DIOS EXPLORATION INC.
INTERIM MANAGEMENT REPORT
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

Following the discovery of several gold occurrences on its wholly-owned diamond projects in the Opinaca and Otish areas, Dios Exploration Inc. (the "Company" or "Dios") diversified looking for gold while pursuing its diamond exploration strategy. 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 James Bay. Dios' systematic strategy led to the discovery of other commodities, such as uranium or in demand exotic minerals such as lithium and niobium 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 38,592,411 shares were issued as of June 30, 2011. Additional information may be available through the www.sedar.com web site, under the Company's section "Sedar filing" or at www.Diosexplo.com.

This Management Discussion and Analysis dated August 12, 2011 and provides an analysis of our interim financial statements as at June 30, 2011. This discussion and analysis of the financial position and results of operation should be read in conjunction with the interim financial statements as at June 30, 2011, the interim financial statements as at March 31, 2011 and the audited financial statements for the year ended December 31, 2010 and the audited financial statements for the year ended December 31, 2009. The financial statements for the six-months period ended June 30, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including comparative figures. Note 4 to the interim financial statements as at March 31, 2011 provides details of these new accounting policies while the adjustments made to the financial statements at the transition date are explained on the note 18 in our interim financial statements dated June 30, 2011.

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.

SUMMARY OF ACTIVITIES DURING THE QUARTER

- Exploration expenses totalling $536,779 mainly on Hotish and Shipshaw. See the item "**Summary of exploration activities**" below.
- Hotish property: Beginning of a silver and rare earth program.
- Shipshaw property: Resumption of the drilling program.
- AU 33 ouest property: Option granted to Osisko Mining Corporation on July 5, 2011 (60% of the property in exchange for $14 million in exploration work on the property and $700,000 in cash payments).

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 research method uncovered a well-structured gold glacial dispersal train on its new property AU33. At the end of the second quarter, the Company divided the property AU33 into two new properties: AU33 est (Lac LeCaron) and AU33 ouest. Further research on diamond property Pontax led to the discovery of lithium while drilling an old survey magnetic anomaly led to the discovery of a new carbonatite complex on the Shipshaw property, near Chicoutimi. Dios, as for its pre-existent privileged stand in possession of claims and the expertise of its employees, diversified its exploration strategy on diamond, uranium and gold, three substances highly requested in the natural resources industry.

During the second quarter, the Company incurred $536,779 in exploration expenses mainly on the Hotish and Shipshaw mining properties.

Exploration Expenses Analysis

Description	Shipshaw	Hotish	AU33	33 Carats	Others	Total
	$	$	$	$	$	$
Geology	82 652	154 703	10 114	8 734	19 480	275 683
Geophysics	2 970	-	-	2 310	2 530	7 810
Transport and lodging	6 083	129 729	800	732	-	137 344
Office and other	5 355	1 207	2 221	-	-	8 783
Drilling and assays	107 159	-	-	-	-	107 159
	204 219	285 639	13 135	11 776	22 010	536 779

Geological information presented herein was summarized by Marie-José Girard, M.Sc., Geo M.Sc. and Harold Desbiens Geo, qualified persons pursuant to National Instrument 43-101.

AU33 Ouest property (gold), James Bay Agreement Area, Lower Eastmain river, Qc

A porphyry gold deposit is looked for by Dios on the western block of the AU33 project hosting a significant well-structured 3-5 by 15 kilometer gold glacial dispersal train from which heavy minerals concentrates from 47 till samples averaged 0.48 grams per ton (g/t) gold, including:

- 16 samples over 0.5 g/t gold;
- 11 samples over 0.75 g/t gold; and
- 7 samples over 1.0 g/t gold (1.085, 1.13, 1.255, 1.39, 1.60, 1.75, 2.09 g/t gold)

A small (2-3 days) gold prospecting program last fall confirmed the presence of porhyry-gold type mineralization in tonalite-granodiorite rocks within 5 km from the access road. Mainly targeting volcanic rocks as the possible source for gold, five tonalite intrusive glacial floats were discovered with 1 to 5% disseminated pyrite that assayed 2.3 g/t gold, 6.6 g/t silver (**«** Ag **»**); 2.3 g/t gold, 1.6 g/t Ag; 0.84 g/t gold, 1.5 g/t Ag; 0.74 g/t gold and 2.2 g/t gold, respectively. Multiple sources are considered due to 9 gold anomalous till samples (0.4 to 2.09 g/t gold) which are located 3 to 10 km up-ice of the auriferous metric size sub-angular tonalite floats. Dios magnetic data show a well-developped set of NNW-NS lineaments that cross-cut the tonalite in this target-area.

On July 5, 2011 was executed an option agreement between Dios and Osisko Mining Corporation («Osisko ») regarding the AU33 Ouest property (519 cdc). See **« Subsequent Events ».**

A several meters thick EW shear zone is located at the contact of a tonalite/granodiorite intrusive and mafic metavolcanics 5 km NE of the goldbearing tonalite. Volcanics are altered in chlorite-actinolite-biotite-garnet with traces to 3 % sulfides and two vein episodes : metasomatic chlorite-epidote-potassic feldspar veins (cm-dm) and late tourmaline-quartz & tourmaline tension veins (cm). Tonalite is variably altered with quartz and tourmaline (up to 15% locally) and by 3-5% tourmaline-quartz-feldspar veinlets or stockwork.

A petrographic thin section examination of five auriferous samples from the AU33 WEST project indicates a strong potassic alteration. The replacement textures as well as the abundance of matrix with microcline, in association with biotite and the quartz-microcline veins indicate that the AU33 WEST auriferous tonalite samples were strongly affected by potassic alteration, further enhancing the porphyry gold model deposit looked for by Dios (such potassic alteration is typical of other gold deposits in the Abitibi area).

A major field prospecting and mapping campaign was undertaken by Osisko and Dios' geologists in July 2011. Results are pending.

AU33 Est (Lac LeCaron) property (gold-diamond), Lower Eastmain, James Bay, Qc

One of Dios main targets on AU33 Est (LeCaron) property (900 cdc) was a major NW striking structure highly prospective for diamonds. Dios carried out in 2010 a detailed airborne geophysical survey for diamonds and kimberlite targeting on its AU33 project. The survey shows abundant favourable NNW, N-S and NNE magnetic lineaments, and some oriented E-W in its eastern part. Several regional diabase-gabbro dykes are also well outlined by geophysics.

Field check of geophysical targets in the vicinities of a major regional structure led to the discovery of the Conductor gold showing on AU33 Est (LeCaron NTS map sheet), located 12 km north of the Clearwater gold deposit (1,09 Mt @ 9,46 g/t gold). The gold showing is located 12 km from the LaGrande-Opinaca contact. Golcorp Eleonore gold deposit is also located 50 km northwest further along this favourable contact. of the Conductor showing had returned:

- 37.3 g/t gold , 16.8 g/t silver;
- 24.0 g/t gold, 29.6 g/t silver;
- 16.0 g/t gold, 3.9 g/t silver, 0.18% zinc;
- 14.2 g/t gold, 54.0 g/t silver, 1.75% lead, 1.06% zinc;
- 6.0 g/t gold, 3.9 g/t silver;
- 5.0 g/t gold, 4.5 g/t silver;
- 4.5 g/t gold, 1.4 g/t silver;
- 4.2 g/t gold, 53.6 g/t silver, 0.82% lead, 0.75% zinc;
- 2.9 g/t gold, 15.8 g/t silver, 0.56% lead, 0.11% zinc.

Diamond saw channel sampling of *Dios* ' Gold Conductor showing returned from east to west:

- 9.64 g/t gold / 0.7 meter (m) (eastern track)
- 4.9 g/t gold, 14 g/t silver, 0.28% lead, 0.15% zinc / 1 m
- 8.1 g/t gold, 22.6 g/t silver, 0.31% lead, 0.32% zinc / 1 m & 2.1 g/t gold / 1.5 m totalling 2.1 g/t gold / 4.5 m;
- 3.44 g/t gold / 1 m totalling 1.3 g/t gold / 2.5 m (western track);

See result map at: http://diosexplo.com/pdfs/carteU33.pdf

To date, the exposed outcrop hosting the Conductor gold showing is twenty meters long and remains open laterally, consisting of a 4-5 meters wide corridor with two series of centimetric quartz veins containing traces to 2% pyrite-arsenopyrite-(chalcopyrite-galena) in chloritized-carbonatized-silicified metavolcanics (basalts) that may contain 1-2% disseminated sulfides (pyrite-pyrrhotite-arsenopyrite-galena-sphalerite). It is east-west striking with a 65 degrees dip towards the north. An airborne EM (electromagnetic) conductor is located within a low topography (at the contact between dacitic and basaltic volcanics) within 250 meters west/southwest of the Conductor showing. Down-ice till results showed anomalous gold contents in the heavy minerals concentrates: 0,666 g/t Au; 0,925 g/t Au and 1,035 g/t Au.

A 40 km-lines gridline was cut and surveyed by induced polarization. Six first-priority kilometric conductors were outlined. Last fall 44 samples till sampling defined a 1-2 km by 6-7 km gold glacial dispersal train (composed of 12 samples). Heavy mineral concentrates from this dispersal train yielded 4 samples (25%) over 0.6 g/t Au (0.666, 0.925, 1.035, 1.160 g/t gold). Other significant clusters of anomalous gold from heavy mineral concentrates in till were also observed near Le Caron Lake (1.305 & 6.63 g/t gold) and Tiki Lake (0.983 & 3.510 g/t gold). But other areas also returned very significant values such as 6 and 10 grams per ton gold in glacial till remain to be explained. Additional mapping-prospecting should be carried out up-ice of anomalous gold in tills, as well as in the southern part of the volcanic complex.

A short prospecting-mapping campaign was undertaken in July and results from 166 rock samples are pending. Field follow-up is planned for the end of the summer including further till sampling to narrow down some gold and KIM dispersal trains.

Hotish Iron oxide Copper Gold Uranium property, Otish Mtns, James Bay, Qc

Recent review by Dios of in house proprietary lake sediment surveys, soil surveys, rock sampling, geophysics and photo-interpretation for IOCG (iron oxide copper gold-uranium) confirmed its main 2011 Hotish targets on its wholly-owned silver and rare earths HOTISH PROPERTY:

- Godzila high-grade uranium showing discovered only by walking over outcrops rock and its southern extents associated with a 7 km by 1 km NE-SW cerium-uranium lake sediment anomaly;
- A1 spectrometric anomaly associated with a well-defined NE-SW glacial dispersal train characterized by a 5-8 km by 2.5 km silver-cerium-yttrium-uranium lake sediment anomaly.
- B2 spectrometric anomaly associated with a NE-SW glacial dispersal train characterized by a 12-15 km by 3 km uranium lake sediment anomaly.
- A3 (south) spectrometric anomaly associated with a NE-SW glacial dispersal train characterized by a 10 km by 2 km yttrium-uranium lake sediment anomaly.
- A2 (/Ring dyke) spectrometric (magnetic) anomaly associated with a NE-SW glacial dispersal train characterized by a 8 km by 2 km lead-cerium-yttrium lake sediment anomaly.

Results are pending from the June program. Two new significant outcropping areas were uncovered, one consisting of sheared porous material giving volume potential.

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

Dios undertook a major exploration program on its wholly-owned niobium and rare earths Shipshaw Carbonatite Complex, a few kilometers away from the Niobec mine in operation for over thirthy years within the Saint-Honoré Carbonatite Complex. A 20 hole drill program was recently completed by Dios this spring and a last hole for this first definition phase had to be delayed.

The Niobec mine is located 300 feet (90 m) at vertical depth from surface, covered by 240 feet of Trenton limestone, and developments now reach 2,400 feet. Dios' drilling intercepted heterogeneous material of the Shipshaw complex. Drilling at depth is now considered by Dios.

The 2011 summer-fall program should include additional magnetic airborne survey on Dios claims located in the NE rims of the carbonatite complex as well as on the NW anomaly; -systematic diamond-drilling (20-30 holes for 4,000 m) of other magnetic rim targets (7-9) defined by geophysics on Dios' 276 claims surrounding the Niobec mine**;** - additional mapping-prospecting along streams, rivers and various geophysical targets.

Dios' exploration work is about at the same stage it was at Niobec, a few months after discovery of the Saint-Honoré Carbonatite, which was discovered around 1967, a discovery initially made from its (rare-earth carbonatite) core system near surface, and later with the following drilling over 3-4 years was discovered the niobium zone and later the development of economic zones brought the mine into production around 1976. Ferro-niobium milling facilities were built over 15 years ago. Niobium is used in the making of specific alloys used in the aerospace industry, for instance. Ferro-niobium is an added value product more directly in demand than niobium.

IAMGOLD completed in 2011 a private placement of $1.2 million in Common Shares of Dios, at a price of $0.35 per share. IAMGOLD was consequently granted an exclusive option to earn sixty percent (60%) of Dios 's interest in the Shipshaw Project for work expenditures in an amount equivalent to 200% of past expenditures incurred by Dios on the property, including, all exploration expenses incurred through IAMGOLD private placement and all acquisition costs incurred by Dios; and the purchase for $250,000 of common shares of Dios.

33 Carats diamond-gold property, Upper Eastmain River area, James Bay, Qc

Gold exploration

Dios delineated a significant hydrothermal potassic anomaly in association with a GOLD TONALITE TARGET (gold porphyry potential) hosted within a volcanic rock hinge-fold on its wholly-owned 33 CARATS diamond-gold project, which project is located adjacent to the Eastmain gold mine deposit and the Renard advanced diamond project, Otish region, Quebec, Upper Eastmain river area, in very close proximity to the route des Otish planned pursuant to the Quebec Government Plan Nord.

Advanced glacial studies completed by Dios over the years outlined a 15-20 km x 3-5 km well-structured gold north-east anomalous dispersal train. The glacial gold train is composed of 80 till samples including 13 samples (16%) over 0.25 g/t gold and 4 samples over 0.50 g/t gold including 0.519, 0.583, 1.165, 2.090 g/t gold (all from heavy mineral concentrates). The head source of this gold dispersal train is pointing out towards the volcanic belt wrapping around a tonalite complex on Dios ground. It shows a lot of similarities with the gold dispersal train recently discovered by Dios on its wholly-owned AU33 West project located a few hundreds kilometres to the west in the lower Eastmain River Area and optioned to Osisko.

Diamond exploration

Following very encouraging research results obtained by Dios, the company largely increased its land holdings in the vicinities of Stornoway RENARD diamond project, Otish region, Quebec. Three 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 877 claims (457 sq. kilometres) and Dios delineated several tens of priority kimberlite targets for further testing. A ten to fifteen holes drilling program is planned for the coming year to test a selection of the best remaining targets. 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 2011

PROJECTS	PLANNED WORK	BUDGET $	FOLLOWING WORKS
SHIPSHAW	Geophysics and drilling	1,075,000	Drilling
AU33 TONALITE	Prospecting, mapping, tills, outcrop grab sampling and diamond saw channel	500,000	Additional prospecting and drilling
AU33 NORTH	Prospecting, mapping, tills, outcrop grab sampling and diamond saw channel	400,000	Additional prospecting and drilling
33 CARATS	Prospecting, mapping and drilling	700,000	Drilling
HOTISH	Prospecting, mapping, outcrop grab sampling and diamond saw channel	200,000	Drilling
UPINOR	Mapping and diamond saw channel	65,000	Additional prospecting and drilling?
PAM	Mapping and diamond saw channel	50,000	Additional prospecting
TOTAL 2011		**2,990,000**	

Following the agreement with Osisko, the Company expects to decrease the exploration budget on the AU33 property.

SUMMARY OF FINANCIAL ACTIVITIES

Net loss for the quarter is $122,275 (net loss of $ 694,465 for the second quarter 2010) whereas administration fees for the quarter totalled $129,104 ($205,776 for the second quarter 2010). Significant decrease in losses from one year to another are explained by the radiation of mineral properties and deferred exploration expenses in 2010.

Net loss for the six-month period is $235,983 (net loss of $875,696 for the six-month period ended June 30, 2010) whereas administration fees for the six-month period totalled $258,511 ($347,274 for the six-month period ended June 30, 2010). Significant decrease in losses from one year to another are explained by the radiation of mineral properties and deferred exploration expenses in 2010.

Interest income for the quarter decreased to $12,283 ($24,967 for the six-month period ended June 30, 2011) from $16,108 for the same period last year ($35,037 for the six-month period ended June 30, 2010) due to less cash being invested and lower interest rates paid by banks.

Analysis of Administrative expenses

Description	Quarter ended June 30	
	2011	2010
	$	$
Salaries and employee benefits expense	**72,540**	126,726
Professional fees	**14,499**	6,500
Publicity and public relations	**16,300**	40,382
Registration fees and shareholders information	**16,154**	16,032
Office	**7,463**	7,063
Insurances, taxes and permits	**1,962**	8,889
Banking fees and interests	**186**	184
	129,104	205,776

During the three-month period June 30, 2011, one notes mainly:

- Significant reduction of stock-based compensation expenses in 2011;
- Additional professional fees incurred in 2011 for the transition to IFRS;
- Decrease in promotional costs: Investor Relations contract ended in 2010;
- In the second quarter 2010, the Company has paid an amount of arrears to the CSST.

Description	Semester ended June 30	
	2011	2010
	$	$
Salaries and employee benefits expense	**140,810**	188,616
Professional fees	**42,333**	31,500
Publicity and public relations	**27,120**	72,008
Registration fees and shareholders information	**27,234**	25,851
Office	**14,962**	15,982
Insurances, taxes and permits	**5,788**	12,927
Banking fees and interests	**264**	390
	258,511	347,274

During the six-month period June 30, 2011, one notes mainly

- Significant reduction of stock-based compensation expenses in 2011;
- Additional professional fees incurred in 2011 for the transition to IFRS;
- Decrease in promotional costs: Investor Relations contract ended in 2010. Financial contribution ($15,000) to a communication lobby for mineral exploration in Quebec in 2010;
- In the second quarter 2010, the Company has paid an amount of arrears to the CSST.

SUMMARY OF QUARTERLY RESULTS

	2011 IFRS		**2010 IFRS**				**2009 CANADIAN GAAP**	
($ 000 except loss/share)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Income and others	7	16	(12)	16	(494)	14	21	(406)
Net earnings (Net loss)	(122)	(113)	777	(84)	(694)	(181)	(21)	(497)
Net earnings (net loss) per share(basic and diluted)	(0.003)	(0.003)	0.023	(0.002)	(0.02)	(0.005)	(0.001)	(0.014)

Variations in quarterly loss can be explained by the following:

2011-Q2 Grant of 950,000 options in April 2011.
2011-Q1 Increase executive salaries in the first quarter.
2010-Q4 Future income tax liability related to mining rights of $842,534 have been written off.
2010-Q3 No significant fact.
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.
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.

CASH FLOW SITUATION

The working capital decreased by $392,394 during the second quarter going from $2,808,403 as at March 31, 2011 to $2,416,099 as at June 30, 2011. The decrease is mainly due to exploration costs and the administrative expenses incurred during the period. During the quarter the Company received the 2009 tax credit related to mining rights totaling $82,205.

The cash and investments, excluding Shares listed (free cash flow) amounted to $1,844,259 as at June 30, 2011 compared to $1,828,678 as at March 31, 2011.

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.

The Company considers the cash on hand sufficient for the known obligations. As at June 30, 2011, the Company did not have any debt or any financial commitments in the upcoming quarters.

As at June 30, 2011 :

- 38,592,411 common shares were issued.
- 4,600,000 options were granted and a total of 3,614,500 can be exercised at prices between $0.15 to $0.75 between 2012 and 2016. Each option can be exchanged by its holder thereof for one common share of the Company.

Variation in share capital as at August 12, 2011 is the following:

Description	**Number of shares**	**Amount $**
As at December 31, 2010	34,633,839	16,231,701
Private placement	3,428,572	1,192,913
Exercised options	280,000	42,000
Attributed value to exercised options	-	22,400
Acquisition of mineral properties	250,000	82,500
As at June 30, 2011 and August 12, 2011	**38,592,411**	**17,571,514**

Options

Variation in outstanding options as at August 12, 2011 is the following:

As at December 31, 2010	4,710,000	0.40
Exercised	(280,000)	0.15
Cancelled	(540,000)	0.42
Expired	(240,000)	0.33
Issued	950,000	0.30
As at June 30, 2011 and August 12, 2011	**4,600,000**	**0.39**

Options granted and exercisable as August 12, 2011:

Expiry date	**Number of options**	**Exercisable**	**Exercice price ($)**
January 29, 2012	400,000	400,000	0.50
March 8, 2012	900,000	900,000	0.75
October 29, 2012	25,000	25,000	0.38
February 12, 2013	755,000	755,000	0.31
May 19, 2014	700,000	700,000	0.15
March 22, 2015	870,000	739,500	0.34
April 25, 2016	950,000	95,000	0.30
	4,600,000	3,614,500	0.39

The fair value of these options was estimated using the Black Scholes stock option evaluation model with the following assumptions:

	2011	2010	2
Expected dividend	0%	0%	
Expected volatility	96%	101%	
Risk free interest rate	2.0%	1.5%	1
Estimated weighted average duration	4.21 years	4.21 years	5

RELATED PARTY TRANSACTIONS

The Company is related until April 1, 2011 to another company, Sirios Resources Inc., because of certain common officers.

Also, for the period ended April 1, 2011, in the normal course of activities, a company with a common director invoiced the Company $12,234 ($20,520 for the six-month period ended June 30, 2010) for professional fees.

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

The remuneration paid or payable to key management (President, CFO, Vice President Exploration and directors) is as follows

	Six-month period ended	
	June 30, 2011	June 30, 2010
	$	$
Salaries included bonus and fringe benefits	156,792	127,000
Professional fees	28,250	20,520
Social security costs	11,798	10,768
Share-based payments	49,150	107,538
	243,990	265,826

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

SUBSEQUENT EVENTS

On July 5, 2011, the Company signed an option and joint venture agreement with 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. A cash advance of $15,000 was made in June 2011 allowing Osisko to visit the property.

ACCOUNTING POLICIES

Accounting Estimates

The preparation of financial statements in accordance with IFRS 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 IFRS.

These interim financial statements of the Company were prepared in accordance with IFRS. 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. Canadian GAAP differs in some areas from IFRS. In preparing these interim financial statements, management has amended certain accounting and valuation previously applied in the 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 of the interim financial statements, along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income.

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

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 June 30, 2011 and the comparative information.

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 Company 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 exemptions

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.

The Company has elected not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the date of transition (January 1, 2010).

Transition to IFRS

Changes observed for the transition to IFRS are mainly the following:

a) Presentation differences at the Statement of Financial Position

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

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

b) Presentation differences in the Statements of earnings and comprehensive loss

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

	Period ended June 30, 2010	
	(3 months)	(6 months)
	$	$
Balance before the transition date	18 429	38,261
Grouping		
Stock-based-compensation	49 980	87,220
Professional fees paid to an officer	13 820	20,520
Share-based payments adjusment	44,497	42,615
Balance as per IFRS	126,726	188,616

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.*

c) 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 June 30, 2010	As at January 1, 2010
	$	$	$
	50,759	42,615	18,081

And affect the Statement of earnings and Comprehensive as follows:

	Period ended June 30, 2010	
	3 months	6 months
	$	$
Increase (decrease)	44,497	42,615

d) 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.

e) 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.

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 RESPONSABILITY 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 12, 2011