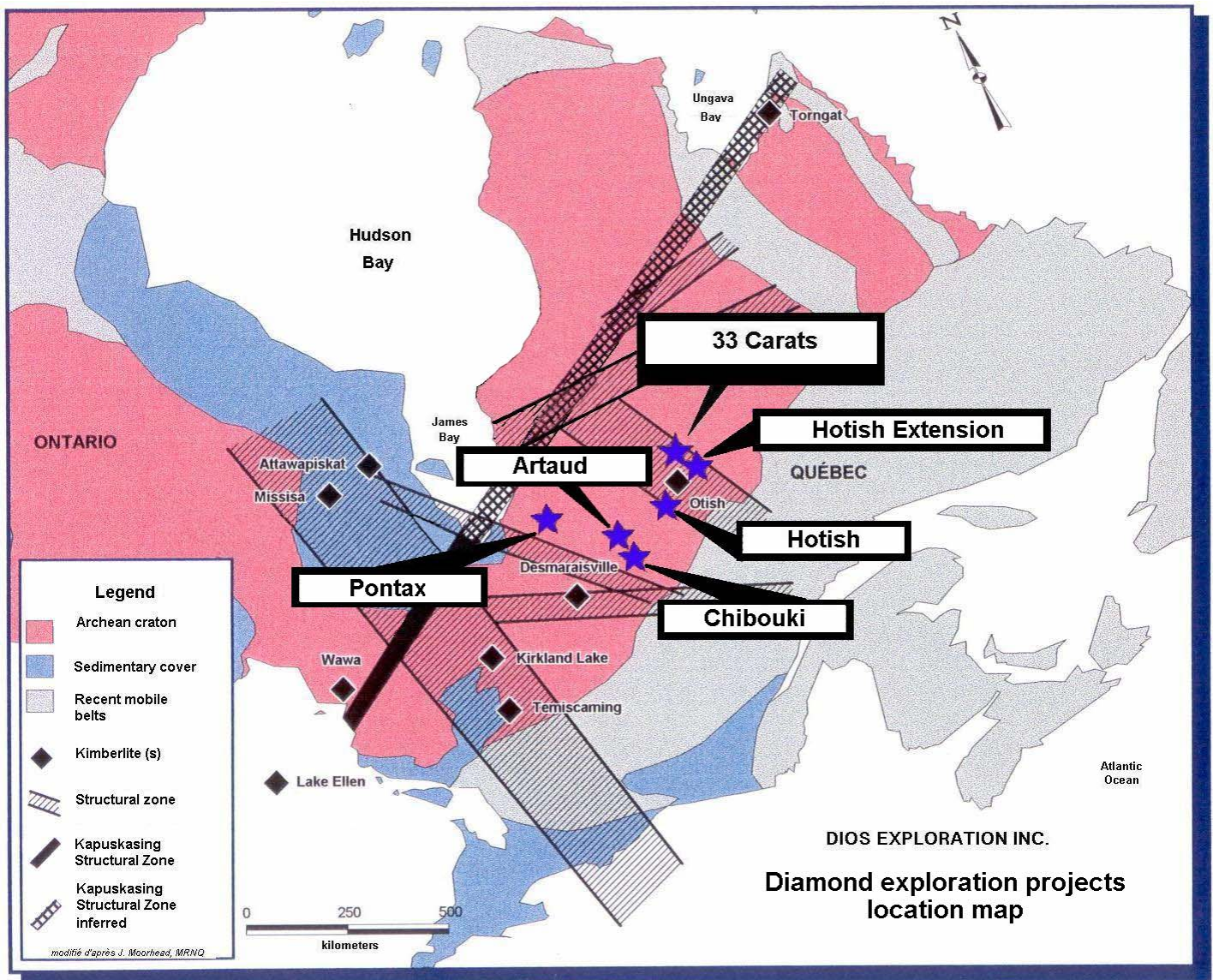




DIOS EXPLORATION

2005 MANAGEMENT REPORT



DIOS EXPLORATION INC.

MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2005

COMPANY PROFIL AND MISSION

Dios Exploration Inc. (the “Company” or “Dios”) is a leading diamond exploration company with some 3,000 sq. kilometres (750,000 acres) of claims in the high diamond potential areas of the James Bay region, Quebec, and west of the Otish Mountains. Dios generates its own projects from scientific hypothesis to field discovery and develops them grass roots either alone or through farming out agreement.

Dios’ team work is systematic with a look out for new developments and techniques in mineral exploration. Discovery of new glacial dispersion trains indicating strong diamondiferous potential of poorly explored regions remains one of the Company’s strength. Dios’s shares are traded on TSX-V under **DOS**. Additional information is available at www.diosexplo.com or www.sedar.com, under Dios’s section “Sedar filing”.

The Company has a unique diamond marketing agreement with Diarough. As per the agreement, marketing net profits (on cutting, polishing, manufacturing, etc.) shall be divided half and half between parties.

SUMMARY OF ACTIVITIES DURING THE YEAR

- Exploration expenses totalling \$1,539,290 (see “**Summary of exploration activities**”):
 - Exploration expenses totalling \$762,416 by Dios alone;
 - Exploration expenses totalling \$776,874 by partners on Dios’ properties;
- Acquisition of 912 claims, the Pontax property, in partnership with Sirios Resources Inc. (“Sirios”) (see **Pontax property** heading);
- Closing of an agreement with Vaaldiam Resources (“Vaaldiam”) pursuant to which Vaaldiam may acquire a 51% interest in the Hotish project by incurring \$2 million in exploration and issuing 100,000 common shares over a three year period;
- Completion of Vaaldiam sampling program on the Hotish property;
- Termination of the option agreement with DeBeers Canada Exploration Inc. (“DeBeers”) on the 33 Carats property;
- Closing of a private placement totalling \$168,500 in December 2005 and agreement on a private placement of \$200,000 on February 15, 2006.

RESULTS OF OPERATION

Summary of exploration activities

The Company is looking for diamond-bearing kimberlites. Economic diamond mines are almost always hosted within kimberlites, a rare rock type coming from very deep within the earth’s interior. Pyrope garnet discovery is indicative of a kimberlitic source only. Pyropes called G10 are indicative of diamond-bearing potential in the kimberlites. The Company’s main tool is to look for kimberlite indicators by sampling the basal till, the crushed sand left over by the glaciers, as it is indicative of the components of the source rock.

Exploration costs in Central Quebec are three times less than in the Artic.

The Company considerably increased its effort in the Chibougamau region of Quebec, while pursuing work on its high potential land holdings west of the Otish area, near the Renard discovery. Also, the new Pontax project was generated south-west of the Opinaca reservoir, James Bay, up-ice of a very large property held by De Beers. Work carried out by the Company in relation with diamond exploration is very much focused, systematic and primarily based on the occurrence of kimberlite indicator mineral dispersal trains in the glacial till and the search for the sources of such trains with the help of geophysics, if appropriate.

During 2005, the Company incurred \$762,416 in exploration expenses and partners funded an additional \$431,109 on Hotish and \$345,765 on 33 Carats (not included in the balance sheet). Following an evaluation of the Schofield and Ribourde properties, the Company decided to write-off their respective deferred exploration costs totalling \$127,929. In the 2005 financial statements, the deferred exploration expenses are decreased by the government return totalling \$237,545 in 2005.

Exploration expenses¹ analyses

| Description | 33 Carats Extension property | 33 Carats property | Chibouki property | Artaud property | Pontax property | Others | Total |
|----------------------------------|------------------------------------|-----------------------|----------------------|--------------------|--------------------|---------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Geology | 61,965 | 43,516 | 47,527 | - | - | 17,561 | 170,569 |
| Sampling and analyses | 134,280 | 75,355 | 20,422 | 63,995 | 36,531 | 25,894 | 356,477 |
| Transportation | 65,396 | 73,212 | 40,823 | - | 427 | - | 179,858 |
| Others | 933 | 33,862 | 16,151 | 2,148 | - | 2,418 | 55,512 |
| | 262,574 | 225,945 | 124,923 | 66,143 | 36,958 | 45,873 | 762,416 |

Acquisitions and claims renewal cost¹ analyses

| Properties | \$ |
|----------------------------|---------------|
| Pontax | 32,666 |
| 33 Carats Extension | 23,746 |
| Chibouki | 9,309 |
| | 65,721 |

¹ *excluding partners' funding*

These amounts represent either acquisitions or claim renewal costs. Regarding the Pontax property, see the “**Pontax property**” heading below. The Company always favoured the acquisition of mining properties by staking. The claims renewal for the **33 Carats property** is paid for by DeBeers until June 2006.

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

33 Carats Extension property (formerly Otish Extension (North))

This project is located along the Eastmain and Fire Rivers northwest of the Otish Mountains, Quebec, and covers 503 square kilometres or 125 000 acres (846 mining cells) in the vicinities of the 33 Carats project. It is located within the Mistissini-Lemoyne structure that also hosted the Renard-Lynx cluster, and the Otish cluster (Beaver Lake, H-1 to H-4, as well as Dios-Hotish and Ashton-Tichegami kimberlitic sills).

Results from over 300 till samples collected in 2004 confirm promising diamond potential on the 33 Carats Extension, located around the 33 Carats property. Deep purple pyrope garnets within diamond stability field were found in several distinct locations. Purple pyrope is by far the most significant kimberlitic indicator mineral (“KIM”). Diamond inclusion chromites, omphacites, picroilmenites, Cr-diopsides and forsterites were also found. Follow-up fieldwork was undertaken in areas where sophisticated microprobe results obtained confirmed diamond potential. Till sampling (110 till samples) and prospecting work was undertaken in 2005 to define precisely this property’s potential. Results are awaited for to plan the 2006 campaign.

33 Carats property

The 33 Carats project is located 170 km north of the lac Albanel provincial road, north of the town of Chibougamau, and 160 km south of the trans-taiga road and LG-4 airport. The project hosts several high quality indicator dispersal trains and adjoins the Ashton-Soquem Foxtrot property where the Renard, Lynx and Hibou kimberlites are now one bulk- sample-test away from going into the mine prefeasibility process.

Following a review of the data, De Beers informed the Company in June 2005 that it had decided to withdraw from the option agreement. Two holes were drilled in the winter to complete the Fall program. This was a project which De Beers optioned into and where the Company was the operator. De Beers incurred over \$1.9 million in exploration, including mining claims renewal costs for a year until June 2006. These payments do not show in the financial statements of the Company (see “**Off balance sheet transactions**”)

Dios is pursuing the search for the sources of the outstanding kimberlitic indicator minerals dispersal trains and has doubled the property area with **33 Carats Extension**. The latest till results confirm the outstanding potential and indicate new targets. The Company has undertaken a major prospecting campaign with further sampling follow-up (100 30 kg till samples) and ground checking. Advance glacial studies are under way. A short drilling program of 4 holes totalling 163.35 meters tested magnetic targets associated with two high-quality indicator dispersal trains.

Chibouki property

The Chibouki project is composed of two main blocks totalling 1,242 mining cells for 167,275 acres in the southern end portion of the Mistissini-Lemoyne Structure hosting several kimberlites and alkaline intrusives several hundreds of kilometers further north, including the Ashton-Soquem Renards diamondiferous cluster. These are respectively located about 30-60 kilometers northeast and 40 kilometers due north of Chibougamau, Quebec. Both blocks have very good access and host numerous bush roads. The project is characterized by numerous good quality kimberlite indicator minerals including high-chromium & low-calcium G10 pyropes, high chromium G9 pyropes, diamond-inclusion and harzburgitic chromites, picroilmenites, omphacites (indicative of eclogitic rock material within the kimberlite) Cr-diopsides, and Mg-

olivines. So far, 351 heavy mineral samples were collected (30 still being processed) on the Mistissini block and another 60 heavy mineral samples were also collected on the Sauvage Lake block. Numerous indicator minerals were identified and their distribution seems to be centered into four main areas: Frances Lake, Carbonneau-Des Canots Lakes, File-Axe Lake and Claude Lake areas. Elsewhere, background till, fluvio-glacial material as well as up-ice esker samples do not show any indicators.

In 2005, 145 till samples were collected in the vicinities of the anomalous areas. New results confirm the Claude Lake train (Sauvage Lake Block), a well-defined (1.5-2.0 km wide) dispersal train with kimberlite indicator minerals such as pyropes, chromite, picroilmenite, TS-kosmochlor, kosmochlor and other kimberlite indicator minerals.

On the Mistissini block, the microprobe data results strengthened the Frances Lake Area with possibly two sub-parallel KIM trains: the Mc Kenzie Bay G10-CHROMITE-ILM-CPX train and the Frances Lake G9-ILM-omphacite-TSkosmochlor train. These two trains are located down-ice of eight magnetic targets varying between 200 to 350 meters in diameter, selected by a specialized geophysicist.

About 15-20 km east-northeast, two other sub-parallel G9-ILM-OMPHACITE trains are present: the Carbonneau Lake West and East dispersal trains. The presence of eclogitic omphacite in specific samples appears to differentiate these trains from the one observed further north (G9-ILM File-Axe Lake train). Eclogite is a diamond source rock rarer than harzburgite, but a lot richer in diamonds. The chemistry of the Chibouki property suggests different sources of kimberlites compared to the Hostish property. In August 2005, a glacial sediment survey was conducted over five of the geophysical targets. Most of the Chibouki project was already covered by a Quebec Government 200 meters-spaced magnetic airborne survey which data was previously processed for the Company by a diamond industry specialized geophysicist. 27 targets were selected independently of the kimberlite indicators. Selected geophysical anomalies were all magnetic high from 200 to 500 meters in diameter.

In October 2005, a follow-up mapping & prospecting campaign on 14 of these targets was completed near the Waconichi-Frances Lakes. Trucks and ATV were used to access the various targets located near logging roads. Twenty till samples and six rock samples were collected. A drilling campaign is planned for the 2006 summer, as well as geophysics, till sampling and prospecting work for a budget of at least \$360 000.

Artaud property

The Artaud property is located west of the Mistissini Lake. Following the discovery of G10 pyropes in glacial sediments, Dios obtained mining rights over a large diamond exploration land position. The ARTAUD diamond project is located 80 km north of Chibougamau, QC, in the De Maures River area, south of Frotet Lake. The Artaud project consists of a major claim block totalling 460 mining cells for a total area of 61,377 acres or 248.5 sq. kilometers.

Results from the 2004 till program (114 basal tills) yielded 30 pyropes, 5 chromites, 23 picroilmenites, 8 cr-diopsides and 2 forsterites. These indicators are concentrated along a 2-4 km wide by 15-20 km long NE corridor. A review of the project, focused on glacial studies, is in progress.

Pontax property

In the spring of 2005, the Company acquired, in partnership with Sirios Resources Inc. (“Sirios”), 912 claims composing the Pontax property. This new property covers close to 50,000 hectares (125,000 acres) 350 km north of Matagami along the paved road going to Radisson. This project will test the diamond and metals potential of a poorly explored region, located upstream of a large claim block held by DeBeers.

Under the agreement with Sirios, each partner has a 50% interest, and the acquisition and exploration costs are to be equally shared. A till sampling program should begin within the next weeks (funded 50-50 by the partners). Afterwards, the Company will pay for the kimberlite indicator minerals processing, while the cost incurred for the gold and base metals will be paid by Sirios.

Depending of the future results, if the project should focus specifically on diamond exploration, the Company will have the option to buy back Sirios’ share, by repaying in cash or shares the acquisition and exploration costs and Sirios will keep a non-participating interest in the project. However, if it turns out as a gold or base metals project, Sirios will have the option to buy back the Company’s share under the same conditions.

On a total of 145 samples assayed, 37 (26%) heavy mineral concentrates graded more than 10 ppb (parts per billion) in gold including 19 (13%) grading more than 100 ppb with a maximum value of 820 ppb. Several gold anomalies are grouped and up-ice of lake sediment gold anomalies up to 43 ppb Au. In a regional, such results, are qualified of very encouraging. The study of the glacial dispersion and the till content is on going and suggests a proximal source. The Eleonore and Elmer gold occurrences are excluded as a source.

During the summer of 2005, a basal till sampling survey (146 samples) was completed and processing for kimberlite indicator minerals is to be completed in 2006. Dios plans a till program for 2006.

Hotish property

On April 12 2005, the Company signed an option agreement granting Vaaldiam an option to acquire a 51% interest in the Hotish property. Vaaldiam must incur \$2,000,000 in exploration expenses and issue 100,000 common shares on a three years period. As at December 31, 2005 Vaaldiam incurred \$431,109 in exploration expenses on the property.

The Company received 25,000 common shares in the second quarter for an amount of \$14,500. The sale of interest in mining properties is accounted for against the deferred exploration expenses until all related expenses are recovered.

This option is a significant advancement for the exploration and developement of the Hotish property, which occupies an important position in the diamond play located some 100 kilometers south of the diamond-bearing Renards cluster, and is along the axis of the Renard kimberlites, of the H-1 to 4 cluster, of the Beaver Lake pipe and of the Hotish-1 to 3 kimberlitic sills. The discovery of several kimberlite indicator minerals (within the diamond-window) trains, of kimberlitic boulders and sills within the Hotish project strengthens its diamond potential.

Vaaldiam completed an indicator mineral sampling program on the Hotish property. The sampling program focused on an area where the Company discovered kimberlite dykes and boulders, along with several high-interest indicator mineral anomalies during its exploration program in 2004. Vaaldiam's exploration program involved the systematic collection of 150 glacial till samples (which results are pending), to try to define the source of the indicator mineral anomalies.

The HOTISH-1 dyke discovered by the Company by drilling needs to be trenched for larger sampling to evaluate a sufficient amount of material for its diamond content.

Glacial sediments geochemical test surveys were also conducted for appraisal of this method over known kimberlite intrusive areas and elsewhere. Results from such survey indicate, among other things, a significant anomaly suggesting a major intrusive underneath the HOTISH-1 dyke.

Summary of planned exploration programs for 2006

| PROPERTIES | PLANNED WORK | BUDGET \$ | FOLLOWING STEPS |
|----------------------------|---|----------------------|-------------------------|
| CHIBOUKI | Prospecting, Till sampling, Soils, airborne geophysics and drilling | 355,000 | Geophysics and drilling |
| 33 CARATS | Till sampling, airborne geophysics and drilling | 334,400 | Geophysics and drilling |
| 33 CARATS EXTENSION | Till sampling and airborne geophysics | 67,900 | Geophysics and drilling |
| WEMINDJI | Till sampling | 81,200 | Geophysics and drilling |
| PONTAX | Till analyses | 45,000 | Geophysics and drilling |

OPERATION RESULTS AND SELECTED ANNUAL INFORMATION

Net loss for the year is \$442,573 (\$225,334 for 2004) whereas administration fees for the year totalled \$147,426 (\$151,282 for 2004)

| | As at December 31, 2005 \$ | As at December 31, 2004 \$ | As at December 31, 2003 \$ |
|---|---|---|---|
| Income | 45,410 | 89,580 | 72,421 |
| Net loss | (442,573) | (225,334) | (226,617) |
| Net loss of basic and diluted shares | (0.03) | (0.02) | (0.02) |
| Total assets | 4,089,224 | 4,916,984 | 3,452,756 |

Income

- Income is mostly composed of interests on investments and management of exploration expenses regarding the option agreement with De Beers on the 33 Carats property. Management income represents 10 % of exploration expenses engaged by DeBeers on the 33 Carats property (\$25,035 in 2005, \$71,484 in 2004 and \$59,756 in 2003).
- During the second quarter of 2005, De Beers informed the Company that it had decided to withdraw from the option agreement. This was a project which De Beers optioned into and where the Company was the operator. De Beers has spent over \$1.9 million in exploration, including mineral claim renewal costs to keep them in good standing for a year until June 2006.

Net loss

- 2005: Write-off of the Scholfield property for total expenses of \$485,939 (\$123,769 in deferred exploration expenses and \$362,170 in mining properties). Administrative expenses are relatively the same as previous year.
- Deferred income taxes, for an amount of \$143,741 (\$25,023 in 2004) were accounted for to reflect the future fiscal impact of the accounting values stated in the balance sheet versus their respective fiscal values.
- 2004: the administrative expenses were slightly higher compared to 2003 due to the increase in public relation expenses incurred in order to advertise the Company (numerous trips outside the province of Quebec and the hiring of a public relation firm). During the year, the Company granted 640,000 stock options for a period of five years to directors and officers at an exercise price of \$0.37. The fair value of these options was estimated based on the Black Scholes evaluation model with the following assumptions: estimated average weighable duration of the options of five years, risk free interest rate of 3.5 %, expected volatility of 57 % and no expected dividends. Therefore, a remuneration cost of \$121,600 was accounted for in the statement of results. Also, at year end, the company decided to decrease the carried value of the Wemindji property (\$28,279) and specific exploration expenses (\$38,776). The Company has two full time employees, the President and chief geologist, both of whom are mostly involved in exploration related work, hence the accounting of their salaries in the deferred exploration expenses.
- 2003: the administrative expenses were similar to prior year and \$61,162 was written off from the deferred exploration expenses and another \$79,178 was also written off from the mining properties resulting in the abandon of the Fontanges and Nottaway properties and Eastmain option.
- Net loss per share for the year is \$0.03 in 2005 and \$0.02\$for the years 2004 and 2003.

Total assets

2005 compared to 2004

- Financing with shares issuance significantly decreased in 2005 totalling \$168,500 compared to \$1,466,975 in 2004.
- Sale taxes receivable are lower in 2005 given the decrease in activities and the collection of amounts receivable quicker in previous years. Grants receivable slightly decreased but are still at a similar level compared to previous year.

- The termination of the agreement with De Beers reduced the amount of expenses on the 33 Carats property and, at the same time, decreased the receivable from DeBeers.
- Mining property acquisitions in 2005 totalled \$65,721. The Company acquired by staking the Pontax property whereas additional mining claims were acquired for the Chibouki and 33 Carats extension (formerly Otish Extension) properties. The Schofield property was written off (\$362,170).
- In 2005, exploration expenses totalled \$762,416 by Dios itself and \$776,874 by partners and were mostly incurred on the following properties:
 - Hotish: Till sampling, geology, mechanical stripping and pitting (partner's funding).
 - 33 Carats Extension (Otish extension) : Geology, till sampling and prospecting work.
 - Pontax : Till sampling.
 - Chibouki: Prospecting work. Till sampling and transportation.
 - 33 Carats: Geology, till sampling, transportation and drilling (Dios and partner's funding).
- During the year, deferred exploration expenses totalling \$127,929 (Schofield and Ribourne properties) were written off.
- The drill, acquired in 2004 for \$40,000, was sold during the year for its acquisition amount.

2004 compared to 2003

- Ongoing exploration activities were similar at 2004 year-end compared to 2003 year-end, which explains the comparability in De Beers and Government grant receivable from one year to another. The advance to a related company increased due to the use of a common supplier at year-end (advance totally reimbursed at the beginning of 2005) and the sale taxes receivable were higher in 2003 due to a delay in perception caused by an audit.
- The acquisitions of mining properties in 2004 totalled \$147,500. The Company acquired by designation and staking the Otish Nord extension and Chibouki properties whereas cells designated on supplementary maps of the Artaud property were acquired. The Wemindji property value was decreased (\$28,279).
- In 2004, exploration expenses totaled \$817,450 and affected mainly the following properties :
 - Hotish: Till sampling selected with the above mentioned work and drilling.
 - Otish extension: Mapping-prospecting work and till sampling.
 - Chibouki: Cartographic-prospecting work and till sampling.
 - Artaud: Reconnaissance till sampling and analyses.
- Exploration expenses (\$594,849) of 33 Carats property were paid by DeBeers in 2004. This asset is excluded from the balance sheet of the company. Work performed in 2004 can be summarized as follows: ground geology on the better targets from the geophysics survey in a context of mineral dispersal trains in the glacial till indicated a strong chemical signature, possibly the best in Canada, with detailed sampling and drilling, see details above.
- In 2004, the Company acquired a drilling rig at a cost of \$40,000, which is located on one of the company's property. The transportation cost to repatriate was such that the company felt it was better to acquire the machinery and use it in 2005.
- Issuance of common shares in 2004 totals \$1,466,975 mostly by way of private investors explains the increase in assets in 2004.

SUMMARY OF QUARTERLY RESULTS

| (\$000 except loss/share) | 2005 | | | | 2004 | | | |
|---------------------------|-------|-------|-------|--------|-------|------|-------|-------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Income | 12 | 5 | 5 | 29 | 29 | 28 | 30 | 2 |
| Net loss | 332 | 58 | 48 | 4 | 88 | 118 | 3 | 16 |
| Net loss per share | 0.025 | 0.002 | 0.003 | 0.0003 | 0.007 | 0.01 | 0.001 | 0.002 |

Variations in quarterly loss can be explained by the following:

- 2005-Q4** Write off of the Scholfield property for a total amount of \$485,939 including \$123,769 in deferred exploration expenses.
- 2005-Q3** Future income tax expenses of \$37,308.
- 2005-Q2** No management fees on 33 Carats property (DeBeers' option terminated) and a \$5,800 gain on sale of fixed asset.
- 2005-Q1** Accounting of management fees on 33 Carats property of \$22,504.
- 2004-Q4** Write-off of mining property (\$28,279) and deferred exploration expenses (\$38,776).
- 2004-Q3** Accounting for stock based compensation expenses of \$121,600 and management fees of \$22,151.
- 2004-Q2** Accounting of management fees on 33 Carats property of \$26,772.

FOURTH QUARTER

Highlights of the fourth quarter of 2005 are as follows :

- Exploration expenses totalling \$7,337;
- Write-off of \$123,769 and \$362,170 (Scholfield property) decreased the deferred exploration expenses and mining properties respectively; and
- Government grants for 2005 totals \$237,545.

CASH FLOW SITUATION

The working capital decreased by \$402,490 as at December 31, 2005 going from \$1,134,049 as at December 31, 2004 to \$731,559 as at December 31, 2005 and is explained by the decrease in financing compared to 2004 (\$168,500 in 2005 compared to \$1,466,975 in 2004). These amounts exclude funds for exploration and development expenses.

The cash, term deposits and short-term placement total \$447,681 as at December 31, 2005 compared to \$873,396 as at December 31, 2004. The decrease of \$425,715 is mostly due to payments of exploration expenses during the year and accounts payable (decrease of \$364,615 in accounts payable in 2005).

An amount of \$157,700 (\$252,000 in 2004) is restricted in order to finance exploration expenses in 2006 under the subscription agreement of flow through shares.

On February 15, 2006 the Company signed a letter of intent with a Venture Capital Fund to undertake a \$200,000 hard cash non-brokered private placement consisting of 606,061 common shares of the Company at \$0.33 per share and 606,061 warrants. One warrant entitles its holder thereof to subscribe for one common share at \$0.40 per share for a period of 12 months after closing and at \$0.45 during the next 12 months.

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 December 31, 2005, the Company did not have any debt or any financial commitments in the upcoming quarters.

FINANCING

During 2005, the Company closed two private placements and issued 684,800 common shares for an amount of \$168,500 (average price per share of \$0.246) :

As of December 31, 2005 :

- 14,160,907 common shares are outstanding.
- 1,385,000 options were granted and can be exercised at prices between \$0.30 to \$0.37 before 2007 to 2009. Each option can be exchanged by its holder thereof for one common share of the Company.
- 1,858,212 warrants were issued, entitling their holders thereof to subscribe for the same amount of common shares of the company at prices between \$0.25 and \$0.70 with expiry dates ranging from May 2006 to December 2007.

Variations in share capital as at December 31, 2005 are as follows:

| Description | Number of shares | Price \$ | Amount \$ |
|--------------------------------|------------------|----------|-----------|
| As at December 31, 2004 | 13,476,107 | | 5,198,764 |
| Options exercised | - | | - |
| Private placements | 684,800 | 0.25 | 168,500 |
| Exercised warrants | - | | - |
| As at December 31, 2005 | 14,160,907 | | 5,367,264 |

Options

Variations in outstanding options as at December 31, 2005 are as the follows :

| Date | Number of options | Average exercise price \$ |
|--------------------------------|-------------------|---------------------------|
| As at December 31, 2004 | 1,385,000 | 0.35 |
| Issued | - | - |
| Exercised | - | - |
| Expired | - | - |
| As at December 31, 2005 | 1,385,000 | 0.35 |

Options granted and exercisable as at December 31, 2005

| Beneficiaries | Number of options | Price (\$) | Expiry date |
|------------------------|--------------------------|-------------------|--------------------|
| Directors and Officers | 420,000 | 0.30 | January 11, 2007 |
| Directors and Officers | 325,000 | 0.36 | February 6, 2008 |
| Directors and Officers | 640,000 | 0.37 | September 7, 2009 |

The fair value of these options was estimated using the Black Scholes stock option evaluation model with the following assumptions: estimated weighted average duration of 3 to 5 years for these options, risk free interest rate of 3.5% to 4.5%, forecast volatility of 57% to 65% and no forecast dividend.

Warrants

Variations in outstanding warrants since the beginning of year is as follows:

| Date | Number of warrants | Average exercise price \$ |
|--------------------------------|---------------------------|----------------------------------|
| As at December 31, 2004 | 2,368,476 | 0.61 |
| Issued | 342,400 | 0.27 |
| Exercised | - | - |
| Expired | (852,664) | 0.65 |
| As at December 31, 2005 | 1,858,212 | 0.61 |

Warrants characteristics as at December 31, 2005 are the following:

| Number | Exercise price | Expiry date |
|------------------|-----------------------|--------------------|
| 478,723 | 0.65 \$ | May 2006 |
| 430,850 | 0.65 \$ | July 2006 |
| 606,239 | 0.70 \$ | December 2006 |
| 342,400 | 0.25-0.30 \$ | December 2006-2007 |
| <u>1,858,212</u> | | |

OFF-BALANCE SHEET TRANSACTIONS

Following an agreement dated April 2003 with De Beers, DeBeers could acquire a 51% ownership in the 33 Carats property for \$5,500,000 in exploration expenses before December 31st, 2008 and an additional 9% ownership by producing a positive feasibility study.

Following a review of the data, De Beers informed the Company in June 2005 that it had decided to withdraw from the option agreement. This was a project which De Beers optioned into and where Dios was the operator. De Beers has spent over \$1.9 million in exploration, including claim renewal costs until June 2006. As at December 31, 2005, the Company had a receivable of \$41,242 regarding those expenses, which was received in the first quarter of 2006.

RELATED PARTY TRANSACTIONS

The Company is related to another company, Sirios Resources Inc. ("Sirios"), because of certain common officers. Related party transactions are limited to common deferred exploration and development expenses. As at December 31, 2005, the Company had a payable of \$5,230 (\$108,719 in receivable in 2004) to Sirios.

During the year, the Company sold its drill for an amount of \$40,000 to the Company's President. Afterwards, the Company rented the drill for an amount of \$19,000. No amount is receivable or payable as at December 31, 2005 regarding those transactions. Those transactions were accounted for at fair value.

FINANCIAL INSTRUMENTS

The fair value of the Company's financial instruments approximates the carrying value. The current bank's accounts, accounts receivable and accounts payable are non-interest bearing. A portion of cash is held in an interest bearing of less than 2 % with no restrictions.

SUBSEQUENT EVENTS

On February 15, 2006, Dios negotiated a \$200,000 private placement with a Venture Capital Fund consisting of 606,061 common shares at \$0.33 per share and 606,061 warrants. One warrant entitles its holder to subscribe for one common share at \$0.40 for a 12 month period and at \$0.45 for another 12 months.

MANAGEMENT'S REPORT AND RESPONSIBILITY FOR FINANCIAL INFORMATION

This discussion and analysis of the financial position and results of operation as at December 31, 2005 should be read in conjunction with the audited financial statements for the quarter and year ended December 31, 2005 and the audited financial statements for the year ended December 31, 2004. External auditors, Raymond Chabot Grant Thornton LLP, audited financial statements for the year ending December 31, 2005, and their report indicating the scope of their audit and their opinion on the financial statements can be obtained at the website www.sedar.com under SEDAR filings as well as additional information on Dios.

The Company's financial statements and the other financial information included in this management report are the responsibility of the Company's management, and have been examined and approved by the Board of Directors. The financial statements were prepared by management in accordance with generally accepted Canadian accounting principles and include certain amounts based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

The Company maintains internal control systems designed to ensure that financial information is relevant and reliable and that assets are safeguarded.

Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised of a majority of non-management directors.

This committee's role is to examine the financial statements and recommend that the Board of Directors approve them, to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the audit committee meets annually with the external auditors, with or without the Company's management, to review their respective audit plans and discuss the results of their examination. This committee is responsible for recommending the appointment of the external auditors or the renewal of their engagement.

(signed) Marie-José Girard, Geo, President

(signed) Dominique Doucet, P. Eng., treasurer

Montreal, February 20, 2006



DIOS
EXPLORATION

Directors and Officers

Marie-José Girard, M.Sc., Geo., President and Director

Dominique Doucet, P.Eng.*, Chairman, Vice-President and Secretary-Treasurer *

Normand Payette, marketing manager, Director *

René Lacroix, C.A., Director*

Claude Britt, mining consultant, Director

Harold Desbiens, M.Sc., Geo., Exploration Manager

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Consulting geologist

IOS Services Géoscientifiques inc.
Chicoutimi QC Canada

Auditors

Raymond Chabot Grant Thornton LLP
Val-d'Or QC Canada

Legal Counsel

Pothier Valiquette
Montréal QC Canada

Transfer Agent

Equity Transfer
Toronto ON Canada

14,160,907 Shares issued & outstanding

TSX-V : DOS

* members of the audit committee