



DIOS
EXPLORATION

**DIOS EXPLORATION INC.
INTERIM MANAGEMENT REPORT
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2010**

This Management Discussion and Analysis dated August 20, 2010, and provides an analysis of our interim financial statements as at June 30, 2010. This discussion and analysis of the financial position and results of operation should be read in conjunction with the unaudited interim financial statements for the six-month period ended June 30, 2010 and the audited financial statements for the year ended December 31, 2009 and 2008. The unaudited interim financial statements for the period ended June 30, 2010 were not reviewed by the external auditors.

Our report contains «forward-looking statements» not based on historical facts. Forward-looking statements express, as of the date of this report, our estimates, forecasts, projections, expectations and opinions as to future events or results. Forward-looking statements herein expressed 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 results and future events could differ materially from those anticipated in such statements. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements include, but are not limited to, fluctuations in the market price of precious metals, mining industry risks, uncertainty as to calculation of mineral reserves and requirements of additional financing and the capacity of the Company to obtain financing.

COMPANY PROFILE AND MISSION

Dios Exploration Inc. (the “Company” or “Dios”) is a leading research and exploration company with over 2,690 sq. kilometres of properties (5,280 mining cells) in the high potential areas of central Québec, James Bay area and the Otish Mountains, Canada. Dios pursues its diamond exploration strategy, but also diversified looking for uranium and in demand exotic minerals such as lithium and niobium. Dios’ systematic strategy can lead to the discovery of other commodities, which could be explored with a partner. Dios’ strategy is to generate projects and develop them either alone or through farming out agreements, with the benefit of shareholders in mind.

Dios generates most of its exploration projects, from scientific conceptual design to field discovery and tries to evaluate from the start feasible economics in relation with access and facilities. The Company’s shares are traded on the TSX Venture Exchange under the symbol **DOS** and 34,333,839 shares were issued as of June 30, 2010. Additional information may be available through the www.sedar.com web site, under the Company’s section “Sedar filing” or at www.Diosexplo.com.

SUMMARY OF ACTIVITIES DURING THE QUARTER

- Exploration expenses totalling \$391,051 and mining right acquisition totalling \$36 404 primarily on new U33 property and the expansion of 33 Carats property (see the item “**Summary of exploration activities**” below).
- New Shipshaw property:
 - Dios discovers a new carbonatite complex with niobium and tantalum potential near Shipshaw, Saguenay, 7 km from IAMGOLD niobium mine and ferro-niobium plant.
 - Following drilling, Dios finds several Rare Earth Element Zones.
 - Airborne geophysical survey carried out in order to begin systematic drilling.
- New U33 property
 - Discovery of two diamond potential kimberlite indicator mineral dispersal trains. Major claim acquisition.
 - Field work begins during the quarter.
 - Major airborne geophysical survey carried out on the property.
- 33 Carats property: Expansion of the property in the vicinities of the Renard diamond project and beginning of field work.

RESULTS OF OPERATION

Summary of exploration activities

The Company’s team works with a systematic approach and is always looking for new developments in mineral exploration. Discovery of new glacial dispersal trains indicating strong potential of poorly explored regions remains one of the Company’s strength.

Dios, as for its pre-existent privileged stand in possession of claims and the expertise of its employees, diversified its exploration strategy on diamond and uranium, two substances highly requested in the natural resources industry. Discovery of new glacial dispersal trains indicating strong mineral potential of poorly explored regions remains one of the Company’s strength. Dios research method uncovered well structured gold glacial dispersal train on its new property U33. Further research on diamond property Pontax led to the discovery of lithium while drilling a magnetic anomaly led to the discovery of a new carbonatite complex on the Shipshaw property, Saguenay.

Following a review of the mineral properties, the Company decided during the second quarter to write down 50% of the Chibouki property (\$47,345 for the property and \$428,085 for deferred exploration expenses) and 100% of the Lac Chabran property (\$13,685 for the property and \$14,304 for deferred exploration expenses).

In the interim financial statements, a tax credit amounting to \$357,333 has been applied against the deferred exploration expenses.

During the second quarter, the Company incurred \$391,051 in exploration expenses mainly on the Shipshaw and U33 mining properties.

Exploration Expenses Analysis

Description	Shipshaw	U33	Hotish	33 Carats	Others	Total
	\$	\$	\$	\$	\$	\$
Geology	13 443	27 535	18 332	19 566	8 836	87 712
Geophysics	29 342	4 730	-	907	5 308	40 287
Sampling and analysis	-	45 068	30 870	2 940	(17 221)	61 657
Transportation, lodging and logistics	-	51 543	-	46 702	3 671	101 916
Office and other	-	8 837	96	1 461	74	10 468
Drilling and assays	89 011	-	-	-	-	89 011
	131 796	137 713	49 298	71 576	668	391 051

Acquisitions, disposals, write-off and claims renewal analysis

Properties	Acquisitions	Claims renewal	Write-off	Total
	\$	\$		\$
U33	27,307	-	-	27,307
33 Carats	4,093	2,400	-	6,493
Shipshaw	180	-	-	180
Hotish	(520)	200	-	(320)
Pam	2,640	-	-	2,640
Lac Chabran	-	-	(13,685)	(13,685)
Chibouki	104	-	(47,345)	(47,241)
	33,804	2,600	(61,030)	(24,626)

These amounts represent either staking acquisition costs or claims renewal costs for the second quarter ended June 30, 2010. The Company always favoured the acquisition of mining properties by map staking.

Following very encouraging research results obtained, Dios staked during the semester a new wholly owned diamond-gold exploration project named U33, covering more than 500 square kilometres, located in the north-east of the Pontax (diamond and lithium) property.

Following research results obtained, Dios has largely increased its land holdings in the vicinities of the Renard diamond project of Stornoway Diamond Corporation.

*Geological information presented herein was summarized by Marie-José Girard, M.Sc., Geo (President)
M.Sc. Geo, qualified person pursuant to National Instrument 43-101.*

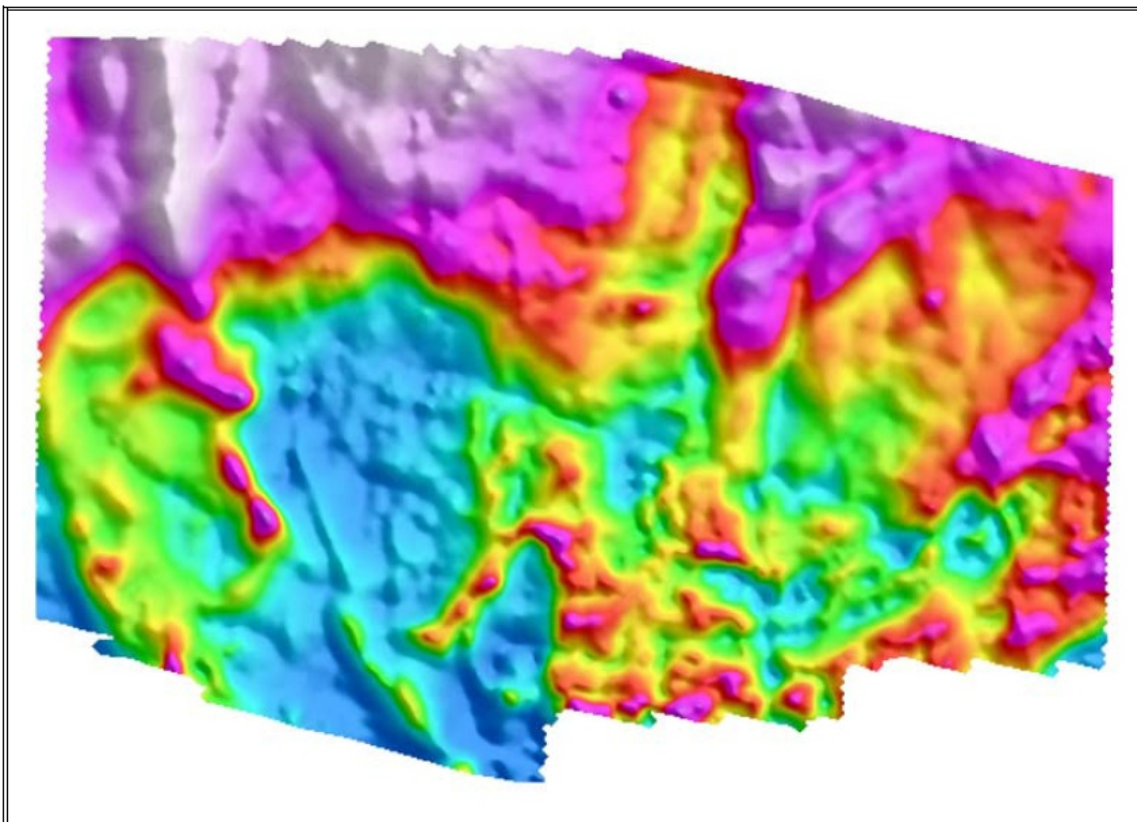
Shipshaw property (Niobium, Tantalum & REE), Saguenay, Qc

Dios discovered the ***Shipshaw Carbonatite Complex*** (the “Complex), Saguenay, Quebec, with niobium, tantalum and rare earth potential as well as strontium, barytine and carbonate potential. The discovery was made by drill testing a magnetic anomaly targeting a carbonatite intrusive for strategic metals (niobium, tantalum) and rare earths, located seven kilometres away from the 30 years old operating Niobec niobium mine and ferro-niobium facilities owned by IAMGOLD, in St-Honoré, Quebec, Canada.

The Complex is related to the Saguenay Rift Zone and a fault zone related to the Shipshaw River, discovered through testing an ancient topographic parallel bedrock low.

Evaluation of the Complex will require a lot of systematic drilling of the mineralogical units, to be targeted with a detailed magnetic geophysical survey completed by Dios during the quarter to help define mineralogical variations and delineate mineralized zones. This helicopter-borne magnetic survey covers an almost uninhabited area of 40 square kilometres (8 by 5 kilometres, with tight 75 m spacing flight lines and tie lines are 975 meters spaced). The average height of the magnetic sensor above the ground is 55 metres. In total, 550 linear kilometres were necessary to cover the required area.

On the map below, the rather circular low magnetic signature in blue corresponds to Complex.



Dios' core data to date indicates the occurrence of white magnesian carbonatite rocks within ankerite (iron carbonate) altered rocks very similar in appearance to the Niobec mine ore core. Centimeter size fractures filled with well formed barytine crystals can also be observed, as at Niobec.

Dios' geologists are of the opinion that the Complex was never discovered before due to thick overburden. In addition to carbonatite rocks, alkaline syenites as well as a cover of Trenton type calcareous rocks have been intersected through drilling on the Dios' property. These rock types are also being observed in association with the Niobec mine. Dios intersected several **Rare Earth Element mineralized zones** in the first hole completed on the Complex. Niobium values were also returned from a batch of some 90 samples, reaching 0.053 % Nb₂O₅ (niobium oxide) over 1.5 m at this stage with high grade apatite content (12 % P₂O₅ (phosphate) and 0.487% TREEO (total rare earth element oxides, excluding yttrium and zirconium). Several other apatite rich zones were also intercepted.

The upper alkaline complex syenite horizon reached at only a 17 m depth returned 0.70% TREEO and 9.25% P₂O₅ (very high apatite content) over 0.82 m (with 0.411% strontium) within a 10.54 m horizon grading 0.172% TREEO, which horizon is followed by 8 m at 0.3% TREEO within a 12.27 m carbonatite horizon grading 0.26% TREEO.

Values in P₂O₅ in carbonatite reached for instance 2.42 % over 3 m at a shallow vertical depth of 27 m, then at a depth of 32 m a further 7.4 m at 3 % P₂O₅ including 4.27 % P₂O₅ over 3 m.

This first hole was drilled almost vertically in the lowest magnetic part of the anomaly with only 6 meters of overburden above some eleven meters of Ordovician sediments lying above the alkaline Complex. Interestingly, the lower 2 meters of the sediments even returned niobium and rare earth elements values such as 0.022 % Nb₂O₅, 0.228% TREEO and 0.253 % ZrO₂ (zirconium oxide).

Work completed to date confirm the discovery by Dios of a sister complex to Niobec, its footprint bearing several similarities with Niobec. Exploration work is actually at the same stage as Niobec a few months after discovery of the rare earth core. Some 15-20 drill holes are planned and will be required at least to fully evaluate the potential for niobium, tantalum and other commodities of the Complex.

The deposit model that Dios is looking for is of the same complex type than Niobec's carbonatite, a sheeted dyke complex, therefore horizon alternation. Historical data shows that the Niobec discovery was first made through the center of the complex, the rare earth carbonatite, and then, with the help of extensive drilling, the niobium bearing zones were established in economical quantities, in the horizon surrounding the rare earth core.

The Dios Shipshaw property itself is road accessible and located near various facilities. Dios is now holding a 75 % interest in the property.

Niobium is used in the making of specific alloys used in the aerospace industry, for instance.

U33 property (Diamond-gold), Eastmain 1 Area, Lower Eastmain river region, Qc

Dios completed during the quarter an airborne geochemical survey on its new wholly owned diamond-gold U33 exploration project over more than 500 square kilometers in the Opinaca-Eastmain 1 area, a few

hundred kilometers northeast of the town of Matagami, James Bay, Quebec. Some 168 till samples were collected and will be processed for heavy minerals as part of an in-filling till (glacial sands left over by the retreating glaciers) sampling and prospecting program. Two main target areas had been defined by the 2009 Dios systematic research work and till survey: the first area consists of two favourable kimberlite indicator mineral trains and the second of a well-structured 3 to 5 by 15 kilometer gold glacial dispersal train. Dios completed during the quarter a large detailed low altitude tight 100 m spacing 8,300 km-line airborne geophysical survey over this project to target kimberlites up-ice of indicator minerals. Detailed structural and kimberlite targeting processing were undertaken from the data of the recent airborne geophysical survey.

In 2009, a large reconnaissance grass root heavy mineral till sampling program had been commissioned by Dios outside of mining claims. A total of 88 samples were then collected, as part of the U33 project.

A target area uncovered this winter from these results on the U33 property is a well-structured, clear and strong 3-5 by 15 kilometer gold glacial dispersal train from which heavy mineral concentrates from glacial tills sampled yielded from 500 to 1,750 ppb gold (parts per billion). (1,000 ppb = 1 g/T). It is located down-ice of folded sections of the Anatacau-Pivert volcanics along which is also hosted the Eastmain Resources Clearwater gold deposit in the same region, but more to the east.

The Dios U33 property east block hosts the Fallara outcrop gold showing that assayed 9.9 g/t Au (gold), 7.7 g/t Au, 0.17 g/t Au and 2.5% As (arsenic) in association with pyrite disseminations in silicified intermediate volcanics (government file (MRNFQ, 2000). The Fallara gold showing was found by Quebec government geologists in 1997. No further work on this showing was filed. It might be explained because the claims then belonged to INCO (nickel exploration). A gold potential map (PRO 2007-05) that highlights the area as highly prospective for gold was later published by the Quebec government and the showings are located within 10 kilometers from Eastmain Resources Clearwater gold deposit (1.09 Mt grading 9.46 g/t Au). The gold showing is located 12 kilometers away from the Lagrande-Opinaca geological contact. The Goldcorp Eleonore gold deposit, located along this favourable contact, is located 50 kilometers away (3.15 million ounces of measured and indicated gold resources at an average grade of 11.92 grams per tonne and 6.25 million ounces of inferred gold resources at an average grade of 12.93 grams per tonne). Dios acquired the claims this winter for its high diamond potential following the recent discovery by Dios of high diamond potential corridors. It seems the INCO claims have lapsed during Fall 2009.

The Dios U33 east block also hosts the Lac Caron nickel, copper and gold (Ni-Cu-Au) showing, discovered in the seventies by INCO and located approximately 10 kilometers northeast of the Clearwater gold deposit. In 2005, INCO drilling yielded 0.265% Ni, 1.275% Cu, 0.425 g/t Au, 0.048 g/t Pt over 0.6 m; 0.167% Ni, 0.129% Cu, 1.385 g/t Au over 0.3 m; 0.289% Ni, 0.593% Cu, 0.589 g/t Au, 0.550 g/t Pt over 0.48 m. In 1972, INCO drill intercepts of up to 0.64% Cu, 0.48% Ni over 4.3 m (incl. 0.74% Ni, 0.17 g/t Platinum (Pt), 0.14 g/t Palladium over 1.5 m) were returned from the basal part of a gabbro intruding amphibolite and mafic volcanics. At the time of discovery, it was described as a weakly mineralized sulphide (more than 10% pyrrhotite-pentlandite-chalcopyrite) horizon of 4-6 meters by 250 meters.

The second target area consists of two favourable kimberlite indicator mineral trains that include G11 garnet, kosmochlor diopside and fosterites olivines. The indicators are centered within a 7 x 7 kilometer area stopping just down-ice of a regional northwest striking diabase dyke (a large deep intra-continental structure belonging to the Mistassini diabase cluster and similar to the large structures associated with the Renard

diamond deposit). Numerous north-northwest, northwest and northsouth topographic lineaments are visible in the area.

Hotish property, Otish Mountains area, Upper Eastmain River region, Qc

Detailed structural interpretation and lineament studies were undertaken this winter over the whole Hotish property located at the western shallow edge of the Otish Proterozoic sedimentary Basin, adjacent to CAMECO uranium Quebec property, in order to locate other such structures as the Butte zone, as well as on the GODZILA showing. Detailed time-domain electro-magnetic testing was also completed on Butte and GODZILA, as well as detailed magnetics.

On the Butte zone, three biotite boulders assayed respectively 0.461%; 0.679% and 0.937% U_3O_8 and drilling almost underneath at a vertical depth of 120 under the surface intersected up to 0.093% U_3O_8 over 3.5 m (incl. in 0.04 % U_3O_8 over 12.5 m or 0.036 over 13.5 m in the same glimmerite material) and 5.9 g/t Ag; 0.26% Pb; 0.19% Zn over 60.2 m and hole #6 returned 0.056% U_3O_8 over 5.1 m at a further vertical 120 m depth underneath that hole in the same section, then some 40 m away, hole #7 returned 0.083% U_3O_8 over 2.6 m and a value of 0.045% U_3O_8 over 2 m in another section, this last one is included within 0.031% U_3O_8 over 5m. Hole #10 returned 0.048% U_3O_8 over 4 m. The Butte showing clearly hosts a very specific and distinct uranium bearing occurrence almost never observed elsewhere in the world: it seems of Proterozoic age, structure related though with large mineral crystals and hosted within what seem to be Laguiche metasediments. The mineralization extends over a few meters wide and is now followed at depth down to 220 m and seems open at depth and along strike

The GODZILA showing returned interesting results: 0.66% U_3O_8 (uranium oxide) over 1 meter at SRC and values over one meter each such as 0.255%, 0.151%, 0.067%, 0.067%, 0.026% and 0.021%, U_3O_8 , each sample measuring one meter wide perpendicular to the 16 meter exposed and manually trenched mineralized zone (assays by Delayed Neutron Counting at Actlabs). Leached alteration is very different from the Butte occurrence.

Processing and assaying for a detailed soil survey on Butte and B1 zones were also completed this winter. Let us recall that the B1 zone returned this fall 0.34% and 0.23% U_3O_8 . In the Spring, 9 samples over 0.3% U_3O_8 , up to 0.854% and that a discovery of Rare Earth and Zirconium was completed: 0.36% REE (rare earth elements, not oxide values), 0.1% Y (yttrium), 1.5% Zr (Zirconium). Also the same area returned 0.787% U_3O_8 .

33 Carats property, Upper Eastmain River area, Qc

Following very encouraging research results obtained by Dios, Dios largely increased its land holdings in the vicinities of Stornoway-SOQUEM **RENARD** diamond project, Otish region, Quebec. Dios applied for about 350 additional claims (cdc) covering 180 square kilometres after extensive kimberlite targeting compilation work this winter and over the last few years. Four main claim blocks were acquired, three being located 10 to 20 km away from the Renard-Lynx cluster. The 33 CARATS diamond project currently comprises 920 claims (410 sq. kilometres) and Dios delineated 96 priority kimberlite targets for further testing.

Targeting was based on magnetic/electromagnetic data analysis, target location related to a known kimberlite indicator mineral train, quality of the chemistry of associated indicators, the presence of favourable structures and its proximity to the Renard-Lynx diamond-bearing kimberlite cluster.

The most recent (22th march, 2010) preliminary assessment of the Renard Diamond Project was updated to 42.6 MT @ 70 cpht (for 30 million carats) for a 25 years mine life. Its Pre-tax Net Present Value (NPV) is now estimated at C\$885 million. The total capital cost of the Renard project is estimated at C\$511 million.

RENARD seems to be the most promising and advanced diamond development project in Quebec. Dios has the largest diamond potential and kimberlite target land position in the vicinities and still remains the most active grass root diamond explorer in Québec.

Summary of planned exploration programs for 2010

Compared to projections made in our annual 2009 management report, we revised the annual budget in 2010 without varying the amount already provided. The main changes are as follows:

- Additional drilling on the Shipshaw property (increase of \$400,000);
- Drilling on the Pontax property postponed to 2011 (decrease of \$300,000); and
- Works cost less than anticipated on 33 Carats property (\$90,000) and reduction of the budget on other properties (\$10,000).

PROJECTS	PLANNED WORK	BUDGET \$	FOLLOWING WORKS
HOTISH	Geological and geophysical compilation, structural interpretation and ground prospecting	300,000	Drilling
SHIPSHAW	Geophysic and driling	725,000	Drilling
PONTAX	Geological compilation	25,000	Prospecting and compilation
U33	Airborne geophysics, prospecting and mapping	352,000	Additional prospecting and drilling
33 CARATS	Geological compilation and till sampling	150,000	Additional prospecting and drilling
UPINOR	Geological compilation and geochemistry	67,000	Additional prospecting and geophysics
OTHERS	Geological and geophysical compilation	87,000	Additional prospecting and geophysics
TOTAL 2010		1,706,000	

MINING PROPERTIES ACCOUNTING VALUES

At the end of each quarter, exploration work done on mining properties is reviewed to evaluate their potential. Following this analysis, write-offs are done if needed. During the quarter, the Company decided to write-off the cost of the Chibouki Property and its deferred exploration expenses (50%) and the Lac Chabran Property and its deferred exploration expenses (100%).

SUMMARY OF FINANCIAL ACTIVITIES

Net loss for the quarter is \$649,968 (net loss of \$92 790 for the second quarter 2009) whereas administration fees for the quarter totalled \$161,279 (\$106 275 for the second quarter 2009).

Net loss for the six-month period is \$833,081 (net loss of \$182 659 for the six-month period ended June 30, 2009) whereas administration fees for the six-month period totalled \$304,659 (\$207 952 for the six-month period ended June 30, 2009).

Significant increases in losses from one year to another are explained by the radiation of mineral properties and deferred exploration expenses totalling \$ 503,419

Interest income for the quarter decreased to \$16,108 (\$34,605 for the six-month period ended June 30, 2010) from \$24,379 for the same period last year (\$43,695 for the six-month period ended June 30, 2009) due to less cash being invested and lower interest rates paid by banks.

Analysis of Administrative expenses

Description	Quarter ended June 30		Six-month period ended June 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Stock based compensation	49,980	40,135	87,220	72,430
Publicity and public relations	40,382	2,795	72,008	10,414
Professional fees	20,320	22,430	52,020	54,087
Salaries-management and directors	18,429	20,264	38,261	30,627
Shareholders information	9,310	11,561	17,925	16,561
Insurances, taxes and permits	8,889	829	12,927	11,224
Office	7,063	2,539	15,982	5,395
Registration fees	6,722	5,497	7,926	6,773
Banking fees and interests	184	225	390	441
	161,279	106,275	304,659	207,952

During the three-month period and six-month period ended June 30, 2010, one notes mainly:

- Increase of Stock based compensation: New options granted during the first quarter, therefore a number of options exercisable higher in 2010 compared to 2009.
- The Company paid director salaries for six months in 2010 (three months in 2009).
- Increase in promotion expenses:

- New investor relations contract dated February 10, 2010 (term completed during the second quarter);
- Participation in the Vancouver Mining show in January 2010 and June 2010, PDAC in March 2010, the Salon du monde mineral 2010 (UQAC) in March 2010 and The New-York Mining World Investments in April 2010;
- Investors meeting in June at the Richmond Club in Toronto; and
- Financial contribution (\$15,000) to a communication lobby for mineral exploration in Quebec.
- Increase the tasks of an assistant to the President for the day to day management.
- From 2010, the Company calculates the insurance paid in advance each quarter. Also in the second quarter, the Company has paid an amount of arrears to the CSST.

SUMMARY OF QUARTERLY RESULTS

(\$ 000 except loss/share)	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Income and others	(494)	14	21	(406)	30	28	224	(14)
Net loss	650	183	(21)	(497)	(93)	(90)	(105)	(549)
Net loss per share(basic and diluted)	0.019	0.005	0.001	0.014	0.002	0.003	0.003	0.016

Variations in quarterly loss can be explained by the following:

- 2010-Q2** Write-off of a mining property and related deferred exploration expenses for \$503,419.
- 2010-Q1** Grant of 980,000 options in March 2010. Renewal of an investors relation contract in February 2010.
- 2009-Q4** Future income tax expense adjustment (Future income tax income of \$17,886) following the accounting of tax credits.
- 2009-Q3** Write-off of a mining property and related deferred exploration expenses for \$431,192.
- 2009-Q2** New Director fees policy in force during the quarter. Grant of 980,000 options in May 2009.
- 2009-Q1** End of the Public relation and Communications contract in January. Decrease in the number of options exercisable in 2009 resulting in a reduction of the stock compensation charge.
- 2008-Q4** Income tax liability following the accounting of tax credits. Write-off of a mining property and related deferred exploration expenses for \$226,794.
- 2008-Q3** Accounting for stock based compensation expenses of \$126,420. Important future income taxes related to exploration activities.

CASH FLOW SITUATION

The working capital increased by \$95,412 during the second quarter going from \$2,084,120 as at March 31, 2010, to \$2,179,532 as at June 30, 2010. The increase is mainly due to the recognition, during the quarter, of the tax credits for exploration expenses incurred in Quebec instead to wait at the end of the year.

The cash and investments (free cash flow) amounted to \$2,684,457 as at June 30, 2010 compared to \$2,923,993 as at March 31, 2010. During the quarter the Company received a tax credit in the amount of \$433,342.

The Company is considered to be in the exploration stage, thus it is dependent on obtaining regular financing in order to continue exploration. Despite previous success in acquiring sufficient financing, there is no guarantee of obtaining any future financing. **Moreover, the current climate of uncertainty requires larger efforts than before to obtain funds from investors.**

The Company considers the cash on hand sufficient for the known obligations. As at June 30, 2010, the Company did not have any debt or any financial commitments in the upcoming quarters.

As at June 30, 2010 :

- 34,333,839 common shares were issued.
- 4,710,000 options were granted and a total of 3,681,000 can be exercised at prices between \$0.15 to \$0.75 between 2011 and 2015. Each option can be exchanged by its holder thereof for one common share of the Company.

Variation in share capital as at August 20, 2010 is the following:

Description	Number of shares	Amount \$
As at December 31, 2009	34,333,839	16,146,451
As at June 30 and August 20, 2010	34,333,839	16,146,451

Options

Variation in outstanding options as at August 20, 2010 is the following:

Date	Number of options	Average exercise price \$
As at December 31, 2009	3,730,000	0.41
Granted	980,000	0.34
As at June 30 and August 20, 2010	4,710,000	0.40

On March 22, 2010, the Company granted a total of 980,000 stock options that may be exercised over a period of five years, at an exercise price of \$0.34 and having a fair value of \$0.26. These options have been granted to employers, directors and officers. The fair value of these options was estimated using the Black Scholes stock option evaluation model with the following assumptions: estimated average duration of 5 years for these options, risk free interest rate of 1.5%, forecast volatility of 101% and no forecast dividend.

Options granted and exercisable as at August 20, 2010;

Expiry date	Number of options	Exercisable	Price (\$)
April 7, 2011	270,000	270,000	0.33
January 29, 2012	450,000	450,000	0.50
March 8, 2012	1,000,000	1,000,000	0.75
October 29, 2012	50,000	50,000	0.38
February 12, 2013	980,000	980,000	0.31
May 19, 2014	980,000	686,000	0.15
March 22, 2015	980,000	245,000	0.34
	4,710,000	3,681,000	0.40

The fair value of these options was estimated using the Black Scholes stock option evaluation model with the following assumptions: estimated average duration of 5 years for these options, risk free interest rate of 1.5% to 4.5%, forecast volatility of 49% to 113% and no forecast dividend.

RELATED PARTY TRANSACTIONS

The Company is related to another company, Sirius Resources Inc., because of certain common officers.

As at June 30, 2010, there is a balance payable of \$1,923 (\$3,098 as at December 31, 2009) to this company. This payable bears a monthly interest of 0.5%.

Also, for the six-month period ended June 30, 2010, in the normal course of activities, a company with a common director invoiced the Company \$20,520 (\$21,255 in 2009) for professional fees.

These transactions were measured at the exchange amount that is the amount established and accepted by the parties.

ACCOUNTING POLICIES

Accounting changes

Certain new primary sources of Canadian generally accepted accounting principles (standards) have been published during the quarter but should not have a significant impact on the Company's financial statements.

Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. Significant estimates include the recoverability of

mineral properties and deferred exploration expenses, future income taxes and stock-based compensation. Actual results may differ from those estimates.

Off-balance sheet arrangements

During the period, the Company did not set up any off-balance sheet arrangements.

International financial reporting standards

In February 2008, Canada's Accounting Standards Board ('AcSB') confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to the International Financial Reporting Standards ('IFRS'). The Company followed the key events timeline proposed by the AcSB to obtain training and thorough knowledge of IFRS, finalize assessment of accounting policies with reference to IFRS and plan convergence to be ready for the changeover planned in 2011.

The Company has begun the planning activities, including the establishment of a steering committee comprised the Finance responsible and an independent member of the audit committee, and is currently progressing through the detailed assessment and design of the overall implementation strategy. In the fall 2009, three directors included the president and the CFO of the Company attended the IFRS specific to the exploration company given par Raymond Chabot Grant Thornton, chartered accountants and the CFO was attended a one day training course on the impact of IFRS on the mining industries (Ordre des comptables agréés du Québec). At the date of this report, IFRS standards whose applications are compulsory in 2011 will cease to be amended.

The detailed analysis of the accounting policies impacted by the IFRS convergence is expected to be completed throughout 2010. Based on a preliminary analysis, the following IFRS could have a potential impact on the financial statements of the Company:

IFRS 1 : Provides guidance on the general approach to be taken when first adopting IFRS. Under IFRS 1, there is now a requirement to disclose not only comparative information but also, the year of adoption, the opening balance sheet at the start of the comparative period. IFRS 1 also provides guidance concerning retrospective application and prescribes optional exemptions and exceptions. The Company now sets its opening balance sheet and its choice of exemptions if applicable.

IFRS 2 Share-based payments: For grades-vesting features, this IFRS requires each instalment to be treated as a separate share option grant. It's not expected to have a material impact for the Company.

IFRS 6 : As per this IFRS, the Company would be required to develop an accounting policy to specifically identify which expenditures on exploration and evaluation activities will be recorded as assets. IFRS allows accounting in line with Canadian GAAP for the exploration and evaluation phase but expenditures beyond the exploration and evaluation phase, must be considered in line with the capitalisation criteria for property, plant and equipment. As the Company's mineral properties are not in development phase, no significant impact is expected.

IAS 36 (International Accounting Standards) Impairment: Impairment tests have been applied on the carrying value of projects on a quarterly basis, as required under Canadian GAAP. Although the methodology of testing impairment under IFRS is slightly different, no complications are expected on the transition to IFRS. IFRS requires reversal of impairment losses where there has been a change in estimates used to determine the

recoverable amount. This standard concerns the method of depreciation of assets based on discounted cash flows.

Accounting, internal controls and information system

The accounting system and its internal controls, since it is still an exploration company, are simple and the Company believes to be able to adapt it under the IFRS. The IFRS convergence will not prevent the Company from pursuing its business plan or continue to certify the financial information.

Accounting of tax credits receivable

From the second quarter of 2010, the Company has decided to account the tax credits for exploration expenses incurred in Quebec instead to wait at the end of the year. These tax credits are recorded as a reduction of deferred exploration expenses.

FINANCIAL INSTRUMENTS

Initially, all the financial assets and liabilities are evaluated and recognized at fair value, at the exception of the assets and liabilities arising from certain operations with related parties. The costs of transaction are recognized in earnings when they are incurred. Subsequently, financial assets and liabilities are measured and recognized as follows:

- Held-for-trading financial assets are measured at their fair value and changes in fair value are recognized in earnings. Changes in fair value that are recognized in earnings include interest, realized and unrealized gains or losses, and are presented under section Interest and others and Change in value of listed shares held for trading. Cash, short and long term investments and listed shares are classified as held-for-trading assets. They are classified under level 1 that is valuation based on active market price in determining fair value. Term deposits included in short and long term investments are designated as held for trading because the Company envisages repurchasing them, entirely or partly, before their maturing date.
- Other financial liabilities are evaluated at amortized cost using the effective interest method. The calculated interests using the effective interest method are presented in the earning statement under Interests and others. Accounts payable and accrued liabilities and account payable to a mining company are classified as other financial liabilities.

The Company recorded a fair value variation for financial instruments held for trading as follows:

	Period ended June 30, 2010	
	Three months	Six months
	\$	\$
Listed shares held for trading	(7,538)	(12,060)

Objectives and politics concerning financial risks management

The Company is exposed to different financial risks resulting from both its operations and investing activities. The management of the financial risks is done by the management of the Company. The Company does not conclude agreements for financial instruments including financial derivatives for speculation purpose.

Financial risks

The principal financial risks to which the Company is exposed as well as its policies concerning the management of the financial risks are detailed as follows:

Interest rate risk

Some investments and the accounts receivable from a mining company are at fixed rates and therefore expose the Company to risk of fair value variation due to interest rate variation. A fluctuation of 1% of interest rates on the markets would involve a variation of the results of the Company from approximately of \$25,865 as at June 30, 2010. The other financial assets and liabilities of the Company do not represent interest risk because they are concluded without interest. The Company does not use financial derivatives to decrease its exposure to interest risk.

Liquidity risk

The management objective is to maintain sufficient cash to ensure that the Company has at its disposal sufficient sources of financing such as private financing. The Company also establishes budget and liquidity forecasts to ensure that it has at its disposal sufficient funds to meet its financial obligations. Obtaining additional funds make it possible to the Company to continue its operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash and investments. The Company reduces its credit risk by maintaining its cash and an important part of investments in financial instruments guaranteed by and held with a Canadian chartered bank. The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on accounts receivable.

Market risk related to listed shares

The listed shares held by the Company are exclusively shares from an issuer acting in the mineral exploration area. The Company is exposed to market risk in trading its shares and unfavorable market conditions could result in the disposal of its listed shares at lesser prices than their book value. As at June 30, 2010, the value of these listed shares is \$15,075 with an original cost of \$104,417. A 10% variation in the closing price on the stock market would result in an estimated variation of \$1,507 of the loss at the end of the June 30, 2010.

Fair value of listed shares

The fair value of the Listed shares is equivalent to the market value based on the current bid price.

RISK AND UNCERTAINTIES

Risks inherent in the nature of mineral exploration and development

Mineral exploration and development involve several risks which experience, knowledge and careful evaluation may not be sufficient to overcome. Large capital expenditures are required in advance of anticipated revenues from operations. Many exploration programs do not result in the discovery of

mineralization; moreover, mineralization discovered may not be of sufficient quantity or quality to be profitably mined. Unusual or unexpected formations, formation pressures, fires, power outages, labor disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labor are some of the risks involved in the conduct of exploration programs and the operation of mines. The commercial viability of exploiting any precious metal deposit is dependent on a number of factors including infrastructure and governmental regulations, in particular those respecting the environment, price, taxes, and royalties. No assurance can be given that minerals of sufficient quantity, quality, size and grade will be discovered on any of the Company's properties to justify commercial operation. Numerous external factors influence and may have significant impacts on the operations of the Company and its financing needs.

Financial risks

The Company is an exploration company. The Company will periodically have to raise additional funds to continue operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Tax

No assurance can be made that Canada Revenue Agency or Quebec Minister of Revenue will agree with Company's characterization of expenditures as Canadian exploration expenses or Canadian development expenses.

Dependence on key personnel

The development of the Company's business is and will continue to be dependent on its ability to attract and retain highly qualified management and mining personnel. The Company faces competition for personnel from other employers.

Conflicts of interest

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith of view to the best interests of the Company and to disclose any interest, which they may have un any project or opportunity of the Company. If a conflict arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter.

Environmental risks

The Company is subject to various environmental incidents that can occur during exploration work. The Company maintains an environmental management system including operational plans and practices.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Company's financial statements are the responsibility of the Company's management, and have been approved by the board of directors. The financial statements were prepared by the Company's management in accordance with generally accepted Canadian accounting principles. The financial statements include certain amounts based on the use of estimated and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

(Signed) Marie-José Girard, President

(Signed) René Lacroix CA, Chief Financial Officer

Montreal, August 20, 2010