

# **DIOS EXPLORATION INC.**

## **INTERIM FINANCIAL STATEMENTS**

**SEPTEMBRE 30, 2011**

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The attached interim financial statements have been prepared by Dios Exploration Inc. and its external auditors have not reviewed these unaudited financial statements.

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**DIOS EXPLORATION INC.**  
**Interim Statement of Financial Position (unaudited)**

(Canadian dollars)

	Notes	September 30 2011 \$	December 31 2010 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	6	765 011	32 283
Cash held for exploration expenses	6	150 000	-
Investments	7	721 407	1 338 694
Good and services tax receivable		102 788	86 779
Receivables		50 160	-
Tax credit and credit on duties receivable		731 170	891 099
Prepaid expenses and deposit		1 962	11 899
		<u>2 522 498</u>	<u>2 360 754</u>
<b>Non-current</b>			
Investments	7	405 533	300 934
Exploration and evaluation assets	8	10 254 454	9 182 776
		<u>10 659 987</u>	<u>9 483 710</u>
<b>Total assets</b>		<u><u>13 182 485</u></u>	<u><u>11 844 464</u></u>
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables	9	384 874	280 587
Account payable to a mining company	17.2	-	3 960
<b>Total liabilities</b>		<u>384 874</u>	<u>284 547</u>
<b>EQUITY</b>			
Share capital	10.1	17 697 937	16 231 701
Contributed surplus		2 168 426	2 033 223
Deficit		(7 068 752)	(6 705 007)
<b>Total equity</b>		<u>12 797 611</u>	<u>11 559 917</u>
<b>Total liabilities and equity</b>		<u><u>13 182 485</u></u>	<u><u>11 844 464</u></u>

The accompanying notes are an integral part of the interim financial statements

These financial statements were approved and authorized for issue by the Board of Directors on November 25, 2011

*(signed) Marie-José Girard*

Marie-José Girard  
 Director

*(signed) René Lacroix*

René Lacroix  
 Director

**DIOS EXPLORATION INC.****Interim Statement of Earnings and Comprehensive loss (unaudited )**

(Canadian dollars)

	Notes	Three-month period ended		Nine-month period ended	
		September 30		September 30	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>EXPENSES</b>					
Salaries and employee benefits expense	11.1	112 206	84 883	253 016	273 500
Professional fees		4 543	0	46 875	31 500
Trustees, registration fees and shareholders relations		8 667	1 491	35 787	27 342
Publicity, travel and promotion		7 700	11 601	34 934	83 610
Offices expenses		7 078	5 591	22 040	21 573
Insurance, taxes and permits		2 115	1 962	7 904	14 889
Bank charges		190	228	454	617
<b>OPERATING LOSS</b>		<b>142 499</b>	105 756	<b>401 010</b>	453 031
<b>OTHER REVENUES AND EXPENSES</b>					
Finance income	13	11 095	16 245	36 063	50 850
Management Income		20 680	-	20 680	-
Write-off of exploration and evaluation assets		-	-	-	(503 419)
Loss on disposal of investments		(11 009)	-	(13 448)	-
Change in fair value of listed shares held for trading		(6 030)	4 522	(6 030)	(7 538)
		<b>14 736</b>	20 767	<b>37 265</b>	(460 107)
<b>LOSS BEFORE INCOME TAXES</b>		<b>(127 763)</b>	(84 989)	<b>(363 745)</b>	(913 138)
Deferred income taxes		-	-	-	47 548
<b>NET LOSS AND COMPREHENSIVE LOSS</b>		<b>(127 763)</b>	(84 989)	<b>(363 745)</b>	(960 686)
<b>NET LOSS PERSHARE</b>					
Basic and diluted loss per share	14	<b>(0.003)</b>	(0.002)	<b>(0.01)</b>	(0.028)

The accompanying notes are an integral part of the interim financial statements

# DIOS EXPLORATION INC.

## Interim Statement of Changes in Equity (unaudited)

(Canadian dollars)

	Note	Share capital	Contributed surplus	Deficit	Total equity
		\$	\$	\$	\$
Balance at January 1, 2010		16 146 451	1 813 365	(6 522 072)	11 437 744
Net loss for the period		-	-	(182 935)	(182 935)
Share-based payments		-	219 858	-	219 858
Shares issued for the acquisition of mining rights		85 250	-	-	85 250
Balance at December 31, 2010		16 231 701	2 033 223	(6 705 007)	11 559 917
Balance at January 1, 2010		16 146 451	1 813 365	(6 522 072)	11 437 744
Net loss for the period		-	-	(960 686)	(960 686)
Share-based payments		-	184 887	-	184 887
Balance at September 30, 2010		16 146 451	1 998 252	(7 482 758)	10 661 945
Balance at January 1, 2011		16 231 701	2 033 223	(6 705 007)	11 559 917
Net loss for the period		-	-	(363 745)	(363 745)
Share-based payments	11.1	-	134 025	-	134 025
Shares issued by private placement	10.1	1 319 336	23 578	-	1 342 914
Shares issued for the acquisition of mining rights	10.1	82 500	-	-	82 500
Exercise of options	11.2	42 000	-	-	42 000
Value of exercised options		22 400	(22 400)	-	-
Balance at September 30, 2011		17 697 937	2 168 426	(7 068 752)	12 797 611

The accompanying notes are an integral part of the interim financial statements

**DIOS EXPLORATION INC.**  
**Interim Statement of Cash Flows (unaudited)**

(Canadian dollars)

	Notes	Nine-month period ended	
		September	
		2011	2010
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Net loss		(363 745)	(960 686)
Adjustments			
Share-based payments		134 025	184 887
Change in fair value of listed shares held for trading		6 030	7 538
Write-off of exploration and evaluation assets		-	503 419
Interest received		(36 784)	(35 911)
Deferred income taxes		-	47 548
Changes in working capital items	16	836 903	599 354
Cash flows from operating activities		<u>576 429</u>	<u>346 149</u>
<b>INVESTING ACTIVITIES</b>			
Investments redeemed		1 218 571	75 571
Investments		(711 911)	-
Cash held for exploration expenses		(150 000)	-
Additions to exploration and evaluation assets		(1 672 058)	(1 005 347)
Cash received from a mining property option		50 000	-
Interest received		36 784	35 911
Cash flows from investing activities		<u>(1 228 614)</u>	<u>(893 865)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of shares by private placement		1 350 000	-
Issuance cost of shares		(7 087)	-
Exercise of options		42 000	-
Cash flows from financing activities		<u>1 384 913</u>	<u>-</u>
<b>Net change in cash and cash equivalents</b>		<b>732 728</b>	<b>(547 716)</b>
<b>Cash and cash equivalents, beginning of period</b>		<u>32 283</u>	<u>546 534</u>
<b>Cash and cash equivalents (bank overdraft), end of period</b>		<u>765 011</u>	<u>(1 182)</u>

The accompanying notes are an integral part of the interim financial statements

# **DIOS EXPLORATION INC.**

## **Notes to Interim Financial Statements**

### **For the nine-month period ended September 30, 2011 (unaudited)**

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(Canadian dollars)

#### **1. NATURE OF OPERATIONS**

Dios Exploration Inc. (the “Company”), is an exploration company with activities in Canada.

#### **2. GOING CONCERN ASSUMPTION**

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) and on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Given that the Company has not yet determined whether its mineral properties contain mineral deposits that are economically recoverable, the Company has not yet generated income nor cash flows from its operations. As at September 30, 2011, the Company has a negative cumulated retained deficit of \$7,068,752 (\$6,705,007 as at December 31, 2010). These material uncertainties cast significant doubt regarding the Company’s ability to continue as a going concern.

The Company’s ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties. Even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future.

In February and September 2011, the Company has completed private placements for a total amount of \$1.35MM. See details in Note 10.1.

The carrying amounts of assets, liabilities, revenues and expenses presented in the financial statements and the classification used in the statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate.

#### **3. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS**

The 2011 interim financial statements of the Company were prepared in accordance with IFRS (CICA Handbook, Part I). As these financial statements represent the Company’s initial presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 34, *Interim Financial Reporting* and by IFRS 1, *First-time Adoption of IFRS*.

The Company’s financial statements were previously prepared in accordance with Canadian GAAP in effect prior January 1, 2011. In preparing these interim financial statements, management has amended certain accounting and valuation previously applied in the old Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Company’s interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in note 18 along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive loss.

These financial statements were prepared under the historical cost convention, except for certain financial instruments are carried at fair value.

The Company is incorporated under the *Canada Business Corporations Act*. The address of the Company’s registered office and its principal place of business is 1000, St-Antoine street West, suite 711, Montreal, Quebec, Canada. The Company’s shares are listed on the TSX Venture Exchange.

The financial statements for the reporting period ended September 30, 2011 (including comparatives) were approved and authorized for issue by the Board of Directors on November 25, 2011 and have not been audited by their external auditors.

#### **4. SUMMARY OF ACCOUNTING POLICIES**

##### **4.1 Overall considerations and first-time adoption of IFRS**

The financial statements have been prepared using accounting policies specified by those IFRS that will be in effect at the end of the year-end (December 31, 2011).

We can find the significant accounting policies used in preparing these financial statements from the interim financial statements dated March 31, 2011. These accounting policies have been used throughout all periods presented in the financial statements, except where the Company has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Company and the effects of transition to IFRS are presented in Note 18.

# **DIOS EXPLORATION INC.**

## **Notes to Interim Financial Statements**

### **For the nine-month period ended September 30, 2011 (unaudited)**

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(Canadian dollars)

#### **4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company**

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

The IASB (International Accounting Standards Board) aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

IFRS 13 Fair Value Measurement: This new standard is meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement. Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Company.

#### **5. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS**

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

##### **Exploration and evaluation assets**

###### *Indications of impairment and of reversal of impairment loss and recoverable amount*

The assessment of indications of impairment loss and the reversal of an impairment loss and the measuring of the recoverable amount when impairment tests has been done involve judgment. If there is an indication of impairment or reversal of an impairment loss, an estimate of the recoverable amount of the asset or the cash generating unit is performed and an impairment loss or reversal of impairment loss is recognized to the extent that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and its value in use.

The management determines for each property if there are any facts and circumstances indicating impairment loss or reversal of impairment losses. Facts and circumstances indicating impairment include, but are not limited to the following:

- (a) the period for which the entity has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- (b) substantive expenditure on further exploration for an evaluation of mineral resources in a specific area is neither budgeted nor planned;
- (c) exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- (d) sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

**DIOS EXPLORATION INC.**  
**Notes to Interim Financial Statements**  
**For the nine-month period ended September 30, 2011 (unaudited)**

(Canadian dollars)

**5. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS (continued)**

When an indication of impairment loss or a reversal of an impairment loss exists, management has to evaluate the recoverable amount of the asset or the cash-generating unit, and this requires management to make assumptions as to the future events or circumstances. The assumptions are based on the Company's exploration and evaluation program which consider whether results from exploration works justify further investments, the confirmation of the interest of the Company in the mining claims, the ability of the Company to obtain the necessary financing to complete the future development or if the disposal of the properties for proceeds is in excess of their carrying value.

The actual results are likely to differ and significant adjustments to the Company's assets may happen during the next period. No impairment loss of the exploration and evaluation assets recognized during the period.

**Deferred taxes**

The assessment of availability of future taxable profits involves judgment. A deferred tax asset is recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

**Going concern**

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Further information regarding going concern is outlined in Note 2.

**Share-based payments**

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model.

**Provisions and contingent liabilities**

Judgements are made as to whether a past event has led to a liability that should be recognized in the consolidated financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received, previous experience and the probability of a loss being realized. Several of these factors are source of estimation uncertainty.

**6. CASH AND CASH EQUIVALENTS**

	<b>September 30, 2011</b>	December 31, 2010
	<u>\$</u>	<u>\$</u>
Cash at bank (bank overdraft) and in hand	(24 668)	(452)
Monetary fund	939 679	32 735
	<u>915 011</u>	<u>32 283</u>
less: Cash held for exploration expenses	<u>(150 000)</u>	<u>-</u>
	<u><u>765 011</u></u>	<u><u>32 283</u></u>

As at September 30, 2011, cash and cash equivalents include monetary fund bearing interest at 0.5%, cashable anytime without any penalties.

**DIOS EXPLORATION INC.**  
**Notes to Interim Financial Statements**  
**For the nine-month period ended September 30, 2011 (unaudited)**

(Canadian dollars)

**7. INVESTMENTS**

	Rate ranging		September 30,	December 31,
	from	to	2011	2010
			\$	\$
<b>Current</b>				
Guaranteed investment certificates	1.32%	3.85%	706 332	906 574
Others investments from financial institutions	2.50%	3.05%	-	411 015
Shares listed	-	-	15 075	21 105
			<u>721 407</u>	<u>1 338 694</u>
<b>Non-current</b>				
Guaranteed investment certificates	2.35%	2.60%	303 838	200 000
Others investments from financial institutions	2.85%	3.05%	101 695	100 934
			<u>405 533</u>	<u>300 934</u>

**8. EXPLORATION AND EVALUATION ASSETS**

MINING RIGHTS

QUEBEC		December 31,	Additions	September 30,
		2010		2011
		\$	\$	\$
33 Carats		561 141	27 075	588 216
14 Carats		-	24 417	24 417
Carbon 14		-	23 382	23 382
Carbon Goéland		-	3 564	3 564
Carbo		-	3 100	3 100
Hotish		282 738	39 332	322 070
Hotish nord		-	11 574	11 574
Pontax		66 371	2 977	69 348
Chibouki		48 438	262	48 700
Shadow	note	18 061	658	18 719
Lac LeCaron	note	119 345	7 051	126 396
AU33 ouest	note	60 311	-	60 311
Upinor		66 695	7 257	73 952
Upinor 2		13 560	-	13 560
Shipshaw		131 414	85 187	216 601
U2		76 320	-	76 320
Pam and Ugo		92 940	1 107	94 047
		<u>1 537 334</u>	<u>236 943</u>	<u>1 774 277</u>

**DIOS EXPLORATION INC.**  
**Notes to Interim Financial Statements**  
**For the nine-month period ended September 30, 2011 (unaudited)**

(Canadian dollars)

**8. EXPLORATION AND EVALUATION ASSETS (continued)**

MINING RIGHTS (balance forwarded) 1 537 334 236 943 1 774 277

EXPLORATION

	December 31, 2010	Additions	Tax credits and credit on duties	Option payment	September 30, 2010
QUEBEC	\$	\$	\$		\$
33 Carats	1 477 571	132 181	(55 122)	-	1 554 630
14 Carats	-	125 580	(52 370)	-	73 210
Carbon 14	-	47 469	(19 796)	-	27 673
Carbon Goéland	-	928	(387)	-	541
Carbo	-	2 741	(1 143)	-	1 598
Hotish	3 270 520	329 853	(137 556)	-	3 462 817
Hotish nord	-	5 187	(2 163)	-	3 024
Pontax	968 798	1 373	(573)	-	969 598
Pontax Lithium	107 139	597	(249)	-	107 487
Chibouki	428 085	-	-	-	428 085
Shadow note	60 811	52 523	(21 903)	-	91 431
Lac LeCaron note	344 596	74 491	(31 064)	-	388 023
AU33 ouest note	199 679	25 070	(10 455)	(50 000)	164 294
Upinor	442 487	-	-	-	442 487
Shipshaw	290 519	717 233	(299 102)	-	708 650
U2	17 443	-	-	-	17 443
Pam et Ugo	37 794	2 388	(996)	-	39 186
	<u>7 645 442</u>	<u>1 517 614</u>	<u>(632 879)</u>	<u>(50 000)</u>	<u>8 480 177</u>
TOTAL	<u>9 182 776</u>	<u>1 754 557</u>	<u>(632 879)</u>	<u>(50 000)</u>	<u>10 254 454</u>

Note: During the period, the Company divided the property AU33 into three new properties: Shadow, Lac LeCaron and AU33 ouest.

Under an agreement signed on October 21, 2010, the Company issued on January 6, 2011, 250,000 common shares to Exploration Diagold Inc., which allows the Company to fulfill the last condition to obtain the remaining 25% interest in the Shipshaw property.

On February 3, 2011, through a private placement, the Company issued to IAMGOLD Corporation ("IAMGOLD") 3,428,572 common shares at a price of \$0.35 per share for a total of \$1,200,000 and IAMGOLD is also granted an exclusive option to earn 60% interest in the Shipshaw Property under certain conditions, within two years of this private placement. No less than 80% of the proceeds of this private placement will be committed to the Shipshaw property.

On July 5, 2011, the Company signed an option and joint venture agreement with Osisko Mining Corporation ("Osisko"), whereby the Company grants to Osisko the option to earn a 51% participating interest on AU33 ouest property, by incurring expenditures in a amount totaling \$5,000,000 on the property and making cash payments totaling \$700,000 during a five year period. The Company grants to Osisko a second option to a 9% additional participating interest by incurring \$9,000,000 of additional expenditures on the property during a maximum period of five years. Finally, the Company grants to Osisko a third option to earn 10% participating interest in the property by solely funding a feasibility study pertaining to the property. Cash payments of \$50,000 were made in June and July 2011.

**9. TRADE AND OTHER PAYABLES**

	September 30, 2011	December 31, 2010
	\$	\$
Trade accounts	375 218	251 536
Credit cards	9 656	22 361
Payroll deduction at source	-	6 352
Accrued	-	338
	<u>384 874</u>	<u>280 587</u>

**DIOS EXPLORATION INC.**  
**Notes to Interim Financial Statements**  
**For the nine-month period ended September 30, 2011 (unaudited)**

(Canadian dollars)

**10. EQUITY**

**10.1 Share capital**

The share capital of the Company consists only of fully paid ordinary shares.

**Authorized**

Unlimited number of common shares without par value, voting, participating, dividend as declared by the Board of Directors.

	Year 2010	Number of shares	
		Nine-month period ended	
		Sept. 30, 2011	Sept. 30, 2010
Shares issued and fully paid			
Shares issued and fully paid at the beginning	34 333 839	34 633 839	34 333 839
Private placement (a)	-	3 857 122	-
Acquisition of mining rights (b)	300 000	250 000	-
Exercise of share options	-	280 000	-
Total shares issued and fully paid at the end	<u>34 633 839</u>	<u>39 020 961</u>	<u>34 333 839</u>

(a) On February 3, 2011, through a private placement, the Company issued to IAMGOLD Corporation 3,428,572 common shares at a price of \$0.35 per share for a total of \$1,200,000 (\$1,192,914 after the issue costs of \$7,086). No less than 80% of the proceeds of the private placement will be committed to the Shipshaw property.

On September 7, 2011, the Company completed a non-brokerage private placement with subscribers. An amount of \$150,000 was subscribed composed of 150 units at a price of \$1,000 per unit. Each unit consists of 2,857 flow-through shares and 2,857 warrants. A sum of \$126,422 was allocated to share capital, whereas an amount of \$23,578 was allocated to the warrants.

(b) Under the agreement signed on October 21, 2010, the Company issued on January 6, 2011 250,000 common shares (attributed value of \$82,500) to Exploration Diagold Inc., which allows the Company to fulfill the last condition to obtain the remaining 25% interest in the Shipshaw property.

**10.2 Warrants**

Outstanding warrants entitle their holders to subscribe to an equivalent number of common share, as follows:

	Number of warrants	Weighted average exercise price
Balance, beginning of reported period	-	
Issued	428 550	\$0.49
Balance, end of reporting period	<u>428 550</u>	<u>\$0.49</u>

In respect with the private placement dated September 7, 2011, the Company issued 428,550 warrants. Each warrant entitles its holder to acquire one flow-through share of the Company at a price of \$0.49 until September 6, 2012 or at a price of \$0.63 until September 6, 2013.

The average fair value of the warrants issued in 2011 was estimated using the Black-Scholes option pricing model and based on the following weighted average assumptions:

Average share price at date of issuance	\$0.30
Dividends yield	0%
Expected weighted volatility	98%
Risk-free interest average rate	1.75%
Expected average life	1 year
Average exercise price at date of issuance	\$0.49

**DIOS EXPLORATION INC.**  
**Notes to Interim Financial Statements**  
**For the nine-month period ended September 30, 2011 (unaudited)**

(Canadian dollars)

**10.2 Warrants (continued)**

The number of outstanding warrants which could be exercised for an equivalent number of common shares is as follows:

Expiration date	Number	Exercise price
September 6, 2012 / September 6, 2013	428 550	\$0.49 / \$0.63

**11. EMPLOYEE REMUNERATION**

**11.1 Salaries and employee benefits expense**

	Three-month period ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Wages, salaries	70 586	66 439	228 438	196 134
Professional fee paid to an officer	20 433	10 540	48 683	31 060
Social security costs	2 113	1 966	8 687	6 259
Share-based payments	79 624	55 052	134 025	184 887
Defined contribution State plans	346	739	7 228	7 484
	<b>173 102</b>	<b>134 736</b>	<b>427 061</b>	<b>425 824</b>
Less: salaries capitalized in Exploration and evaluation assets	<b>(60 896)</b>	<b>(49 853)</b>	<b>(174 045)</b>	<b>(152 324)</b>
Salaries and employee benefits expense	<b>112 206</b>	<b>84 883</b>	<b>253 016</b>	<b>273 500</b>

**11.2 Share-based payments**

The Company has adopted share-based payment plans under which members of the Board of Directors may award options for ordinary shares to directors, officers, employees and consultants. The maximum number of shares issuable under the plans is 6,600,000. The maximum number of common shares which may be reserved for issuance to any one optionee may not exceed 5% of the common shares outstanding at the date of grant.

The exercise price of each option is determined by the Board of Directors and cannot be less than the market value of the ordinary shares on the day prior the award, and the term of the options cannot exceed five years. The options granted vest in stages over a period of 18 months after the grant date, at the rate of 15% per quarter, at the exception of 10%, which may be exercised from the date of the grant. For the options granted to a consultant, it vests in stages over a period of 12 months after the grant, at the rate of 25 % per quarter.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options. The Company's share options are as follows for the reporting periods presented:

	Options	Weighted average exercise price
Outstanding as at December 31, 2010	4 710 000	0.40
Granted	950 000	0.30
Exercised	(280 000)	0.15
Expired	(240 000)	0.33
Cancelled	(1 155 000)	0.46
Outstanding as at September 30, 2011	3 985 000	0.38

In April 25, 2011, the Company granted 950,000 options exercisable at \$0.30 to officers, directors and employees of the Company. The options have a term of five years and can be exercised gradually over a period of eighteen months.

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**11.2 Share-based payments (continued)**

The table below summarizes the information related to share options as at September 30, 2011:

Range of exercise price \$	Outstanding options			Exercisable options	
	Number of options	Weighted average exercise price	Remaining life (years)	Number of options	Weighted average exercise price
		\$			\$
0.10 to 0.29	700 000	0.15	2.62	700 000	0.15
0.30 to 0.50	2 590 000	0.34	2.99	1 877 500	0.35
0.51 to 0.75	695 000	0.75	0.42	695 000	0.75
	<u>3 985 000</u>	0.38		<u>3 272 500</u>	0.39

The fair value of these options (\$0.21 per option issued) during the year (\$0.24 per option issued in 2010) was estimated using the Black-Scholes stock option pricing model with the following weighted average assumptions:

	2011	2010
Average share price at date of grant	<b>\$0.30</b>	\$0.34
Dividends yield	<b>0%</b>	0%
Expected weighted volatility	<b>98%</b>	101%
Risk-free interest average rate	<b>2.0%</b>	1.5%
Expected average life	<b>4.21 years</b>	4.21 years
Average exercise price at date of grant	<b>\$0.30</b>	\$0.34

The underlying expected volatility was determined by reference to historical data of Company's shares over a period of time since its listing on the TSX Venture Exchange. No special features inherent to the options granted were incorporated into measurement of fair value.

In total, \$134,025 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) were included in profit or loss for the six-month period ended September 30, 2011 (\$184,887 for the nine-month period ended September 30, 2010) and credited to Contributed surplus.

**12. FINANCIAL ASSETS AND LIABILITIES**

**Categories of financial assets and liabilities**

The carrying amounts and fair values of financial instruments presented in the consolidated statement of financial position are as follows:

	September 30, 2011		December 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Cash and cash equivalents	765 011	765 011	32 283	32 283
Cash held for exploration expenses	150 000	150 000	-	-
Guaranteed investment certificates	1 010 170	1 010 170	1 106 574	1 106 574
<i>Financial assets at fair value through profit or loss.</i>				
Listed shares	15 075	15 075	21 105	21 105
Other investments from financial institutions	101 695	101 695	511 749	511 749
<b>Financial liabilities</b>				
Financial liabilities measured at amortized cost				
Trade accounts	375 218	375 218	251 536	251 536
Other payable	9 656	9 656	29 051	29 051
Account payable to a mining company	-	-	3 960	3 960

The carrying value of cash and cash equivalents, guaranteed investment certificates, trade accounts, account payable to a mining company and other liabilities are considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments.

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**12. FINANCIAL ASSETS AND LIABILITIES (continued)**

**Financial instruments measured at fair value**

The following presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the assets or liabilities that are not based on observable market data.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Marketable securities in quoted mining exploration companies and investment in bonds measured at fair value in the consolidated statement of financial position as at September 30, 2011 are classified in Level 1.

The fair value of the marketable securities in quoted mining exploration companies and bonds was determined by reference to the quoted bid prices at the reporting date.

There have been no significant transfers between Levels 1 and 2 in the reporting periods.

The method and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

**13. FINANCE INCOME**

	Three-month period ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Interest income from cash and cash equivalents	1 732	653	3 384	1 312
Interest income from guaranteed investment certificates	6 766	10 984	23 876	37 847
Interest income from other investments	2 597	4 608	8 803	11 691
Finance income	<b>11 095</b>	16 245	36 063	50 850

**14. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted loss per share, potential ordinary shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Notes 10.2 and 11.2.

	Three-month period ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
Net loss	\$(127,763)	\$(84,989)	\$(363,745)	\$(960,686)
Weighted average number of shares in circulation	38 704 207	34 333 839	38 126 090	34 333 839
Basic and diluted loss per share	\$(0.003)	\$(0.002)	\$(0.01)	\$(0.028)

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**15. INCOME TAXES**

The recorded deferred income tax assets and liabilities result from differences between the carrying amount and the tax basis of the following items:

	September 30, 2011	Dec. 31, 2010
	\$	\$
Deferred income tax assets		
Listed shares	12 062	11 205
Exploration and evaluation assets	132 762	100 012
Issuance cost of equity instruments	10 968	43 869
Non-capital losses	566 743	503 489
	<u>722 535</u>	<u>658 575</u>
Deferred income tax liability	-	-

Deferred income tax assets are not recognized because the Company considers it unlikely that they will offset future taxable income.

**16. ADDITIONAL INFORMATIONS – CASH FLOWS**

The changes in working capital items are detailed as follows:

	Nine-month period ended September 30	
	2011	2010
	\$	\$
Good and services tax receivable	(16 009)	1 444
Receivables	(50 160)	-
Tax credit and credit on duties receivable	792 808	243 792
Prepaid expenses and deposit	1 937	35 116
Trade and other payables	112 287	304 412
Account payable to a mining company	(3 960)	14 590
	<u>836 903</u>	<u>599 354</u>

**17. RELATED PARTY TRANSACTIONS**

The Company's related parties include its associate, one related company and joint key management, as described below. Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

**17.1 Transactions with key management personnel**

Key management personnel of the Company are members of the Board of Directors, as well as the president, the chief of finance and the vice-president exploration. Key management personnel remuneration includes the following expenses:

	Three-month period ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short-term employee benefits				
Salaries including bonuses and benefits	68 750	62 000	223 542	127 000
Professional fees	20 433	11 240	48 683	31 760
Social security costs	2 273	2 271	14 071	13 039
Total short-term employee benefits	<u>91 456</u>	<u>75 511</u>	<u>286 296</u>	<u>171 799</u>
Share-based payments	69 085	51 121	118 235	158 659
Total remuneration	<u>160 541</u>	<u>126 632</u>	<u>404 531</u>	<u>330 458</u>

An important part of the remuneration of the President and Vice-President Exploration has been allocated to Exploration and evaluation assets.

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**17.2 Transactions with an related company**

The Company was related to another corporation until April 1, 2011, as they have in common certain directors.

For the period ended April 1, 2011, in the normal course of activities, a company with a common director invoiced the Company \$12,234 (\$31,760 for the nine-month period ended September 30, 2010) for professional fees.

**18. FIRST-TIME ADOPTION OF IFRS**

These are the Company's first financial statements prepared in accordance with IFRS with the interim financial statements dated March 31, 2011 and June 30, 2011. The date of transition to IFRS is January 1, 2010.

The Company's IFRS accounting policies presented in Note 4 of the interim financial statements dated March 31, 2011 have been applied in preparing the financial statements for the reporting period ended September 30, 2011, the comparative information and the opening statement of financial position at the date of transition.

The Company has applied IFRS 1 in preparing these first IFRS financial statements. The effects of the transition to IFRS on equity, total comprehensive loss and reported cash flows already established are presented in this section and are further explained in the notes that accompany the tables.

**18.1 First-time adoption – exemptions applied**

Upon transition, IFRS 1 dictate certain mandatory exceptions and certain optional exemptions from full retrospective application. The exceptions and exemptions adopted by the Company are set out below:

**Mandatory exceptions**

The estimates established by the Group in accordance with IFRS at the date of transition to IFRS are consistent with estimates made for the same date in accordance with Canadian GAAP, after adjustments to reflect any difference in accounting principles, if applicable.

Financial assets liabilities that were derecognised before January 1, 2010 as per the previous GAAP, have not been accounted for under IFRS. The Company has applied the IFRS amendment in advance at the date of application of the exception, January 1, 2010.

**Optional exemption**

The Company has chosen not to apply IFRS 2, Share-based Payment, retrospectively to options granted on or before November 7, 2002 or granted after November 7, 2002 and vested before the date of transition to IFRS.

**18.2 Reconciliation of equity**

Some differences were noted but the net result of these differences between the accounting standards in force before the changeover and IFRS is zero.

	<u>December 31, 2010</u>	<u>September 30, 2010</u>	<u>January 1, 2010</u>
	\$	\$	\$
Equity under pre-change accounting standards	11 559 917	10 661 945	11 437 744
Variation in equity reported in accordance with pre-change accounting standards, as a result of the following differences between pre-change accounting standards and IFRS			
Deficit - Share-based payments	50 759	65 768	18 081
Contributed surplus - Share-based payments	(50 759)	(65 768)	(18 081)
Equity under IFRS	<u>11 559 917</u>	<u>10 661 945</u>	<u>11 437 744</u>

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**18.3 Reconciliation of net loss**

Total loss and comprehensive loss for the six-month et three-month periods ended September 30, 2010 can be reconciled to the amounts reported under pre-change accounting standards as follows:

	September 30, 2010	
	<u>9 months</u>	<u>3 months</u>
	\$	\$
Loss and comprehensive loss under pre-change accounting standards	(912 999)	(79 918)
Variation in total loss and comprehensive loss reported in accordance with pre-change accounting standards, as a result of the following differences between pre-change accounting standards and IFRS		
Share-based payments	<u>(47 687)</u>	<u>(5 071)</u>
Total loss and comprehensive loss under IFRS	<u><u>(960 686)</u></u>	<u><u>(84 989)</u></u>

**18.4 Presentation differences**

Certain presentation differences between pre-change accounting standards and IFRS have no impact on reported loss or total equity.

As can be seen in the following tables, some line items are described differently (renamed) under IFRS compared to pre-change accounting standards, although the assets and liabilities included in these line items are unaffected.

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**18.4 Presentation differences (continued)**

The following table shows the total effect of the transition on the statement of financial position as at December 31, 2010:

PRE-CHANGE ACCOUNTING STANDARDS DESCRIPTION	Notes	December 31, 2010			IFRS DESCRIPTION
		Previous GAAP	Effect of transition to IFRS	IFRS	
		\$	\$	\$	
<b>ASSETS</b>					<b>ASSETS</b>
Current assets					Current
Cash		32 283		32 283	Cash and cash equivalents
Investments	a	1 317 589	21 105	1 338 694	Investments
Listed shares held for trading	a	21 105	(21 105)		
Taxes receivable		86 779		86 779	Good and services tax receivable
Prepaid expenses		11 899		11 899	Prepaid expenses and deposit
Exploration tax credit receivable		891 099		891 099	Tax credit and credit on duties receivable
		<u>2 360 754</u>		<u>2 360 754</u>	
Investments		300 934		300 934	Investments
Mineral Properties	a	1 537 334	(1 537 334)		
Deferred exploration expenses	a	7 645 442	1 537 334	9 182 776	Exploration and evaluation assets
		<u>11 844 464</u>		<u>11 844 464</u>	
<b>LIABILITIES</b>					<b>LIABILITIES</b>
Current liabilities					Current
Account payables and accrued liabilities		280 587		280 587	Trade and other payables
Account payable to a mining company		3 960		3 960	Account payable to a mining company
		<u>284 547</u>		<u>284 547</u>	
<b>SHAREHOLDERS' EQUITY</b>					<b>EQUITY</b>
Capital stock		16 231 701		16 231 701	Share capital
Contributed surplus	b	1 982 464	50 759	2 033 223	Contributed surplus
Deficit	b	(6 654 248)	(50 759)	(6 705 007)	Deficit
		<u>11 559 917</u>		<u>11 559 917</u>	
		<u>11 844 464</u>		<u>11 844 464</u>	

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**18.4 Presentation differences (continued)**

The following table shows the total effect of the transition on the statement of financial position as at September 30, 2010:

PRE-CHANGE ACCOUNTING STANDARDS DESCRIPTION	Notes	September 30, 2010			IFRS DESCRIPTION
		Previous GAAP	Effect of transition to IFRS	IFRS	
		\$	\$	\$	
<b>ASSETS</b>					<b>ASSETS</b>
Current assets					Current
Investments	a	2 121 055	19 597	2 140 652	Investments
Listed shares held for trading	a	19 597	(19 597)		
Taxes receivable		38 286		38 286	Good and services tax receivable
Prepaid expenses		14 725		14 725	Prepaid expenses and deposit
Exploration tax credit receivable		619 023		619 023	Tax credit and credit on duties receivable
		<u>2 812 686</u>		<u>2 812 686</u>	
Investments		403 162		403 162	Investments
Mineral Properties	a	1 379 293	(1 379 293)		
Deferred exploration expenses	a	7 323 885	1 379 293	8 703 178	Exploration and evaluation assets
		<u>11 919 026</u>		<u>11 919 026</u>	
<b>LIABILITIES</b>					<b>LIABILITIES</b>
Current liabilities					Current
Bank overdraft		1 182		1 182	
Account payables and accrued liabilities		348 129		348 129	Trade and other payables
Account payable to a mining company		17 688		17 688	Account payable to a mining company
		<u>366 999</u>		<u>366 999</u>	
Future income taxes		890 082		890 082	Deferred tax
		<u>1 257 081</u>		<u>1 257 081</u>	
<b>SHAREHOLDERS' EQUITY</b>					<b>EQUITY</b>
Capital stock		16 146 451		16 146 451	Share capital
Contributed surplus	b	1 932 484	65 768	1 998 252	Contributed surplus
Deficit	b	(7 416 990)	(65 768)	(7 482 758)	Deficit
		<u>10 661 945</u>		<u>10 661 945</u>	
		<u>11 919 026</u>		<u>11 919 026</u>	

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**18.4 Presentation differences (continued)**

The following table shows the total effect of the transition on the statement of earnings and comprehensive loss for the three-month period ended Sept. 30, 2010:

PRE-CHANGE ACCOUNTING STANDARDS DESCRIPTION	Notes	Three-month period ended September 30, 2010			IFRS DESCRIPTION
		Previous GAAP	Effect of transition to IFRS	IFRS	
		\$	\$	\$	
ADMINISTRATIVE EXPENSES					EXPENSES
Salaries and employee benefits	a	19 292	65 591	84 883	Salaries and employee benefits expense
Stock-based compensation	a	49 980	(49 980)		
Publicity and promotion		11 601		11 601	Publicity, travel and promotion
Professional fees	a	10 540	(10 540)	-	Professional fees
Trustees, registration fees and shareholders relations		1 491		1 491	Trustees, registration fees and shareholders relations
Office expenses		5 591		5 591	Offices expenses
Insurance, taxes and permits		1 962		1 962	Insurance, taxes and permits
Bank charges		228		228	Bank charges
		<u>100 685</u>		<u>105 756</u>	OPERATING LOSS
OTHER REVENUES AND EXPENSES					OTHER REVENUES AND EXPENSES
Interest and others		16 245		16 245	Finance income
Change in fair value of listed shares held for trading		4 522		4 522	Change in fair value of listed shares held for trading
		<u>20 767</u>		<u>20 767</u>	
LOSS BEFORE INCOME TAXES		(79 918)		(84 989)	LOSS BEFORE INCOME TAXES
Future income taxes		-		-	Deferred income taxes
NET LOSS AND COMPREHENSIVE LOSS		<u>(79 918)</u>		<u>(84 989)</u>	NET LOSS AND COMPREHENSIVE LOSS
BASIC AND DILUTED NET LOSS PER SHARE		<u>(0.002)</u>		<u>(0.002)</u>	BASIC AND DILUTED LOSS PER SHARE

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**18.4 Presentation differences (continued)**

The following table shows the total effect of the transition on the statement of earnings and comprehensive loss for the nine-month period ended Sept. 30, 2010:

PRE-CHANGE ACCOUNTING STANDARDS DESCRIPTION	Notes	Nine-month period ended September 30, 2010			IFRS DESCRIPTION
		Previous GAAP	Effect of transition to IFRS	IFRS	
		\$	\$	\$	
ADMINISTRATIVE EXPENSES					EXPENSES
Salaries and employee benefits	a	57 553	215 947	273 500	Salaries and employee benefits expense
Stock-based compensation	a	137 200	(137 200)		
Publicity and promotion		83 610		83 610	Publicity, travel and promotion
Professional fees	a	62 560	(31 060)	31 500	Professional fees
Trustees, registration fees and shareholders relations		27 342		27 342	Trustees, registration fees and shareholders relations
Office expenses		21 573		21 573	Offices expenses
Insurance, taxes and permits		14 889		14 889	Insurance, taxes and permits
Bank charges		617		617	Bank charges
		<u>405 344</u>		<u>453 031</u>	OPERATING LOSS
OTHER REVENUES AND EXPENSES					OTHER REVENUES AND EXPENSES
Interest and others		50 850		50 850	Finance income
Write-off of mineral properties	a	(61 030)	(442 389)	(503 419)	
Write-off of deferred exploration expenses	a	(442 389)	442 389	-	Write-off of exploration and evaluation assets
Change in fair value of listed shares held for trading		(7 538)		(7 538)	Change in fair value of listed shares held for trading
		<u>(460 107)</u>		<u>(460 107)</u>	
LOSS BEFORE INCOME TAXES		(865 451)		(913 138)	LOSS BEFORE INCOME TAXES
Future income taxes		(47 548)		(47 548)	Deferred income taxes
NET LOSS AND COMPREHENSIVE LOSS		<u>(912 999)</u>		<u>(960 686)</u>	NET LOSS AND COMPREHENSIVE LOSS
BASIC AND DILUTED NET LOSS PER SHARE		<u>(0.027)</u>		<u>(0.028)</u>	BASIC AND DILUTED LOSS PER SHARE

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**18.5 Notes to reconciliation**

**(a) Presentation**

Statement of Financial Position

*Listed shares for trading*, has been grouped with *Investments* for presentation purposes.

*Mineral properties* and *deferred exploration expenses* have been grouped for presentation under *Exploration and evaluation assets*.

Statements of earnings and comprehensive loss

*Salaries and employee benefits* expense for IFRS was adjusted as follows:

	September 30, 2010	
	3 months	9 months
	\$	\$
Balance before the transition date	19 292	57 553
Grouping		
Share-based payments	49 980	137 200
Professional fee paid to an officer	10 540	31 060
Share-based payments adjustment	5 071	47 687
Balance as per IFRS	84 883	273 500

The accounting items *Write-off of mineral properties* and *Write-off of deferred exploration expenses* are have been grouped for presentation under *Write-off of exploration and evaluation assets*.

*Travelling and promotion* and *Publicity and promotion* have been grouped for presentation under *Publicity, travel and promotion*.

**(b) Share-based payments**

Under pre-change accounting standards, for grants of share-based payments with graded vesting, the total fair value of the awards is recognized on a straight-line basis over the employment period necessary to vest the awards. Moreover, forfeitures of awards are recognized as they occur.

Under IFRS 2, each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. Also, an estimate of the number of share-based payments expected to be forfeited is required, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its expense for share-based payments to reflect these accounting method differences, resulting in an increase of contributed surplus as follows:

Cumulative adjustments calculated		
As at December 31, 2010	As at September 30, 2010	As at January 1, 2010
\$	\$	\$
50 759	65 768	18 081

# **DIOS EXPLORATION INC**

## **Notes to Interim Financial Statements**

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#### **18.6 Statement of cash flows**

Under pre-change accounting standards, interest paid and received were presented through the notes. Under IFRS, interests are allocated to investing and financing activities where they can be identified with transactions within those categories. There are no other material adjustments to the statement of cash flows. The components of cash and cash equivalents under pre-change accounting standards are similar to those presented under IFRS.

#### **18.7 Impairment losses recognized at the date of transition**

The Company applied IAS 36, *Impairment of assets*, in determining whether any impairment losses arose at the date of transition to IFRS. No impairment losses (or reversals) were identified.

#### **18.8 Financial instruments classification**

At the date of the transition, the accounting item *Cash and cash equivalents* has been reclassified from *financial assets held for trading* in the category *loans and receivables*.