

# **DIOS EXPLORATION INC.**

## **INTERIM FINANCIAL STATEMENTS**

**JUNE 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.

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

(Canadian dollars)

	Notes	June 30 2011	December 31 2010
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	6	87 651	32 283
Investments	7	1 474 807	1 338 694
Good and services tax receivable		25 315	86 779
Receivables		4 804	-
Tax credit and credit on duties receivable		1 242 073	891 099
Prepaid expenses and deposit		3 924	11 899
		<u>2 838 574</u>	<u>2 360 754</u>
<b>Non-current</b>			
Investments	7	302 906	300 934
Exploration and evaluation assets	8	9 976 834	9 182 776
		<u>10 279 740</u>	<u>9 483 710</u>
<b>Total assets</b>		<u><u>13 118 314</u></u>	<u><u>11 844 464</u></u>
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables	9	422 565	280 587
Account payable to a mining company	17.2	-	3 960
<b>Total liabilities</b>		422 565	284 547
<b>EQUITY</b>			
Share capital	10.1	17 571 515	16 231 701
Contributed surplus		2 065 224	2 033 223
Deficit		(6 940 990)	(6 705 007)
<b>Total equity</b>		<u>12 695 749</u>	<u>11 559 917</u>
<b>Total liabilities and equity</b>		<u><u>13 118 314</u></u>	<u><u>11 844 464</u></u>

The accompanying notes are an integral part of the financial statements

These financial statements were approved and authorized for issue by the Board of Directors on August 12, 2011

*signed*

\_\_\_\_\_  
 Marie-José Girard  
 Director

*signed*

\_\_\_\_\_  
 René Lacroix  
 Director

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

(Canadian dollars)

	Notes	Three-month period ended		Six-month period ended	
		June 30		June 30	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>EXPENSES</b>					
Salaries and employee benefits expense	11.1	72 540	126 726	140 810	188 616
Professional fees		14 499	6 500	42 333	31 500
Trustees, registration fees and shareholders relations		16 154	16 032	27 120	25 851
Publicity, travel and promotion		16 300	40 382	27 234	72 008
Offices expenses		7 463	7 063	14 962	15 982
Insurance, taxes and permits		1 962	8 889	5 788	12 927
Bank charges		186	184	264	390
<b>OPERATING LOSS</b>		<b>129 104</b>	<b>205 776</b>	<b>258 511</b>	<b>347 274</b>
<b>OTHER REVENUES AND EXPENSES</b>					
Finance income	13	12 283	16 108	24 967	35 037
Write-off of exploration and evaluation assets		-	(503 419)	-	(503 419)
Loss on disposal of investments		(2 439)	-	(2 439)	(432)
Change in fair value of listed shares held for trading		(3 015)	(7 538)	-	(12 060)
		<b>6 829</b>	<b>(494 849)</b>	<b>22 528</b>	<b>(480 874)</b>
<b>LOSS BEFORE INCOME TAXES</b>		<b>(122 275)</b>	<b>(700 625)</b>	<b>(235 983)</b>	<b>(828 148)</b>
Deferred income taxes		-	(6 160)	-	47 548
<b>NET LOSS AND COMPREHENSIVE LOSS</b>		<b>(122 275)</b>	<b>(694 465)</b>	<b>(235 983)</b>	<b>(875 696)</b>
<b>NET LOSS PERSHARE</b>					
Basic and diluted loss per share	14	<b>(0,003)</b>	<b>(0,02)</b>	<b>(0,006)</b>	<b>(0,02)</b>

The accompanying notes are an integral part of the financial statements

# DIOS EXPLORATION INC.

## 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		-	-	(875 696)	(875 696)
Share-based payments		-	129 835	-	129 835
Balance at June 30, 2010		16 146 451	1 943 200	(7 397 768)	10 691 883
Balance at January 1, 2011		16 231 701	2 033 223	(6 705 007)	11 559 917
Net loss for the period		-	-	(235 983)	(235 983)
Share-based payments	11.1	-	54 401	-	54 401
Shares issued by private placement	10.1	1 192 914	-	-	1 192 914
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 June 30, 2011		17 571 515	2 065 224	(6 940 990)	12 695 749

The accompanying notes are an integral part of the financial statements

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

(Canadian dollars)

	Notes	Six-month period ended	
		June 30	
		2011	2010
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Net loss		(235 983)	(875 696)
Adjustments			
Share-based payments		54 401	129 835
Change in fair value of listed shares held for trading		-	12 060
Write-off of exploration and evaluation assets		-	503 419
Interest received		(26 863)	(20 431)
Deferred income taxes		-	47 548
Changes in working capital items	16	284 858	446 135
Cash flows from operating activities		<u>76 413</u>	<u>242 870</u>
<b>INVESTING ACTIVITIES</b>			
Investments redeemed		470 000	13 217
Investments		(608 084)	-
Additions to exploration and evaluation assets		(1 159 737)	(725 167)
Cash received from an mining property option		15 000	-
Interest received		26 863	20 431
Cash flows from investing activities		<u>(1 255 958)</u>	<u>(691 519)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of shares by private placement		1 200 000	-
Issuance cost of shares		(7 087)	-
Exercise of options		42 000	-
Cash flows from financing activities		<u>1 234 913</u>	<u>-</u>
<b>Net change in cash and cash equivalents</b>		<b>55 368</b>	<b>(448 649)</b>
<b>Cash and cash equivalents, beginning of period</b>		<u>32 283</u>	<u>546 534</u>
<b>Cash and cash equivalents, end of period</b>		<u><u>87 651</u></u>	<u><u>97 885</u></u>

The accompanying notes are an integral part of the financial statements

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

### **For the six-month period ended June 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 June 30, 2011, the Company has a negative cumulated retained deficit of \$6 940 990 (\$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 2011, the Company has completed a private placement for a total amount of \$1.2MM. 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 interim financial statements dated March 31, 2011 and these 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. 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 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 March 31, 2011 (including comparatives) were approved and authorized for issue by the Board of Directors on August 12, 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 Financial Statements

### For the six-month period ended June 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.

#### 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 Financial Statements**  
**For the six-month period ended June 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>June 30, 2011</b>	December 31, 2010
	<u>\$</u>	<u>\$</u>
Cash at bank (Bank overdraft) and in hand	(1 217)	(452)
Monetary fund	88 868	32 735
	<u>87 651</u>	<u>32 283</u>

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



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

(Canadian dollars)

**7. INVESTMENTS**

	Rate ranging		June 30,	December 31,
	from	to	2011	2010
			\$	\$
Current				
Guaranteed investment certificates	1.75%	4.80%	1 242 449	906 574
Others investments from financial institutions	4.45%	4.45%	211 253	411 015
Shares listed	-	-	21 105	21 105
			<u>1 474 807</u>	<u>1 338 694</u>
Non-current				
Guaranteed investment certificates	2.60%	2.60%	201 980	200 000
Others investments from financial institutions	3.05%	3.05%	100 926	100 934
			<u>302 906</u>	<u>300 934</u>

**8. EXPLORATION AND EVALUATION ASSETS**

MINING RIGHTS

	December 31,	Additions	June 30,
	2010		2011
	\$	\$	\$
<b>QUEBEC</b>			
33 Carats	561 141	15 390	576 531
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	21 719	304 457
Hotish nord	-	11 574	11 574
Pontax	66 371	2 977	69 348
Chibouki	48 438	262	48 700
AU33 note	197 717	(197 717)	-
AU33 est note	-	140 072	140 072
AU33 ouest note	-	60 311	60 311
Upinor	66 695	492	67 187
Upinor 2	13 560	-	13 560
Shipshaw	131 414	84 551	215 965
U2	76 320	-	76 320
Pam and Ugo	92 940	-	92 940
	<u>1 537 334</u>	<u>194 094</u>	<u>1 731 428</u>

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

(Canadian dollars)

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

MINING RIGHTS (balance forwarded)	1 537 334	<b>194 094</b>			<b>1 731 428</b>
EXPLORATION					
	December 31, 2010	Additions	Tax credits and credit on duties	Option payment	June 30, 2011
<b>QUEBEC</b>	\$	\$	\$		\$
33 Carats	1 477 571	24 795	(10 247)	-	1 492 119
14 Carats	-	8 096	(3 346)	-	4 750
Carbon 14	-	8 500	(3 513)	-	4 987
Carbon Goéland	-	929	(384)	-	545
Carbo	-	2 741	(1 133)	-	1 608
Hotish	3 270 520	309 499	(127 911)	-	3 452 108
Hotish nord	-	5 187	(2 143)	-	3 044
Pontax	968 798	1 373	(568)	-	969 603
Pontax Lithium	107 139	597	(246)	-	107 490
Chibouki	428 085	-	-	-	428 085
AU33 note	605 086	(573 689)	(31 397)	-	-
AU33 est note	-	435 271	-	-	435 271
AU33 ouest note	-	214 387	-	(15 000)	199 387
Upinor	442 487	-	-	-	442 487
Shipshaw	290 519	608 069	(251 304)	-	647 284
U2	17 443	-	-	-	17 443
Pam and Ugo	37 794	2 388	(987)	-	39 195
	<u>7 645 442</u>	<u>1 048 143</u>	<u>(433 179)</u>	<u>(15 000)</u>	<u>8 245 406</u>
<b>TOTAL</b>	<u>9 182 776</u>	<u>1 242 237</u>	<u>(433 179)</u>	<u>(15 000)</u>	<u>9 976 834</u>

Note: During the quarter, the Company divided the property AU33 into two new properties: AU33 est 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 private placement will be committed to the Shipshaw property.

**9. TRADE AND OTHER PAYABLES**

	<b>June 30, 2011</b>	December 31, 2010
	\$	\$
Trade accounts	59 033	251 536
Credit cards	21 242	22 361
Payroll deduction at source	-	6 352
Accrued	342 290	338
	<u>422 565</u>	<u>280 587</u>

**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.

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

(Canadian dollars)

**10.1 Share capital (continued)**

	Number of shares	
	Six-month period ended	
Shares issued and fully paid	June 30, 2011	June 30, 2010
Shares issued and fully paid at the beginning	34 633 839	34 333 839
Private placement (a)	3 428 572	-
Acquisition of mining rights (b)	250 000	-
Exercise of share options	28 000	-
Total shares issued and fully paid at the end	<u>38 340 411</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 private placement will be committed to the Shipshaw property.

(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.

**11. EMPLOYEE REMUNERATION**

**11.1 Salaries and employee benefits expense**

	Three-month period ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Wages, salaries	71 810	64 695	157 852	129 695
Professional fee paid to an officer	18 850	13 820	28 250	20 520
Social security costs	3 604	2 115	6 574	4 292
Share-based payments	33 072	94 477	54 401	129 835
Defined contribution State plans	1 992	2 576	6 882	6 745
	<u>129 328</u>	<u>177 683</u>	<u>253 959</u>	<u>291 087</u>
Less: salaries capitalized in Exploration and evaluation assets	<u>(56 788)</u>	<u>(50 957)</u>	<u>(113 149)</u>	<u>(102 471)</u>
Salaries and employee benefits expense	<u>72 540</u>	<u>126 726</u>	<u>140 810</u>	<u>188 616</u>

**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.

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

(Canadian dollars)

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

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:

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.

	<b>Options</b>	<b>Weighted average exercise price</b>
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	(540 000)	0.42
<b>Outstanding as at June 30, 2011</b>	<b>4 600 000</b>	<b>0.39</b>

The table below summarizes the information related to share options as at June 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	2.88	700 000	0.15
0.30 to 0.50	3 000 000	0.36	3.13	2 014 500	0.36
0.51 to 0.75	900 000	0.75	0.94	900 000	0.75
	<b>4 600 000</b>	<b>0.40</b>		<b>3 614 500</b>	<b>0.41</b>

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:

	<b>2011</b>	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, \$54,401 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 June 30, 2011 (\$129,835 for the six-month period ended June 30, 2010) and credited to Contributed surplus.

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

(Canadian dollars)

**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:

	June 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	87 651	87 651	32 283	32 283
Guaranteed investment certificates	1 444 429	1 444 429	1 106 574	1 106 574
<i>Financial assets at fair value through profit or loss.</i>				
Listed shares	21 405	21 405	21 105	21 105
Other investments from financial institutions	312 180	312 180	511 749	511 749
<b>Financial liabilities</b>				
Financial liabilities measured at amortized cost				
Trade accounts	401 323	401 323	251 536	251 536
Other payable	21 242	21 242	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.

**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 June 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.

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**13. FINANCE INCOME**

	Three-month period ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Interest income from cash and cash equivalents	388	226	1 652	1 092
Interest income from guaranteed investment certificates	8 911	13 010	17 109	26 863
Interest income from other investments	2 984	2 872	6 206	7 083
Finance income	<u>12 283</u>	<u>16 108</u>	<u>24 967</u>	<u>35 038</u>

**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 11.2.

	Three-month period ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
Net loss	\$(122,275)	\$(694,465)	\$(235,983)	\$(875,696)
Weighted average number of shares in circulation	38 587 796	34 333 839	37 889 064	34 333 839
Basic and diluted loss per share	\$(0.003)	\$(0.02)	\$(0.006)	\$(0.02)

**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:

	June 30, 2011	Dec. 31, 2010
	\$	\$
Deferred income tax assets		
Listed shares	11 247	11 205
Exploration and evaluation assets	100 015	100 012
Issuance cost of equity instruments	21 934	43 869
Non-capital losses	545 106	503 489
	<u>678 302</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:

	Six-month period ended June 30	
	2011	2010
	\$	\$
Good and services tax receivable	61 464	(33)
Receivables	(4 804)	-
Tax credit and credit on duties receivable	82 205	347 268
Prepaid expenses and deposit	(25)	38 699
Trade and other payables	149 978	133 850
Account payable to a mining company	(3 960)	574
	<u>284 858</u>	<u>520 358</u>

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**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 June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short-term employee benefits				
Salaries including bonuses and benefits	68 750	62 000	154 792	127 000
Professional fees	18 850	13 820	28 250	20 520
Social security costs	3 939	4 422	11 798	10 768
Total short-term employee benefits	91 539	80 242	194 840	158 288
Share-based payments	29 343	87 731	49 150	107 538
Total remuneration	120 882	167 973	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.

**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 (\$23,520 for the semester ended June 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. 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 June 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.

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**18.1 First-time adoption – exemptions applied (continued)**

**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). See Note 18.5 for an explanation of the effect of the exemption.

**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.

**18.3 Reconciliation of net loss**

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

	June 30, 2010	
	<u>6 months</u>	<u>3 months</u>
	\$	\$
Loss and comprehensive loss under pre-change accounting standards	(833 081)	(649 968)
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>(42 615)</u>	<u>(44 497)</u>
Total loss and comprehensive loss under IFRS	<u><u>(875 696)</u></u>	<u><u>(694 465)</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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(Canadian dollars)

**18.4 Presentation differences (continued)**

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

PRE-CHANGE ACCOUNTING STANDARDS DESCRIPTION	Notes	June 30, 2010		IFRS DESCRIPTION
		Previous GAAP	Effect of transition to IFRS	
		\$	\$	\$
<b>ASSETS</b>				<b>ASSETS</b>
Current assets				Current
Cash		97 885		Cash and cash equivalents
Investments	a	1 607 136	15 075	Investments
Listed shares held for trading	a	15 075	(15 075)	
Taxes receivable		69 477		Good and services tax receivable
Prepaid expenses		20 351		Prepaid expenses and deposit
Exploration tax credit receivable		439 539		Tax credit and credit on duties receivable
		<u>2 249 463</u>		<u>2 249 463</u>
Investments		979 435		Investments
Mineral Properties	a	1 362 985	(1 362 985)	
Deferred exploration expenses	a	7 060 013	1 362 985	Exploration and evaluation assets
		<u>11 651 896</u>		<u>11 651 896</u>
<b>LIABILITIES</b>				<b>LIABILITIES</b>
Current liabilities				Current
Account payables and accrued liabilities		68 008		Trade and other payables
Account payable to a mining company		1 923		Account payable to a mining company
		<u>69 931</u>		<u>69 931</u>
Future income taxes		890 082		Deferred tax
		<u>960 013</u>		<u>960 013</u>
<b>SHAREHOLDERS' EQUITY</b>				<b>EQUITY</b>
Capital stock		16 146 451		Share capital
Contributed surplus	b	1 882 504	60 696	Contributed surplus
Deficit	b	(7 337 072)	(60 696)	Deficit
		<u>10 691 883</u>		<u>10 691 883</u>
		<u>11 651 896</u>		<u>11 651 896</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 June 30, 2010:

PRE-CHANGE ACCOUNTING STANDARDS DESCRIPTION	Notes	Three-month period ended June 30, 2011			IFRS DESCRIPTION
		Previous GAAP	Effect of transition to IFRS	IFRS	
		\$	\$	\$	
ADMINISTRATIVE EXPENSES					EXPENSES
Salaries and employee benefits	a	18 429	108 297	126 726	Salaries and employee benefits expense
Stock-based compensation	a	49 980	(49 980)		
Publicity and promotion		40 382		40 382	Publicity, travel and promotion
Professional fees	a	20 320	(13 820)	6 500	Professional fees
Trustees, registration fees and shareholders relations		16 032		16 032	Trustees, registration fees and shareholders relations
Office expenses		7 063		7 063	Offices expenses
Insurance, taxes and permits		8 889		8 889	Insurance, taxes and permits
Bank charges		184		184	Bank charges
		<u>161 279</u>		<u>205 776</u>	OPERATING LOSS
OTHER REVENUES AND EXPENSES					OTHER REVENUES AND EXPENSES
Interest and others		16 108		16 108	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>(494 849)</u>		<u>(494 849)</u>	
LOSS BEFORE INCOME TAXES		(656 128)		(700 625)	LOSS BEFORE INCOME TAXES
Future income taxes		6 160		6 160	Deferred income taxes
NET LOSS AND COMPREHENSIVE LOSS		<u>(649 968)</u>		<u>(694 465)</u>	NET LOSS AND COMPREHENSIVE LOSS
BASIC AND DILUTED NET LOSS PER SHARE		<u>(0.02)</u>		<u>(0.02)</u>	BASIC AND DILUTED LOSS PER SHARE

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(Canadian dollars)

**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 six-month period ended June 30, 2010:

PRE-CHANGE ACCOUNTING STANDARDS DESCRIPTION	Notes	Six-month period ended June 30, 2011			IFRS DESCRIPTION
		Previous GAAP	Effect of transition to IFRS	IFRS	
		\$	\$	\$	
ADMINISTRATIVE EXPENSES					EXPENSES
Salaries and employee benefits	a	38 261	150 355	188 616	Salaries and employee benefits expense
Stock-based compensation	a	87 220	(87 220)		
Publicity and promotion		72 008		72 008	Publicity, travel and promotion
Professional fees	a	52 020	(20 520)	31 500	Professional fees
Trustees, registration fees and shareholders relations		25 851		25 851	Trustees, registration fees and shareholders relations
Office expenses		15 982		15 982	Offices expenses
Insurance, taxes and permits		12 927		12 927	Insurance, taxes and permits
Bank charges		390		390	Bank charges
		<u>304 659</u>		<u>347 274</u>	OPERATING LOSS
OTHER REVENUES AND EXPENSES					OTHER REVENUES AND EXPENSES
Interest and others		34 605		34 605	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		(12 060)		(12 060)	Change in fair value of listed shares held for trading
		<u>(480 874)</u>		<u>(480 874)</u>	
LOSS BEFORE INCOME TAXES		(785 533)		(828 148)	LOSS BEFORE INCOME TAXES
Future income taxes		(47 548)		(47 548)	Deferred income taxes
NET LOSS AND COMPREHENSIVE LOSS		<u>(833 081)</u>		<u>(875 696)</u>	NET LOSS AND COMPREHENSIVE LOSS
BASIC AND DILUTED NET LOSS PER SHARE		<u>(0.02)</u>		<u>(0.02)</u>	BASIC AND DILUTED LOSS PER SHARE

# DIOS EXPLORATION INC

## Notes to Financial Statements

### For the six-month period ended June 30, 2011 (unaudited)

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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:

	June 30, 2010	
	3 months	6 months
	\$	\$
Balance before the transition date	18 429	38 261
Grouping		
Share-based payments	49 980	87 220
Professional fee paid to an officer	13 820	20 520
Share-based payments adjustment	44 497	42 615
Balance as per IFRS	<u>126 726</u>	<u>188 616</u>

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 June 30, 2010	As at January 1, 2010
\$	\$	\$
<u>50 759</u>	<u>42 615</u>	<u>18 081</u>

# **DIOS EXPLORATION INC**

## **Notes to Financial Statements**

### **For the six-month period ended June 30, 2011 (unaudited)**

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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*.

#### **19 SUBSEQUENT EVENTS**

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. A cash advance of \$15,000 was made in June 2011 allowing Osisko to visit the property.