



**DIOS**  
EXPLORATION

**DIOS EXPLORATION INC.  
MANAGEMENT REPORT  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2012**

This Management Discussion and Analysis dated May 16, 2012 and provides an analysis of operations and financial position of Dios Exploration Inc. (the “Company” or “Dios”) for the three-month period ended March 31, 2012. This discussion and analysis of the financial position and results of operation should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2011 and December 31, 2010. These audited financial statements have been prepared in accordance with *International Financial reporting Standards* (“IFRS”) as issued by the *Accounting Standards Board*.

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.

**ABOUT DIOS**

Following the discovery of several gold occurrences and gold glacial dispersal trains on its wholly-owned diamond projects in the Opinaca and Otish areas, Dios Exploration Inc. diversified looking for gold while actively pursuing its diamond exploration strategy. Dios is a leading research and exploration company with over 2,700 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 rare earths and niobium. Dios’ strategy is to generate projects from scientific conceptual design to field discovery and develop them either alone or through farming out agreements, with the benefit of shareholders in mind, trying to evaluate from the start feasible economics in relation with access and facilities.



## SUMMARY OF ACTIVITIES DURING THE QUARTER

- Exploration expenses totalling \$119,449 on Shipshaw, Le Caron, Shadow, 14 Karats and 33 Carats properties. See “**Summary of exploration activities**”.
- Mining right payments of \$143,236 by Dios and \$47,999 on behalf of partner on AU33 WEST.
- Shipshaw property:
  - Significant drilling campaign undertaken in claims surrounding the Niobec mine;
  - Discovery of a new carbonatite (Falardeau) in March 2012.
- AU33 WEST property: New gold showing discoveries and clear indications of porphyry type gold mineralization (Malartic).
- Discovery of a high grade uranium lens in sub-vertical volcanics on Hotish property in 2011; 2012 drilling planning.
- 14 Karats and 33 Carats properties: Gold and diamond prospecting; numerous mineralized samples collected are being assayed: gold, copper and silver discovered in tonalite rocks on 33 Carats up-ice of a gold train (indications of porphyry type gold mineralization (Malartic).
- Gold in till train discovery confirmed on 14 Karats as well as a several km sequence of meta-sediments (conglomerates, graywackes & iron formation), and lesser metabasalts, dacites; ongoing heavy mineral assaying, picking and microprobe assaying pending.
- Shadow and Le Caron properties: gold and diamond prospecting programs, mapping and samples collected in 2011 and assayed in 2012: gold in till trains confirmed and closed on Le Caron and Shadow, indicator mineral train confirmed and closed on Shadow North, ongoing heavy mineral assaying, picking and microprobe assaying pending.

## RESULTS OF OPERATIONS

### Summary of exploration activities

During the first quarter of year 2012, the Company incurred \$119,449 in exploration expenses compared to \$511,363 in 2011. The Company also paid \$143,236 for mining rights (claim renewal and acquisitions) and a further \$47,999 on behalf of its partner on Au33 West (\$83,611 for the same period in 2011).

### Exploration Expenses Analysis

Description	Shipshaw	LeCaron	14 Karats	33 Carats	Shadow	Others	Total
	\$	\$	\$	\$	\$	\$	\$
Geology	27 522	22 374	15 792	11 245	12 008	2 886	91 827
Transport and lodging	3 752	-	2 483	-	-	-	6 235
Geophysics	-	-	-	4 730	495	2 915	8 140
Office and other	3 677	380	99	-	-	-	4 156
Drilling and assays	5 141	-	3 950	-	-	-	9 091
	40 092	22 754	22 324	15 975	12 503	5 801	119 449

### Acquisitions, disposals, write-off and claims renewal analysis

Properties	Acquisitions \$	Claims renewal \$	Paid by Osisko \$	Total \$
33 Carats	2,214	33,333	-	35,547
Shadow	16,482	41,943	-	58,425
LeCaron	3,321	30,996	-	34,317
14 Karats	4,305	-	-	4,305
Shipshaw	-	5,966	-	5,966
Pontax	-	4,517	-	4,517
Au33 West	-	-	47,999	47,999
Others	-	159	-	159
	26,322	116,914	47,999	191,235

These mining right amounts represent either staking acquisition costs or claims renewal costs for the first quarter ended March 31, 2012. The Company always favoured the acquisition of mining properties by map staking. Osisko paid the cost of claims renewals of \$47,999 for the AU 33 West property.

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

Dios' projects are located within the James Bay *Paix des Braves* Agreement and Cree territory in the *Plan Nord* region of Quebec, more specifically along the Eastmain River area, except for the Shipshaw project adjacent to the Niobec mine in the Saguenay region.

#### ***Lower Eastmain River area, James bay, Quebec***

On **AU33 WEST gold project** optioned to Osisko in July 2011, near EM-1, a field campaign during fall 2011 work revealed outcropping gold showings in a felsic (tonalite-granodiorite) intrusive complex, with 34 of the mineralized outcrops concentrated over a 18 sq. km area. All showings yielded values above 100 ppb gold (0.1 g/t Au), and seven yielded between 1.58 g/t and 23.6 g/t Au. These anomalous values represent 13% of the 260 samples collected from this part of the property. In 2011, two field campaigns totalling two months of prospecting were carried out on AU33 WEST property, targeting the felsic (tonalite-granodiorite) igneous complex, the diorites and the volcanic belts found up-ice of gold-bearing till dispersal trains and boulders defined by Dios earlier work. A large soil geochemical sampling program was also completed with 2012 assays pending.

The outcropping auriferous mineralization comprises 1-2% pyrite as disseminations and fracture fillings, locally accompanied by minor chalcopyrite and malachite, and is associated with potassic alteration. The gold-bearing outcrops were found up-ice of a NE-to-SW glacial dispersal train using historical data and Dios data for auriferous till and boulders.

The gold values are associated with silver grades and generally copper as well, in addition to bismuth and molybdenite, suggesting a porphyry-type deposit. The individual outcrops remain open laterally and at depth,

and future work will focus on detailed prospecting, stripping, channelling and drilling to better define the nature and extent of the mineralization. *The style of mineralization (disseminated, not vein-hosted) and metal association suggest potential for a low-grade bulk tonnage porphyry gold deposit on the property.*

In July 2011. Dios and Osisko had discovered outcropping gold mineralized occurrences in tonalite rocks. Highlights included: (3.79 ; 2.71 ; 2.66 ; 2.04 ; 1.765 ; 1.575 ; 0.804 ; 0.673 ; 0.539 ; 0.535 g/t Au).

Last July, Osisko was granted the option to earn a 51 percent participating interest in the property by incurring expenditures totalling \$5,000,000 and making cash payments totalling \$700,000 during a five year period. Osisko was granted a second option to earn up to a further 9 percent participating interest by incurring \$9,000,000 of expenditures during a period of five years. Osisko was granted a third option to earn an additional 10 percent participating interest by solely funding a feasibility study.

**The AU 33 EAST property**, hosting a high grade gold showing and many glacial till gold trains and indicator minerals some tens of km south of the world-class Eleonore gold deposit, was divided in two, the southwestern and northern **SHADOW** project and the southeastern **Le CARON** project.

On **SHADOW diamond project**, in 2012, new independent reprocessing of Dios 2009 tight 100 m spaced airborne geophysical data as well as Quebec government 2010 public data uncovered some 20 priority geophysical targets for diamondiferous kimberlite within a 10 by 15 kilometer area. These targets are located up-ice of Dios 2009-2010 favourable kimberlite indicator minerals (and Fall 2011 microprobe results) such as G9 pyrope, eclogitic garnet, omphacite (eclogitic clinopyroxene), kosmochlor (chrome diopside), and forsterite. **Eclogitic signature of indicator minerals strongly suggests high diamondiferous potential for kimberlites they come from.** The area hosts numerous favourable NNW, N-S and NNE magnetic features, and some E-W striking in its eastern part. Several regional diabase-gabbro dykes are very well outlined by geophysics. Last fall, some 40 additional heavy mineral samples were collected on the **Shadow-LeCaron project** and are still being for kimberlite indicator minerals.

On **SHADOW gold project** occurs in the southern part a foliated volcanic sequence wrapped around a felsic pluton showing pressure-shadow structures on Dios' proprietary magnetic data. A 4-5 x 2.5 km gold in till anomaly includes up to 1,120 ppb, 938 ppb Au and 3,510 ppb Au (parts per billion gold ) in heavy mineral concentrates. This glacial gold dispersal train points out towards a volcano-sedimentary contact (further up-ice sampling results were negative) and/or a small phantom plug jammed in the fold nose of the volcano-sedimentary sequence, over all of which is planned in the short term a large soil geochemical survey, then induced polarization survey and drilling.

On adjacent **Le CARON gold project**, compilation of 2010-2011 rock sampling for gold outlined a 4 km x 1.5 km auriferous (over 0.1 g/t Au in rocks) area within a mafic volcanic sequence west of Dios Conductor gold showing (up to 37 g/t Au), near a major NW structure. This area is also located up-ice of anomalous gold in tills (265; 285; 666; 925; 1,035; 1,160 ppb Au in heavy mineral concentrates). A new 921 ppb Au anomaly was located by the 2011 till sampling, which results end the dispersal train, suggesting a local source in this area some 12 kilometers north of the Clearwater 1.67 million ounce gold deposit.

Dios Conductor gold showing had returned between 2.9 et 37.3 g/t Au in grab samples and 1.3 g/t Au / 2.5 m (track A) incl. 3.44 g/t Au / 1 m; 2.1 g/t Au/4.5 m (track B) incl. 2.1 g/t Au / 1.5 m & 8.1 g/t Au, 22.6 g/t Ag, 0.31% Pb, 0.32% Zn/1 m; 4.9 g/t Au, 14 g/t Ag, 0.28% Pb, 0.15% Zn/ 1 m (track C); 9.64 g/t Au/0.7 m (track D). Extensive sampling of this first-priority target-area is recommended.

**Upper Eastmain River area, James bay, Quebec**

A Porphyry Gold model deposit is looked for on **33 CARATS diamond and gold project** and for the first time, gold is discovered in rocks on **33 CARATS**: gold was found within targeted tonalitic intrusive rocks: six samples returned values in gold, silver and copper up to 3.18 g/t Au, 18 g/t Ag and 1.22% Cu, respectively. See table below for more results. Detailed geological mapping by Dios some 5-10 km northwest of the volcanic hosted Eastmain gold deposit helped outline a 2 by 6 km tonalitic phase specifically targeted for its gold potential in the western part of a felsic pluton around which is wrapped the Eastmain Greenstone Belt. The mineralized (1-2% pyrite) silicified tonalite glacial float samples were collected up-ice of a glacial gold in till train. Boulders are angular and their sizes suggest an outcrop source within 2 km, where tonalite was mapped, so not in the eastern part of the property where granodiorite was mapped.

<b>Rock sample description</b>	<b>Gold (g/t)</b>	<b>Silver (g/t)</b>	<b>Copper (%)</b>	<b>Bi (ppm)</b>
Sub angular boulder, 2 x 2 x 1m, moderately fractured, felsic volcanic, 20-30% mm QZ porphyric crystals , 2-3% BO, 5-10% rusty QZ veinlets, non-magnetic, 2-3% PY-CPY	3,18	9,5	0,16	13
Boulder 1.5 x 1.5 x 1 m, medium grain tonalite, veins, moderately foliated, strongly magnetic, altered: biotization-silicification, disseminated 2-4% CPY, traces PY	1,32	18,0	1,22	19
Boulder 1 x 0.5 x 0.5 m, medium to coarse grain tonalite, strongly foliated, altered, magnetic, 20-30% mm QZ veins developed in foliation, alteration comprises biotization, hematization and silicification , disseminated 1-3% PY	1,97	1,8	nil	3
Angular boulder 4 x 4 x 2 m, medium to coarse grain tonalite containing a 2-3 cm rusty QZ vein , magnetic, disseminated traces PY	0,95	1,7	0,07	2
Sub angular boulder 1.5 x 1.3 x 1.1m, medium to coarse grained tonalite, moderately foliated, non-magnetic, alteration comprises BO veinlets, carbonatation and silicification , disseminated 3-5% PY-CPY and patchy MC	0,42	8,6	0,64	9
Sub angular boulder 4 x 4 x 5 m, medium to coarse grained tonalite, non-foliated, strongly magnetic, alteration comprises biotization and silicification , disseminated 3-4% PY-CPY	0,29	1,8	0,13	nil
QZ: quartz, BO: biotite, CPY: chalcopyrite, PY: pyrite, PG: plagioclase feldspar	Gold	Silver	Copper	Bismuth

Gold mineralization in these tonalite boulders correlates with significant values of copper and silver, and related values in bismuth, suggestive of porphyry type deposits. An anomalous gold bearing outcrop was also discovered, with high exploration potential in its surrounding one km or more radius. Dios considers these results very significant as it indicates this part of the eastern Eastmain volcanic belt hosts a potential for copper-gold porphyry deposits related to the synvolcanic Lac Erasme pluton. The Otish road towards the Renard diamond deposit will go through Dios' property, 1-2 kilometres east of the main gold potential area.

Siliceous and biotitic alteration affects most samples. Carbonatation is sometimes observed. Mineralization consists of disseminated pyrite, chalcopyrite and malachite within rocks but also in rusty quartz veins. Sulphide content varies between traces and 5%. Mineralization and alteration types combined with the important gold in till train suggest a real potential for a large copper-gold porphyry system that could be the source of the gold-bearing boulders found during the 2011 campaign.

A large soil geochemical survey is planned in the short term, then induced polarization survey and drilling over the tonalite in the volcanic fold nose on Dios' claims up-ice of a glacial auriferous train (glacial gold in till anomalies incl. 2090, 1165, 583 and 519 ppb gold in heavy minerals concentrates).

On **HOTISH uranium-rare earths (diamond) project** adjacent to Cameco's property, Otish mountains, Dios discovered a high grade uranium lens (1.85 % uranium oxide over one-meter true width), with copper and lead mineralization in sub-vertical volcanics under a two foot sand cover. **Five diamond-saw channels crosscut the stripped mineralized lens along a fifteen meter length returning from north to south:**

- 0.5042 % U3O8 over 2 m	<b>(1.04 % U3O8 over 1 m)</b>
- 0.155 % U3O8 over 1 m	(0.087 % U3O8 over 2 m with 0.13 % copper)
- 0.621 % U3O8 over 3 m	<b>(1.85 % U3O8 / 1 m, 0.5% lead, 0.17 % Cu 0.5% vanadium)</b>
- 0.1 % U3O8 over 1 m	
- 0.532 % U3O8 over 1 m with 0.165 % lead	

Two outcrop grab samples returned 1,66 % U3O8 (0.131 % copper, 0.63 % lead, 1.5 % barium, 0.7 % vanadium) and 0,624 % en U3O8, respectively. A brecciated texture super-imposed on a strong shear gives a schisteous look to the host-rocks and in the brecciated areas; the fragments are hematized. The mineralized lens seems to follow a north-south structure crosscutting the east-west sub-vertical sheared volcanics (600 – 1000 meters width) and could be further stripped along its extents with larger machinery or drilled at depth. The actual Otish winter road and planned all weather road in the scope of the Quebec Government Plan Nord is located 15 km from the property, which overlaps the western unconformity of the Otish sedimentary basin.

On **14 KARATS gold-diamond project** located far away upward of the Upper Eastmain River, 35-55 km east of the Stornoway Renard diamond deposit, and 50-75 km NE of the Eastmain gold mine (accessible by a 160 km winter-road from Temiscami), 2012 assays of new 2011 Fall regional glacial till (54 samples) sampling yielded 642 ppb Au, 583 ppb Au, 151 ppb Au, 120 ppb Au, 131 ppb Au, 115 ppb Au. These anomalous gold results adds up to re-assays of former proprietary Dios' 2006 diamond tills that returned 1,660 ppb Au, 123 ppb Au, 534 ppb Au and 2,330 ppb Au and are located within a few km down-ice of the Dios' interpreted extent of the Archean Upper Eastmain volcano-sedimentary belt.

The geological environment suggests a potential for worldclass Eleonore-type gold mineralization at the same southern geological contact between Opinaca and La Grande Subprovinces. The **14 KARATS** project covers a 40 km under-explored strike of this interpreted Upper Eastmain archean volcano-sedimentary belt and is effectively located near the metamorphic facies contact between the two Subprovinces, at the transition level between Greenschist and Amphibolite metamorphic gradients. Dios 2011 geological reconnaissance program outlined a pluri-kilometric sequence of metasediments (conglomerates, biotite graywackes & silicate iron-formation), and lesser metabasalts, dacites, ultramafics and gabbroic-dioritic sills within a Greenschist-grade metamorphic domain (LaGrande) adjacent to the LaGuiche migmatitic orthogneiss and paragneiss (middle amphibolite /Granulites facies (Opinaca). Disseminated sulfides (1-15% arsenopyrite-pyrite-pyrrhotite) mineralization was observed within the silicified metasediments and

metavolcanics. Federal magnetic data shows interesting weak magnetic lineaments with some flexure/folding pattern (strike variation) of the major LaGrande- Opinaca contact.

Reconnaissance and systematic mapping-prospecting will be completed in 2012 as well as further heavy mineral sampling while are still being processed the 2011 till samples for diamond indicators.

On its new **CARBON 14 niobium- rare earths project** are still being processed the 2011 till samples for diamond indicators and metals.

*Saguenay area*

On the **SHIPSHAW niobium-rare earths** project, Saguenay region, a wholly new hematized carbonatite breccia zone was discovered while drilling a distinct anomaly (Falardeau) some km northeast of the St-Honore carbonatite. Further drilling was pursued later in March confirming the discovery and detailed core studies are undertaken before sending splitted core for assaying.

**Summary of planned exploration programs for 2012**

<b>PROJECTS</b>	<b>PLANNED WORK</b>	<b>BUDGET (\$)</b>	<b>FOLLOW-UP WORK</b>
<b>SHIPSHAW</b>	Drilling	250,000	Drilling
<b>AU33-WEST</b>	Prospecting, mapping, tills, outcrop grab sampling and diamond saw channel	Osisko	Prospecting and drilling
<b>SHADOW</b>	Prospecting, mapping, tills, and sampling	250,000	Prospecting and drilling
<b>LECARON</b>	Prospecting, mapping, tills, and sampling (?)	475,000	Outcrop grab sampling, diamond saw channel and drilling
<b>33 CARATS</b>	Prospecting, tills, outcrop grab sampling (?)	275,000	Geophysics (I.P.) and drilling
<b>14 KARATS</b>	Prospecting, mapping, outcrop grab sampling and diamond saw channel	300,000	Geophysics, sampling and drilling
<b>CARBON14</b>	Prospecting and tills (?)	65,000	Prospecting and tills
<b>GENEX</b>	Compilation, prospecting and tills	85,000	
<b>TOTAL 2012</b>		<b>1,700,000</b>	

## SUMMARY OF FINANCIAL ACTIVITIES

Net loss for the quarter is \$153,801 (net loss of \$113,708 for the first quarter 2011) whereas administrative expenses for the quarter totalled \$122,058 (\$129,407 for the first quarter 2011).

### Analysis of administrative expenses

Description	Quarter ended March 31	
	2012	2011
	\$	\$
Salaries and employee benefits expense	60,715	68,270
Professional fees	31,000	27,833
Office	11,058	7,499
Registration fees and shareholders information	7,934	10,966
Publicity and public relations	6,982	10,935
Insurances, taxes and permits	4,170	3,826
Banking fees and interests	199	78
	<b>122,058</b>	<b>129,407</b>

During the three-month period March 31, 2012, one notes mainly:

#### *Administrative expenses*

- Payment of a bonus in the first quarter 2011 partly offset by an increase in stock-based compensation in 2012.
- Office: Formation costs in 2012;
- Professional fees: Audit fees invoiced prematurely compared with 2011;
- Decrease in 2012 base fee paid to TSX Ventures Exchange.

#### *Net loss*

- Gain on sale of Pontax-Lithium property of \$112,513;
- Negative change in fair value of listed shares of \$116,985;
- Following the new IFRS accounting rules, the Company recorded deferred taxes of \$34,640 relating to the flow-through shares issued in 2011.

## SUMMARY OF QUARTERLY RESULTS

(\$ 000 except loss/share)	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Income	7	46	14	7	16	(12)	16	(494)
Net earnings (Net loss)	(153)	(2 346)	(127)	(122)	(113)	777	(84)	(694)
Net earnings (net loss) per share(basic and diluted)	(0.004)	(0.061)	(0.003)	(0.003)	(0.003)	0.023	(0.002)	(0.02)

Variations in quarterly loss can be explained by the following:

<b>2012-Q1</b>	Gain on sale of Pontax-Lithium property for \$112,513 and negative change in fair value of listed shares for \$116,985.
<b>2011-Q4</b>	Write-off of exploration and evaluation assets for \$2,272,722.
<b>2011-Q3</b>	Increase of stock-based compensation.
<b>2011-Q2</b>	Grant of 950,000 options in April 2011.
<b>2011-Q1</b>	Increase executive salaries in the first quarter.
<b>2010-Q4</b>	Future income tax liability related to mining rights of \$842,534 were written off.
<b>2010-Q3</b>	No significant fact.
<b>2010-Q2</b>	Write-off of a mining property and related deferred exploration expenses for \$503,419.

## **CASH FLOW SITUATION**

The working capital decreased by \$261,849 as at March 31, 2012 going from \$2,064,416 as at December 31, 2011 to \$1,802,567 as at March 31, 2012. The decrease is mainly due to exploration costs and the administrative expenses incurred during the period.

The cash and term deposits (free cash flow) totaled \$1,165,279 as at March 31, 2012 compared to \$1,587,754 as at December 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 known obligations. As at March 31, 2012, the Company did not have any debt or any financial commitments in upcoming quarters.

## **SHARE CAPITAL, OPTIONS AND WARRANTS**

As at March 31, 2012 :

- 39,095,961 Common Shares were issued.
- 3,960,000 options were granted and a total of 2,637,000 can be exercised at prices ranging between \$0.15 to \$0.38 between 2012 and 2017. Each option can be exchanged by its holder thereof for one common share of the Company.
- 428,550 warrants were issued, entitling their holders to subscribe for the same amount of flow-through Common Shares of the Company at a price of \$0.49 until September 6, 2012 or at a price of \$0.63 after September 6, 2012 until September 6, 2013.

## Share capital

Variations in share capital as at May 16, 2012 are the following:

<b>Description</b>	<b>Number of shares</b>	<b>Amount \$</b>
As at December 31, 2011	39,095,961	17,797,148
<b>As at March 31, 2012 and May 16, 2012</b>	<b>39,095,961</b>	<b>17,797,148</b>

## Options

Variations in outstanding options as at May 16, 2012 are the following:

As at December 31, 2011	3,985,000	0.38
Issued	995,000	0.235
Expired	(1,020,000)	0.67
<b>As at March 31, 2012 and May 16, 2012</b>	<b>3,960,000</b>	<b>0.27</b>

On February 28, 2012, the Company granted 995,000 options exercisable at \$0.235 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.

Options granted and exercisable as at May 16, 2012:

<b>Expiry date</b>	<b>Number of options</b>	<b>Exercisable</b>	<b>Exercise price (\$)</b>
October 29, 2012	25,000	25,000	0.38
February 12, 2013	595,000	595,000	0.31
May 19, 2014	700,000	700,000	0.15
March 22, 2015	695,000	695,000	0.34
April 25, 2016	950,000	522,500	0.30
February 28, 2017	995,000	99,500	0.235
	<b>3,960,000</b>	<b>2,637,000</b>	<b>0.27</b>

The weighted fair value of these options (\$0.16 per option issued) during the year (\$0.21 per option issued in 2011) was estimated using the Black-Scholes stock option pricing model with the following weighted average assumptions:

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

	2012	2011
Expected dividend	0%	0%
Expected volatility	98%	98%
Risk free interest rate	1.1%	2.0%
Estimated weighted average duration	5 years	5 years
Average exercise price at date of grant	\$0.235	\$0.30
Average share price at date of grant	\$0.235	\$0.30

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, \$45,116 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) were included in profit or loss for the three-month period ended March 31, 2012 (\$21,330 for the three-month period ended March 31, 2011) and credited to Contributed surplus.

### ***Warrants***

Variation in outstanding warrants as at May 16, 2012 is the following:

As at December 31, 2011	-	-
Issued	428,550	0.49
<b>As at March 31, 2011 and May 16, 2012</b>	<b>428,550</b>	<b>0.49</b>

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 after September 6 until September 6, 2013.

### **ACCOUNTING POLICIES**

These interim financial statements of the Company were prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB) under International Accounting Standard (IAS) 34 - Interim Financial Reporting. These interim financial statements were prepared using the same basis of presentation, accounting policies and methods of computations outlined in Note 4, SIGNIFICANT ACCOUNTING POLICIES as described in our financial statements for the year ended December 31, 2011. The interim financial statements do not include all of the notes required in annual financial statements.

#### ***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 impairment of exploration and evaluation assets and stock-based compensation. Actual results may differ from those estimates.

#### **(a) Impairment of property and equipment and exploration and evaluation assets**

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses are a subjective process involving judgment and a number of estimates and interpretations in many cases.

Determining whether to test for impairment of exploration and evaluation assets requires management's judgment, among others, regarding the following: the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific

area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined. Identifying the cash-generating units requires considerable management judgment. In testing an individual asset or cash-generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Company's assets and earnings may occur during the next period. No impairment loss of the exploration and evaluation assets was recognized during the period.

(b) 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.

*Off-balance sheet arrangements*

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

**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 IFRS. 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, May 16, 2012