;
- » Conduct metallurgical testing at Cusi 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 Engañoso;
- » 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;
- » Drill a combined 35,000 metres at Bolivar and Cusi;
- » Conduct blue sky exploration outside Bolivar and Cusi mining areas; and
- » Maintain cost improvement program in all areas of the Company.

## CONTROLS AND PROCEDURES

### **Disclosure Controls and Internal Controls over Financial Reporting**

The Company, under the supervision and with the participation of its management, including the chief executive officer and the chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of its internal control over financial reporting as of March 31, 2008, pursuant to the requirements of Multilateral Instrument 52-109. Based on this evaluation, the Company concluded that the disclosure controls and procedures are effective in making known to them in a timely manner material information relating to the Company and its subsidiaries, and that the design of internal control over financial reporting provides reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the Company's financial statements for external purposes in accordance with Canadian GAAP.

During the quarter ended March 31, 2008 the following changes to the Company's internal control over financial reporting were made to regulate weaknesses identified in the last quarter of 2007:

- Sales valuation process: New procedures have been implemented in order to ensure the use of appropriate forward prices at the date of sales recognition.
- Reporting of material commitment agreements: Identified managers and officer 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.

Other than the above mentioned changes, there have been no changes in the Company's internal control over financial reporting for the quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## 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**

|                                                                         |                  |                   |                     | For the<br>Three-month Period<br>Ended<br>March 31,<br>2008 | For the<br>Year Ended<br>December 31,<br>2007 |
|-------------------------------------------------------------------------|------------------|-------------------|---------------------|-------------------------------------------------------------|-----------------------------------------------|
|                                                                         | Bolivar<br>\$    | Cusi<br>\$        | La Engañososa<br>\$ | Total<br>\$                                                 | Total<br>\$                                   |
| Balance – Beginning of period                                           | 3,404,627        | 18,066,155        | -                   | 21,470,782                                                  | 11,672,155                                    |
| Costs and deferred exploration expenses                                 |                  |                   |                     |                                                             |                                               |
| Property acquisition and related costs                                  | 203,708          | (8,947)           | 64,789              | 259,550                                                     | 1,446,016                                     |
| Sampling                                                                | 79,415           | 63,954            | -                   | 143,369                                                     | 2,174,022                                     |
| Geology consulting and management                                       | 257,044          | 244,879           | 2,895               | 504,818                                                     | 1,343,279                                     |
| Drilling and mining development                                         | 1,577,383        | 914,805           | -                   | 2,492,188                                                   | 9,265,331                                     |
| Pilot milling and metallurgy testing                                    | 877,508          | -                 | -                   | 877,508                                                     | 5,131,739                                     |
| Supervision and local administrative costs                              | 177,229          | 126,570           | -                   | 303,799                                                     | 939,631                                       |
| Transportation costs                                                    | 1,925,135        | 17,155            | -                   | 1,942,290                                                   | 9,999,427                                     |
| Roads                                                                   | 15,936           | 13,104            | -                   | 29,040                                                      | 145,722                                       |
| Camp costs                                                              | 275,396          | 65,849            | -                   | 341,245                                                     | 2,817,404                                     |
| Capitalized amortization of exploration<br>buildings and equipment      | 621,016          | 160,800           | 337                 | 782,153                                                     | 3,526,437                                     |
| Stock-based compensation costs                                          | -                | -                 | -                   | -                                                           | 772,898                                       |
|                                                                         | 6,009,770        | 1,598,169         | 68,021              | 7,675,960                                                   | 37,561,906                                    |
| Write-off of mining assets – Costs and deferred<br>exploration expenses | -                | -                 | -                   | -                                                           | (1,199,891)                                   |
| Sales of concentrate                                                    | (6,625,881)      | -                 | -                   | (6,625,881)                                                 | (24,056,537)                                  |
|                                                                         | (616,111)        | 1,598,169         | 68,021              | 1,050,079                                                   | 12,305,478                                    |
| Transfer to (from) excess cost recovery –<br>pilot mining               | 790,462          | -                 | -                   | 790,462                                                     | (2,506,851)                                   |
|                                                                         | 174,351          | 1,598,169         | 68,021              | 1,840,541                                                   | 9,798,627                                     |
| <b>Balance – End of period</b>                                          | <b>3,578,978</b> | <b>19,664,324</b> | <b>68,021</b>       | <b>23,311,323</b>                                           | <b>21,470,782</b>                             |

(ii) NATIONAL INSTRUMENT 51-102 – SECTION 5.4

Disclosure of Outstanding Securities as at May 30, 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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## TICKER SYMBOL

TSX Venture Exchange  
Symbol: DIB

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## REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

## INVESTOR RELATIONS

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## WEBSITE

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

## BOARD OF DIRECTORS

Thomas L. Robyn  
*Chairman*

Daniel Tellechea

Réjean Gosselin

Robert D. Hirsh

Philip Renaud

Mario Caron

Eduardo Gonzalez

## OFFICERS

Daniel Tellechea  
*President and Chief Executive Officer*

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

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