



**DIA BRAS EXPLORATION INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE NINE-MONTH PERIOD ENDED  
SEPTEMBER 30, 2006**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

This management discussion and analysis ("MD&A") follows rule 51-102A of Canadian Securities Administrator regarding continuous disclosure for reporting issuers. It is a complement and supplement to the unaudited consolidated financial statements for the nine-month period ended September 30, 2006 and should be read in conjunction with those statements. It represents the view of management on the Company's current activities and its past and current financial results, as well as an outlook of the coming months. Unless otherwise specified, all dollar amounts in the MD&A are expressed in Canadian dollars.

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

In 2005, the Company changed its year-end from March 31 to December 31 to coordinate with the statutory year end of its Mexican subsidiaries. The MD&A for the nine-month period ended September 30, 2006 is as of November 28, 2006.

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

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

### **1.3 HIGHLIGHTS OF THE THIRD QUARTER 2006:**

- Closing of a \$10.4 M bought deal financing agreement on August 17, 2006
- Beginning of the preliminary exploration program at the newly acquired silver district "The Cusi project" in Chihuahua Mexico
- Pilot program at Bolivar mine meets forecasts and generates positive cash flow
- Total sales of concentrate of \$11.4 M for the third quarter
- The Company accumulates excess cost recovery at Bolivar Mine
- Work begins to increase the Malpaso mill capacity by 500 tpd by year-end

### **1.4 NATURE OF ACTIVITIES AND OVERALL PERFORMANCE:**

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

During the quarter ended September 30, 2006, the Company continued its pilot-mining program at the Bolivar Mine property. The short-term objectives of the pilot-mining program are: (i) to provide essential data on mining, transport and milling costs, logistics, mineralization rock grade, mill recovery performance and metallurgy, which will be useful for pre-feasibility and feasibility studies at the Bolivar Mine property; and (ii) generate sufficient cash flow from the production of zinc and copper concentrates to finance the development and exploration program at the Bolivar mine and elsewhere in the Bolivar project. The pilot program started generating positive cash flow in December 2005 which continued throughout the first nine months of 2006.

Well supported by high market prices for zinc and copper, the Company completed another very productive quarter at its Bolivar mine exploration project where the Company met its target for the quarter.

It is important to note that the Bolivar mine property is not at a 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 to 30 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, the income generated by the pilot-mining program is shown as a reduction of the costs and deferred expenses capitalized to the Bolivar mine project in conformity with Canadian generally accepted accounting principles. Any excess cost recovery during pre-commercial production will be disclosed in long-term liabilities until the situation is reversed or until commercial production has begun. This policy would apply to any project which would go into pilot-mining mode.

### **Bolivar Mine property**

The Bolivar property remains the main exploration target in the Cieneguita region. During the quarter ended September 30, 2006, property costs and exploration and development expenses on the Bolivar property amounted to approximately \$5.6 million.

During the quarter ended September 30, 2006, the Company processed 23,588 DMT of material averaging grades of 9.63% Zn and 2.12% Cu, with the month of September contributing for more than 9,100 DMT, the most productive month in terms of tonnage processed since the beginning of the program. Recoveries at the Malpaso mill averaged 91.96% for zinc and 85.96% for copper resulting in a production of 3,504 DMT of zinc concentrate and 1,497 DMT of copper concentrate during the third quarter.

The value of total concentrate production based on average monthly zinc and copper prices is estimated at US\$7.2 million, which exceeds the early 2006 forecast of US\$4.0 million per quarter. Direct operating costs for the quarter, including shipping of concentrate, amounted to US\$2.7 million. Sustained high prices for zinc and copper during the quarter combined to result in continued generation of positive cash flow, which finances the exploration and capital expenses as well as property payments.

During the nine-month period ended September 30, 2006, Dia Bras billed a total of US\$21.9 million, which included invoices for final settlement for concentrate shipped in late 2005. In the final billing process, the Company continued to benefit from increased metal prices resulting in higher value of sales of concentrate.

### **Bolivar Pilot-Mining Program**

Summary - Q3 - 2006

<b>Material Processed</b>			<b>Tonnes</b>	<b>Total Estimated Production <sup>(1)</sup> US\$ (Millions)</b>	<b>Operating Cash Cost <sup>(1)</sup> US\$ (Millions)</b>
Actual			23,588	7.2	2.7
Forecast			22,500	4.0	2.5
Over (under)			1,088	3.2	(0.2)
<b>Zinc</b>	<b>Average Grade</b>	<b>Recovery</b>	<b>Zn Concentrate Production (DMT)</b>	<b>Production Value in US\$ (Millions) <sup>(1)</sup></b>	
Actual	9.63%	91.96%	3,504	4.4	
Forecast	11.00%	85.00%	3,700	2.6	
Over (under)	(1.37)%	6.96%	(196)	1.8	
<b>Copper</b>	<b>Average Grade</b>	<b>Recovery</b>	<b>Cu Concentrate Production (DMT)</b>	<b>Production Value in US\$ (Millions) <sup>(1)</sup></b>	
Actual	2.12%	85.96%	1,497	2.8	
Forecast	2.50%	75.00%	1,600	1.4	
Over (under)	(0.38)%	10.96%	(103)	1.4	

**Bolivar Pilot Mining Program  
Financial Results (in US\$)  
Year to date**

	<b>Actual</b>	<b>Total revised forecast</b>
	Nine-month period ended September 30, 2006	Year 2006 <sup>(2)</sup>
	US\$	US\$
Net smelter production value	19.5 M	23.9 M
Direct operating cash costs	7.8 M	10.5 M
Direct operating cash margin	11.7 M	13.4 M

**Net smelter production value and  
Cash Operating Costs / Tonne Processed (in US\$)**

	<b>Actual</b>	<b>Forecast</b>
	Nine-month period ended September 30, 2006	Year 2006 <sup>(2)</sup>
	US\$	US\$
Net smelter production value (1)	281.38	244.44
Direct operating cash costs (1)	114.72	105.00
Gross margin before amortization (1)	166.66	139.44

(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.

(2) Includes assumptions of US\$2.00/lb for copper and US\$0.85/lb for zinc

**Malpaso Mill**

Following recommendations from a consulting metallurgist, the Company has put in place a program to improve the overall efficiency of the Malpaso mill. Increased supervision combined with installation of automated reagent controls and modification to the equipment maintenance schedule have led to peaks of 410 tpd of material processed and high plant availability.

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

- Recovery of copper has increased to an average of 85% from the initial average of 70%;
- Recovery of zinc has increased to an average of 92% from an average of 84%;
- The content of zinc in the copper concentrate has been reduced to a level where very minor smelter penalties are imposed (the limit is 4% Zn) with an average zinc content of 6.5%. This zinc content in the copper concentrate is optimal since calculations by the Company's staff demonstrate that the mill is now operating at maximum economic efficiency taking into

account both metals. Any additional attempts to increase recoveries would result in reduced net revenue;

- For the month of September, reagent costs decreased by US\$8,000 and revenues increased by US\$70,000, for a net increase of US\$78,000 compared with what would have been realized without the improvements described above;
- Down time was minimal during the third quarter, with only 3.5% interruption in processing;
- Tests are in progress to separate lead and bismuth from the copper concentrate; this would eliminate smelter penalties of US\$60-75 per ton of concentrate.

The Malpaso mill is running smoothly, and additions to the plant are in process to increase its processing capacity to 850 tpd by the end of 2006. This increase in capacity would allow a bulk sampling program from the Cusi project, if warranted.

## **Cusi Project**

The Cusi project is the subject of an ongoing exploration program consisting of regional and detailed surface geologic, structural and alteration mapping, diamond core drilling from the surface, detailed mapping, sampling and dewatering of underground workings, and airborne photography directed at producing orthophoto maps and detailed topographic maps. Dia Bras has mandated Scott Wilson Roscoe Postle Associates Inc. (formerly Roscoe Postle Associates Inc.) ("RPA") to complete, by the end of 2006, an independent 43-101 technical report that may justify a bulk sampling program or pilot mining on the Cusi project.

Soon after the Cusi acquisition this past June, the Company started a surface geological and geochemical program under the supervision of André Ciesielski, Ph.D an experienced structural geologist with more than 27 years of experience. This program is aimed at identifying all veins and structures, alteration and mineralization patterns in the central part of the silver camp. Approximately 3 km<sup>2</sup> have been mapped and the 5 km<sup>2</sup> central area will be covered by the end of the year. Assay results are just starting to be returned. Three of the Company's diamond drills are currently working on site, and the Company anticipates drilling 15,000 m by the end of the year.

As part of the first phase of exploration, underground mapping and sampling were done at La India, San Miguel, La Bamba and Santa Edwiges after underground mines were made secure and accessible. A total of 5,895 m of diamond drilling in 35 holes have been completed as detailed below (see detailed information in press release dated October 3, 2006):

La India	2,832 m	in 16 holes
San Miguel	2,172 m	in 11 holes
La Bamba	358 m	in 3 holes
Santa Edwiges	533 m	in 5 holes
<b>Total drill results</b>	<b>5,895 m</b>	<b>in 35 holes</b>

## **La India**

This former mine has two levels accessible by an adit and a shaft. A total of 166 samples were collected along 3 veins flanked by breccia over a distance of 300 m. A section from level 2, comprising 19 composite channel samples on 7 different sections gave an average of 231 g/t Ag along a 40 m strike with an average width of 1.87 m.

Sixteen diamond drill holes totalling 2,832 m were completed in this area. Three holes were collared to test an alteration zone south of the property with no significant results, and thirteen to test the depth extension of the veins. Six holes stopped in fault zones or old workings. Seven holes intersected the mineralized structures and two holes returned economic values intersected the zone near the mineralized area on level 2.

## **Santa Edwiges**

Starting in August, the underground workings of this mine were mapped and sampled. A total of 457 samples were collected along an access drift of 650 m cutting four mineralized structures ranging from 1.5 to 30 m wide. Five diamond drilling holes (ddh) totalling approximately 533 m were completed but no assays are available yet. Three holes were abandoned in fault zones and two holes intersected two different structures showing alteration and mineralization characterized by quartz, galena, sphalerite, pyrite and chalcopyrite over a width from 8 to 41 m in the Lavenderia vein and 17.9 m in the Tescate vein.

## **San Miguel and La Bamba**

The San Miguel Mine and La Bamba former mines are optioned from Pershimco Resources. San Miguel has 4 levels (100, 250, 300 and 500) of which the first three have been accessed, mapped and sampled and a total of 450 samples were collected. The first 3 levels are within the oxide zone. At the 100-level, 2 adjacent parallel zones (breccia and vein) extending N-S for 170 m have been identified. At the southern end of the level, the breccia zone ranges from 1.5 to 4.0 m in width and seven channel samples were collected along this zone. They returned an average of 565.7 g/t Ag.

The vein zone was channel-sampled along five different sections and returned an average of 228 g/t Ag over an average width of 2.36 m.

At the 250-level, the same vein and breccia zones were identified and sampled. Near the shaft, six channel samples were collected across the breccia zone and returned an average of 221.7 g/t Ag over 12.7 m.

The vein zone was channel-sampled along three sections for a distance of 20 m and averages 340 g/t Ag over an average width of 1.7 m.

On the 300-level, the vein zone is developed over a distance of 200 m and was identified and sampled on 3 sections. It averages 443.8 g/t Ag over an average width of 2.4 m.

A total of 2,172 m was drilled in 11 ddh at San Miguel to test material easily accessible from the shaft below the 300-level. Except for two holes blocked on a fault, all holes cut the zones with results of between 25 and 809 g/t Ag.

La Bamba is an open cut 100 m long by 7 to 25 m wide and 50 m deep. It is located immediately south of San Miguel and is developed in the same structures, which extend for an additional 250 m. Surface mapping has identified those structures extending another 500 meters further south for a total of 1000 meters, with San Miguel extending 250 meters, La Bamba 250 meters and the newly-mapped surface expression extending an additional 500 meters.

A composite sample of 20 kilos collected from the bottom and the walls of the pit returned 220 g/t Ag.

Although the program has only been in progress for four months, significant silver mineralized rock has been identified and material from various portions of these mines should be processed at the Malpaso mill by the end of 2006 as part of a first bulk sampling program. These early results support the interpretation that significant silver mineralization could remain to be mined in the district.

## Promontorio Project

Minimal work has been performed on that project during the quarter.

### 1.5 SELECTED ANNUAL INFORMATION:

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

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

### 1.6 RESULTS OF OPERATIONS:

#### Corporate

During the three-month period ended September 30, 2006, the Company incurred a loss of \$406,545 (\$0.01 per share) (cumulative loss of \$1,495,951 for the nine-month period ended September 30<sup>th</sup>, 2006 (\$0.02 per share)) compared to a loss of \$471,501 (\$0.01 per share) for the three-month period ended September 30, 2005 (cumulative loss of \$1,305,389 for the nine-month period ended September 30<sup>th</sup>, 2005 (\$0.02 per share)).

The loss includes a gain on currency exchange of \$250,473 on monetary assets, due to increased value of the Mexican peso versus the Canadian dollar. The loss also includes the non-cash cost of stock-based compensation (\$445,185) for the quarter resulting from the grant of 2,000,000 options which vested entirely in the quarter (\$310,825 for the same period in 2005).

The Company continued to be very active in promoting its activities and meeting with financial institutions in Toronto, Calgary, Vancouver and Montréal. Total business development expenses amounted to \$76,378 during the quarter compared to \$7,653 in 2005.

Administrative expenses also increased compared with the same period in 2005 as the Company increased the number of its full time employees late in the third quarter of 2005.

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

Total sales of concentrate (including provision for final billings) amounted to \$11,448,405 (cumulative \$26,487,379 for the nine-month period ended September 30, 2006) (\$2,303,502 for the same quarter in 2005 (cumulative and nine-month period ended September 30, 2005)). This amount exceeded forecast as zinc and copper prices continued to rise during the period. Total direct operating cash costs for the quarter amounted to \$2.7 M (see note (1) of Section 1.4). 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. 90% of the shipment value is billed at the date of the shipment and the remaining 10% is billed later at the confirmed quotation date. Payments are normally received within 48 hours after billing.

## 1.7 SUMMARY OF QUARTERLY RESULTS:

Quarter ended	Loss \$	Loss per share \$
September 30, 2006	406,545	0.01
June 30, 2006	709,539	0.01
March 31, 2006	379,867	0.01
December 31, 2005	1,287,232	0.02
September 30, 2005	471,501	0.01
June 30, 2005	337,432	0.01
March 31, 2005	496,456	0.01
December 31, 2004	1,201,814	0.02

## 1.8 LIQUIDITY:

As at September 30, 2006, the Company has a working capital of \$17,835,702 including \$13,245,744 in cash and cash equivalent compared with \$4,271,832 as at December 31, 2005, including \$3,541,961 in cash and cash equivalent. This level of working capital is adequate to support current level of operations. The working capital and cash improvement during the quarter is due to the closing of the \$10.4 million bought deal financing in August and the Bolivar pilot-mining program results.

As at September 30, 2006, sales tax and other receivables amount to \$3,123,780 (\$1,037,122 as at December 31, 2005) and are mostly comprised of Mexican recoverable input tax credit. The Company is still facing delays in recovering the IVA (local sales tax) and with increasing activities monthly recovery filings increase in value. The Company is regularly monitoring and meeting with local Mexican IRL authorities and have hired a consultant to address the situation. Management will review at year-end whether a portion of the amount receivable should be presented as a long-term asset.

Receivable of \$2,681,642 (\$327,000 as at December 31, 2005) includes a provision for future final billings of shipped concentrate of \$2,145,000 as at September 30, 2006. The final billing could be higher or lower depending on fluctuation of commodity prices.

Accounts payable and accrued liabilities amount to \$1,276,845 (\$749,676 as at December 31, 2005) and are comprised of current usual business transactions balances.

Obligation related to assets under capital lease amounting to \$319,351 (including a current portion of \$163,032) (\$228,851 including a current portion of \$90,904 as at December 31, 2005) relates to rolling stock acquired and financed over periods of up to 36 months.

## 1.9 CAPITAL RESOURCES, INVESTING AND FINANCING ACTIVITIES:

The availability of funds is highly dependent on the capital markets. The main sources of financing of the Company are the issuance of equity shares and the sale of concentrates as part of the pilot-mining program. During the quarter, the Company completed an offering of 14,950,000 common shares at a price of \$0.70 per common share for gross proceeds of \$10,465,000. An underwriter fee of 7% (\$732,550) was paid and a total of 1,046,500 compensation options (7% of total common share issued) were issued in favor of the underwriters. This financing will serve to finance the acquisition of the Cusi project, the continuing exploration program on Bolivar and for working capital.

During the quarter ended September 30, 2006, the Company invested in machinery and mining and transport equipment for a total amount of \$2.2 million.

During the quarter, no options or warrants were exercised. However, subsequent to the end of the quarter, 11,423,219 warrants have been exercised for a total cash consideration of \$10,280,897.

## **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.
- In order to exercise its various options on the mining properties, the Company will have to make the following payments:

<b>YEAR</b>	<b>AMOUNT</b>
2006	US\$685,000
2007	US\$2,325,000
2008	US\$2,450,000
2009	US\$3,062,500

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

There were no changes in accounting policies.

## **1.14 CRITICAL ACCOUNTING POLICIES:**

### **Use of estimates**

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

### **Mining assets**

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

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

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

- Persuasive evidence of an arrangement exists;
- Delivery has occurred under the terms of the arrangement;
- The price is fixed or determinable; and
- Collection is reasonably assured.

Should there be an excess cost recovery during that period, then this excess will be disclosed in long-term liabilities until (i) the situation is reversed, or (ii) until commercial production has begun, 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 has reached a production level of 65% for a consecutive period of 90 days with a maximum time period of six months. The production level will be calculated on the rated capacity of a mill on mine site which can process approximately 2,000 tonnes per day. The development of the mine and the construction of the mill on mine site are planned to start in mid – 2008 after reception of a bankable feasibility study to be commissioned in early 2007.

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

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

### **Asset retirement obligations**

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

This represents a critical accounting policy as the Company has not recognised any asset retirement obligation as it does not have sufficient information to determine a realistic obligation maturity schedule. A liability stemming from any asset retirement obligation will be recorded in the period in which there is sufficient information to establish an obligation maturity schedule.

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

## **Land title**

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

## **Capital needs**

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

## **Regulation and environmental requirements**

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

## **Commodity prices**

The market price of base and precious metals is also a factor of risk that can have a direct impact on the success of the Company operations. The market price of the Company's common shares, its financial results and its exploration, development and mining activities may be significantly adversely affected by declines in the price of precious or base minerals.

## **Uninsured risks**

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

## **Foreign exchange rate risk**

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

## **Credit risk**

The Company is exposed to credit risk to the extent that its debtors may be unable to repay amounts owing to the Company. The totality of the Company receivable is with a sole client and is subject to normal credit risks. The totality of sales tax receivable is with the Government of Mexico and as such management believe it does not represent a significant credit risk.

## **Interest rate risk**

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

## **1.17 OUTLOOK:**

Following the exercise in November 2006, of 11,423,219 warrants for a total cash consideration of \$10,280,897 and the completion of the \$10,465,000 bought deal financing in August 2006, the Company is well funded to continue developing its strategic assets and take advantage of the strong base metal market.

The additions to the mill are almost completed and will result in increased capacity of nearly 500 tpd before the end of 2006. The Company intends to test the new circuit and have it prepared to allow for a bulk sampling program to be undertaken at Cusi, if warranted. The Company will continue its systematic exploration program at Cusi which includes data compilation, surface and underground geological mapping, geochemical sampling and drilling. Drilling activities will also continue on the Bolivar project.

As at November 28, 2006, the Company has a working capital of approximately \$23.0 million which is sufficient, in the present conditions, to carry its exploration activities and fulfill its property obligations and working capital needs for the coming year.

The objectives for 2006 are as follows:

- Bolivar pilot-mining program – Mine and process between 85,000 and 90,000 tonnes of ore averaging 11.0% Zn and 2.5% Cu.
- Complete the capacity increase at the Malpaso Mill to close to 850 tpd by the end of 2006.
- Define sufficient resources at Bolivar to commission a feasibility study that will give us the parameters for eventual full-scale production, including construction of an appropriately sized mill on site.
- Evaluate, define, plan and start an exploration program at the newly acquired Cusi camp projects.

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

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

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

### Analysis of cost and deferred exploration expenses

				For the nine-month period ended September 30, 2006	For the nine-month period ended December 31, 2005
	Bolivar	Cusi	Promontorio	Total	Total
	\$	\$	\$	\$	\$
Balance – Beginning of period	13,537,347	-	-	13,537,347	10,197,775
Costs and deferred exploration expenses					
Property acquisition and related costs	279,992	2,572,672	112,673	2,965,337	451,263
Sampling	117,290	118,674	12,779	248,743	179,671
Geology consulting and management	799,556	113,210	38,336	951,102	660,598
Geophysical survey	6,915	-	-	6,915	27,927
Drilling and mining development	2,566,524	688,764	40,891	3,296,179	1,352,627
Pilot milling	2,103,027	-	-	2,103,027	1,570,210
Supervision and local administrative costs	720,471	308,393	30,341	1,059,205	1,056,287
Transportation costs	4,918,002	72,217	6,389	4,996,608	2,530,748
Road	1,274	2,442	-	3,716	41,725
Camp costs and food	1,064,373	12,061	-	1,076,434	550,053
Capitalized amortization of exploration building and equipment	923,996	88,683	7,889	1,020,568	833,442
Stock-based compensation costs	880,948	189,078	6,158	1,076,184	205,011
	14,382,368	4,166,194	255,456	18,804,018	9,459,562
Write-off of mining assets – Costs and deferred exploration expenses	-	-	-	-	(557,588)
Sales of concentrate	(26,487,379)	-	-	(26,487,379)	(5,562,402)
	<b>(12,105,011)</b>	<b>4,166,194</b>	<b>255,456</b>	<b>(7,683,361)</b>	<b>3,339,572</b>
Transfer to excess cost recovery – pilot mining	2,931,673	-	-	2,931,673	-
	<b>(9,173,338)</b>	<b>4,166,194</b>	<b>255,456</b>	<b>(4,751,688)</b>	<b>-</b>
<b>Balance – End of period</b>	<b>4,364,009</b>	<b>4,166,194</b>	<b>255,456</b>	<b>8,785,659</b>	<b>13,537,347</b>

(ii) National instrument 51-102 – Section 5.4

**Disclosure of Outstanding Securities as at November 28, 2006**

**Common shares:** 109,513,405

**Warrants:** nil

**Compensation options:** (Each compensation option entitling its holder to purchase one common share of the Company at the price of \$1.00 until August 17, 2007): 1,046,500

**Options outstanding:** 9,039,833

Number of options	Exercise price	Expiry date
855,000	\$0.85	October 2008
40,000	\$1.30	January 2009
1,217,000	\$0.75	August 2009
500,000	\$0.75	February 2010
1,622,833	\$0.30	September 2010
125,000	\$0.22	September 2010
2,680,000	\$0.40	February 2011
2,000,000	\$0.90	September 2011

# Corporate Information

## CORPORATE HEAD OFFICE

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

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

## TICKER SYMBOL

TSX Venture Exchange TSX  
Symbol: DIB

## AUDITORS

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

## REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

## INVESTOR RELATIONS CONSULTANT

Nicole Blanchard  
Managing Partner  
Sun International Communications

Telephone: (450) 627-6600  
E-mail: [nicole.blanchard@suncomm.com](mailto:nicole.blanchard@suncomm.com)

## INVESTOR RELATIONS

Nathalie Dion  
Telephone: (514) 393-8875, ext. 241  
E-mail: [ndion@diabras.com](mailto:ndion@diabras.com)

## WEBSITE

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

## BOARD OF DIRECTORS

Thomas L. Robyn,  
Executive Chairman

James A. Culver

Réjean Gosselin

Robert D. Hirsh

Philip Renaud

André St-Michel

## OFFICERS

Thomas L. Robyn, Ph.D.  
Executive Chairman

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

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

Leonard Teoli, C.A.  
Chief Financial Officer

Luce L. Saint-Pierre, C.A.  
Secretary