

**DIOS EXPLORATION INC.  
INTERIM MANAGEMENT REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**COMPANY PROFIL AND MISSION**

Ever since the beginning of the 21<sup>st</sup> century and the listing of its shares on the exchange in 2002, Dios Exploration Inc. (the “Company”) is a leading diamond exploration company with one of the most important position in mining rights in the Otish Mountains area being held by DIOS. The recent growth of uranium’s price offers the opportunity to DIOS, as for its pre-existent privileged stand in possession of claims and the expertise of its employees, to diversify its exploration strategy towards diamond and uranium, two substances highly requested in the natural resources industry. The Company’s strategy is to generate projects and develop them either alone or through farming out agreements, with shareholders’ value in mind.

In general, the Company generates most of its exploration projects, from scientific hypothesis to field discovery. The Company’s shares are traded on the TSX Venture under the symbol **DOS** and 19,194,016 shares were issued or to be issued as of December 31, 2006. Additional information may be available on the [www.sedar.com](http://www.sedar.com) web site, under the Company’s section “Sedar filing”.

Dios Exploration Inc. (the “Company”) is still a leading diamond exploration company with over 2,000 sq. kilometres (750,000 acres) of properties in the high diamond potential areas of central Quebec and the Otish Mountains. The Company also closed a unique diamond marketing agreement with Diarough. As per the agreement, rough diamond sales proceeds shall be returned to the Company whereas 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 \$1,042,508 (see “**Summary of exploration activities**”);
- Positive picking assay results on Pontax property and partial disposal of the property;
- Extensive glacial studies on 33 Carats and Chibouki properties;
- Planning and beginning of drilling campaign on Chibouki property following soil geochemistry surveys and tests and a helicopter magnetic survey and beginning of a diamond drilling exploration program on 33 Carats.
- Private placements totalling \$1,699,437: \$1,499,437 in capital shares and \$200,000 in convertible debenture.
- Termination of the option agreement with Vaaldiam on the Hotish property.
- **Uranium potential confirmed on Hotish property.**

## RESULTS OF OPERATION

### Summary of exploration activities

The Company's team follows a systematic approach in its research work and is always looking for new developments in mineral exploration. Discovery of new glacial dispersal trains indicating strong geological potential of poorly explored regions remains one of the Company's strength.

The recent and amazing growth of uranium's prices offered the opportunity to DIOS, due to its previous and privileged ownership of claims in the right spot and to the high expertise of its employees, to diversify the exploration strategy of the Company towards diamond and uranium, two mineral substances highly in demand in the natural resources industry. Exploration techniques applied to glacial sediments remains one of the Company's strength. Systematic sampling of glacial sediments gives indications of possible mineral occurrences to follow up-ice until their glacier eroded sources are found.

During 2006, the Company incurred \$1,042,508 in exploration expenses. Following an evaluation of the Trans Taiga and Minti, Wemindji and Artaud mining properties, the Company decided to write-off their respective deferred exploration costs totalling \$ 199,084. In the 2006 financial statements, the deferred exploration expenses are decreased by the government grants totalling \$ 466,508 in 2006.

### Exploration expenses analyses

<b>Description</b>	<b>33 carats</b>	<b>Chibouki</b>	<b>Pontax</b>	<b>Others</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Geology	67 895	122 470	450	-	190 815
Sampling and analysis	10 134	43 009	48 924	-	102 067
Transportation and lodging	377 691	30 484	-	4 042	412 217
Office	19 535	18 717	-	583	38 835
Drilling	75 689	84 543	-	-	160 232
Geophysic	-	30 925	107 417	-	138 342
	<b>550 944</b>	<b>330 148</b>	<b>156 791</b>	<b>4 625</b>	<b>1 042 508</b>

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

<b>Mining properties</b>	<b>Acquisitions, renewal</b>	<b>Disposals, write-off</b>	<b>Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Pontax</b>	36 503	(25 490)	11 013
<b>33 Carats</b>	30 321	-	30 321
<b>Hotish</b>	14 884	-	14 884
<b>Chibouki</b>	15 792	-	15 792
<b>Others</b>	96	(108 730)	(108 634)
	<b>97 596</b>	<b>(134 220)</b>	<b>(36 624)</b>

These amounts represent either staking acquisitions or claims renewal. Under an agreement with Sirios Resources Inc. (“Sirios), the Company sold an important part of the Pontax property for Sirios’ common shares, see the “**Pontax property**” heading below. The Company always favoured the acquisition of mining properties by staking. Following a valuation by the Company, Trans Taiga and Minti, Wemindji and Artaud mining properties were written-off.

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

## **Hotish Property**

The Company’ Hotish property clearly has uranium potential. The Hotish property is wholly-owned by the Company without any encumbrances. This property is a large mining property covering the western edge unconformity contact of the Otish Sedimentary Basin. The area is well-known for its uranium potential. The Otish Mountains were recently the focus of intense activity by mining giant Cameco Corporation, the world's largest uranium producer, whose claims border the Company's Hotish property to the east. The Hotish property is also directly adjacent to the north to the Beaver Lake property where a mineralized uranium occurrence is reported.

Also, it now includes a large claim block covering the extent of the unconformity contact, directly adjacent to the STRATECO Property, where a high grade uranium intercept of 9.5 metres grading 1.54% U<sub>3</sub>O<sub>8</sub> was drilled recently along with four other holes in the uranium-bearing structure discovered in 1984 by Uranerz Exploration and Mining, before uranium prices tumbled in the mid-eighties. This Uranerz hole returned a 16-metre intercept grading 0.95%U<sub>3</sub>O<sub>8</sub> per tonne (19 lbs per ton) at a vertical depth of 220 metres. The property covers as well a large part of the Proterozoic unconformity contact over an Archean age basement, a classical geological context known worldwide for major uranium deposits.

The sharp increase in U<sub>3</sub>O<sub>8</sub> prices as well as the world demand for uranium as an energy alternative certainly enhances the uranium potential of the Hotish property covering a large part of the Proterozoic unconformity contact over an Archean age basement, a classical geological context known worldwide for major uranium deposits.

**In 2006, the Society started compilation of pertinent geoscientific data for uranium exploration on this project. At least one first-order uranium anomaly is reported by the company in 2006 on the Hotish property in the previous Uranerz lake sediment surveys. An airborne radiometric survey and prospecting work is planned for 2007.**

## **Chibouki Property**

The main objective of the Company in diamond exploration is to discover diamond bearing kimberlites. Most of the world diamond mines are located within kimberlites, a rare rock type originating from the center of the Earth. The discovery of G10 pyropes that reach the diamond window is indicative of the presence of a kimberlite that would be diamantiferous. The main prospecting tool used by the company in diamond exploration is glacial till sampling in order to locate G10 pyropes, or eclogitic garnets, even rarer to find, but of a significant meaning for the diamond potential of the kimberlites that they come from.

The Chibouki project is composed of 1,098 mining cells for 593 sq. km. It is on one part located about 20-60 kilometers northeast and on the other part 40 kilometers north of Chibougamau, Quebec. This project shows very good access and hosts numerous bush roads. The Chibouki project is also located in the southern part of the favourable Mistissini-Lemoyne Structure that hosts several kimberlites and alkaline intrusives several hundreds of kilometers further north, including the Ashton-Soquem Renards diamondiferous cluster.

Processing of till yielded numerous high interest kimberlite indicator minerals (KIM) including high-chromium & low-calcium G10 pyropes within the diamond field, G9 pyropes, eclogitic garnets, diamond-inclusion and harzburgitic chromites, micro-ilmenites, omphacites, Cr-diopsides, and Mg-olivines. So far, about 500 heavy mineral samples were collected on the various blocks. Elsewhere, background till, fluvio-glacial material as well as up-ice esker samples do not show any indicators.

In november 2006, about forty tills were collected to better define indicator mineral dispersal trains. They are being processed. Three specific targets have been drilled for 800 meters in total in a certain area following assays and geochemical tests in other areas, as well as magnetic airborne positive results. It has been decided to start drilling in another area. A drilling campaign testing 8-10 priority targets is planned in 2007.

### **Pontax Property**

The Pontax property (1,369 claims totalling 729 sq. kilometres) is held in partnership between Sirios and the Company on a 50-50 basis. It is located in the James Bay area, Quebec, 350 kilometres north of Matagami along the paved road going to Radisson, approximately 75 km southwest of the ELEONORE gold deposit of Virginia Gold Mines Inc. bought by Goldcorp and adjacent to the northeast to a large De Beers property.

The Pontax project is centered on an Archean sedimentary basin (Auclair Formation dominated by biotite and sillimanite paragneisses) that is intruded by the Kapiwak granodioritic pluton. The sediment-dominated assemblage also includes the Chambois and the Pontax greenstone belts (mafic volcanics, felsic volcanics and volcanoclastics). Alterations such as silicification, biotitization (10-20%), sericitization, tourmalinitization and pyritization (3-15%) are common. Several N-S Mistassini diabase dykes are present. The eastern portion (along and south of the Pontax River) is dominated by extensive swamps.

The till samples collected in 2005 outlined several gold dispersal trains and yielded some quality kimberlite indicator minerals such as G10, omphacite, microilmenite, kosmochlor (CPX) and forsterite. **A geological mapping survey was completed between June and November and a follow-up till program (about 40 samples) in November 2006. The first phase (972 km-lines) of an helicopter-borne geophysical survey (totalling 3,200 km-lines) was completed and will be processed for kimberlite targeting.**

Following the exploration results obtained on the Pontax property, Sirios announced its intent to increase its interest to 100% in a significant part of the property regarding gold exploration whereas Dios wishes to pursue diamond exploration on part of the property. Consequently, Dios officially notified Sirios on April 3, 2006 of its intent to transfer back part of the property for a book value of \$76,794 and a 1% NSR that can be bought back for \$1,000,000. Dios wishes to keep its 50% interest in 299 claims of the original 917 claim property. Sirios issued to Dios 206,500 Common Shares at \$0.34 on July 4, 2006.

### 33 Carats

The 33 Carats project totals over 1,700 mining cells for 892 sq. km. These are strategically located about 340 kilometres northeast of the town of Chibougamau, Quebec. The project is located along the favourable Mistissini-Lemoyne Structure that hosts several kimberlites and alkaline intrusives, and is adjacent to the Ashton-Soquem's property that hosts the Renards diamondiferous cluster and to the Majescor Portage property that host a diamond-bearing kimberlitic sill. These blocks are easily accessible by float-plane or helicopter (Eastmain River, Fire & Marcia Lakes) due to the moderate tree cover. Dios Bohier camp is located on the South block, 20 km south of the East block and 40-50 km east of the West/Rivière de feu.

The region is located near the southern limit of the Superior craton. The northern portion of the region comprises Archean Opinaca undifferentiated grey gneisses, Barou River- Cadieux Lake-Misasque River-LaSalle Lake- Antons River granitic massifs, as well as the Upper Eastmain River and the Trieste Lake volcano-sedimentary belts. The southern portion of the region comprises the Archean Epervanche Complex (granitic-tonalitic gneisses) and the Proterozoic Otish meta-sedimentary basin. The Eastmain volcano-sedimentary belt is located along the same fold structure. Available glacial striaes indicate a late N230 transportation for the Western area. An earlier (and minor) N330 glacial transportation is also known.

A sector of 33 Carats is characterized by relatively low counts typical of the Superior province with outstanding G10s associated with Cr-enstatite, ilmenites and olivine in basal till in a complex local glacial environment (hummocky terranes and esker). Another area of 33 Carats is characterized by good straight KIMs train (very good G10- Cr-enstatite-ilmenite-forsterite) in simple glacial environment (confirmed by diabase pebbles as marker indicating short transportation), again low counts typical of Superior terranes. Another sector of 33 Carats is characterized by a more lherzolitic component than the previous two. The glacial environment is not simple, due to the presence of a few eskers and their associated outwash.

**During Fall 2006, an helicopter-borne drilling program including eighth holes (totalling 603m) tested 6 priority targets on the eastern block. No kimberlitic material was intersected. About thirty tills samples were collected, eight targets were soil-sampled, and most of the geophysical targets on the eastern block were prospected. The samples are still being processed.**

#### Summary of planned exploration programs for 2007

PROPERTIES	PLANNED WORK	BUDGET \$	FUTURE STEPS
CHIBOUKI	Drilling, till, geophysics	375 000	Soil, till, prospecting, geophysics, more drilling
33 CARATS	Till-soil processing, more till & prospecting, airborne geophysics?	269 000	Drilling
PONTAX	Airborne geophysics, till-river sampling, soil & prospecting.	333 000	Drilling
HOTISH	Geological compilation, airborne geophysics, prospecting	200 000	Drilling, more prospecting

## OPERATION RESULTS AND SELECTED ANNUAL INFORMATION

Net loss for the year is \$413,048 (\$442,573 for 2005) whereas administration fees for the year totalled \$175,250 (\$147,426 for 2005).

	As at December 31, 2006 \$	As at December 31, 2005 \$	As at December 31, 2004 \$
<b>Income</b>	26,773	51,210	89,580
<b>Net loss</b>	(413,048)	(442,573)	(225,334)
<b>Net loss per share (basic and diluted)</b>	(0.03)	(0.03)	(0.02)
<b>Total assets</b>	5,313,993	4,089,224	4,916,984

### Income

- In 2006, income is mostly provided from interests on investments.
- In 2005 and 2004 an important source of income came from management fees (\$ 25,035 in 2005 and \$71,484 in 2004).

### Net loss

- 2006 : An important portion of 2006 net loss totalling \$413,048 is derived from non cash items totalled \$347,446: Stock-based compensation (\$19,440), Financing fees (\$31,597), Interest on convertible debenture (\$12,130), Write-off of mineral properties (\$108,730) and deferred exploration expenses (\$199,082) and a Future income taxes on credit (\$23,533). Administrative expenses are relatively the same as previous year. The Company has two full time employees, the president and the chief geologist both of whom are mostly implicated in the execution of exploration related work, hence the accounting of their salaries in the deferred exploration expenses.
- 2005: Write-off of the Scholfield property for a total expense of \$ 485,939 (\$ 123,769 in deferred exploration expenses and \$ 362,170 in mining properties). Administrative expenses are relatively the same as previous year.
- 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 administrators and members of management at an exercise price of \$ 0.37. The fair value of these options were 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 carrying value of the Wemindji property (\$28,279) and specific exploration expenses (\$38,776).
- Net loss per share for the year is \$ 0.03, \$ 0.03 in 2005 and \$0.02 in 2003.

## Total assets

### 2006 compared to 2005

- Shares issuance financing significantly increased in 2006 totalling \$1,499,437 compared to \$168,500 in 2005.
- Addition of mining claims on Pontax mining property then partial disposal of it to Ressources Sirios Inc.
- Issuance of a \$200,000 convertible debenture.
- Increase of the exploration expenses from \$ 762,416 in 2005 to \$1,042,508 in 2006. In 2006, the explorations expenses were mostly incurred on the 33 Carats and Chibouki properties.
- Important cash on hand at the year end caused by important private placements in Q4.
- Write-off of minerals properties for an amount of \$108,730 (Trans Taiga and Minti, Wemindji and Artaud) with their respective deferred exploration expenses (\$199,084).

### 2005 compared to 2004

- Financing with shares issuance significantly decreased in 2005 totalling \$168,500 compared to \$1,466,975 in 2004.
- Sales taxes receivables are lower in 2005 given the decrease in activities and the collection of amounts receivable quicker in previous years. Grants receivables slightly decreased but are still at a similar level compared to previous year.
- The termination of the agreement with DeBeers reduced the amount of expenses on the 33 Carats property and, at the same time, decreased the receivables 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 and were mostly incurred on the following properties:
  - Hotish: Till sampling, geology and drilling.
  - 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.
- During the year, deferred exploration expenses totalling \$127,929 (Scholfield and Ribourne properties) were written off.
- The drill, acquired in 2004, was sold during the year for an amount of \$40,000.

## SUMMARY OF QUARTERLY RESULTS

(\$ 000 except loss/share)	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income	6	7	9	4	12	5	5	29
Net loss	298	23	50	42	332	58	48	4
Net loss per share(basic and diluted)	0.022	0.002	0.003	0.003	0.025	0.002	0.003	0.0003

Variations in quarterly loss can be explained by the following:

<b>2006-Q4</b>	Write-off of minerals properties for an amount of \$108,730 (Trans Taiga and Minti, Wemindji and Artaud) with their respective deferred exploration expenses (\$199,084).
<b>2006-Q3</b>	Accounting of a gain on sale of investment totalling \$19,708
<b>2006-Q2</b>	Accounting for stock based compensation expenses of \$40,500. Grant on mining promotions costs of \$6,336 received in April 2006.
<b>2006-Q1</b>	No management fees. Stable general and administrative expenses.
<b>2005-Q4</b>	Write off of the Scholfield property for a total amount of \$485,939 including \$123,769 in deferred exploration expenses.
<b>2005-Q3</b>	Future income tax expense of \$37,308.
<b>2005-Q2</b>	No management fees on 33 Carats property (DeBeers' option terminated) and a \$ 5,800 gain on sale of fixed asset.
<b>2005-Q1</b>	Accounting of management fees on 33 Carats property of \$ 22,504.

#### **FOURTH QUARTER**

Highlights of the fourth quarter of 2006 are the following :

- Exploration expenses totalling \$ 487,578 mainly on 33 Carats and Pontax properties;
- Write-off of minerals properties for an amount of \$108,730 (Trans Taiga and Minti, Wemindji and Artaud) with their respective deferred exploration expenses (\$199,082);
- Government grants registered for 2006 totals \$406,736; and
- Flow-Through Shares financing for an amount of \$1,267,050.

#### **CASH FLOW SITUATION**

The working capital increased by \$27,950 as at December 31, 2006 going from \$731,559 as at December 31, 2005 to \$ 759,509 as at December 31, 2006. At the end of December 31, 2006, an amount of \$1,064,416 (\$ 157,700 in 2005) is restricted in order to finance deferred exploration expenses under the subscription agreement of flow through shares.

The cash, term deposits and short-term placement (free cash flow) total \$364,043 as at December 31, 2006 compared to \$431,040 as at December 31, 2005.

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, 2006, the Company did not have any debt or any financial commitments in the upcoming quarters.

During the first quarter 2007, the Company issued common shares for \$6,957,456: Exercised options (\$36,450), exercised warrants (\$321,167) and private placements (\$6,599,839). See the section

## “SUBSEQUENT EVENTS”.

### FINANCING

On April 4, 2006, the Company closed a \$200,000 non-brokered private placement with a venture capital fund. The Company issued 606,061 common shares 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 until April 4, 2007 and at \$0.45 during the next 12 months.

On April 18, 2006, the Company closed a private placement by convertible debenture bonds of \$200,000 with a workers venture fund with 571,429 warrants. One warrant entitles its holder thereof to subscribe for one common share at \$0.45 per share until October 18, 2007. An interest rate of 12% payable in shares and a conversion price of \$0.35 up to April 18, 2008 and of \$0.385 thereafter until the maturity date April 18, 2009, was agreed upon for the debenture. At the expiration date, April 18, 2009, the debenture will be reimbursed in Company common shares.

On November 3, 2006, the Company closed a \$199,800 with a Flow-Through Shares Fund. The Company paid a commission of \$12,000 to a third party. The Company issued 740,000 flow-through common shares at \$0.27 per share and 370,000 warrants. One warrant entitles its holder thereof to subscribe for one common share at \$0.29 per share until November 3, 2007.

On December 1, 2006, the Company closed a \$600,000 with a Flow-Through Shares Fund. The Company paid a commission of \$36,000 to a third party. The Company issued 1,999,998 flow-through common shares at \$0.30 per share and 999,999 warrants. One warrant entitles its holder thereof to subscribe for one common share at \$0.35 per share until December 1, 2007.

On December 13 and 21, 2006, the Company closed a \$467,250 private placement. The Company paid a commission of \$11,707 to a third party. The Company issued 1,557,500 flow-through common shares at \$0.30 per share and 778,750 warrants. One warrant entitles its holder thereof to subscribe for one common share at \$0.35 per share until December 13 and 21, 2007 and at \$0.38 until December 13 and 21, 2008.

During the year, a total of 129,550 common shares were issued following exercised warrants for proceeds of \$32,387.

As at December 31, 2006 :

- 19,194,016 common shares were issued and to be issued.
- 1,655,000 options were granted and can be exercised in the future at prices between \$ 0.30 to \$ 0.37 between 2007 to 2011. Each option can be exchange by the holder for one common share of the Company.
- 3,539,087 warrants were issued, entitling their holders to subscribe the same amount of common shares of the company at prices between \$ 0.29 and \$ 0.45 with expiration date ranging from October 2007 to December 2008.

Variations in share capital as at April 5, 2007 are the following:

<b>Description</b>	<b>Number of shares</b>	<b>Price \$</b>	<b>Amount \$</b>
As at December 31, 2005	14,160,907		5,367,264
Exercised warrants	129,550	0.25	32,387
Private placements	4,903,559	0.25	1,467,050
<b>As at December 31, 2006</b>	<b>19,194,016</b>		<b>6,866,701</b>
Private placements	10,221,866	0.65	6,599,839
Exercised warrants	857,161	0.37	321,167
Exercised options	121,500	0.30	36,450
<b>As at April 5, 2007</b>	<b>30,394,543</b>		<b>13,824,157</b>

### *Options*

Variations in outstanding options as at April 5, 2007 is the following :

<b>Date</b>	<b>Number of options</b>	<b>Average exercise price \$</b>
As at December 31, 2005	1,385,000	0.35
Issued	270,000	0.33
<b>As at December 31, 2006</b>	<b>1,655,000</b>	<b>0.34</b>
Issued	1,450,000	0.67
Exercised	(121,500)	0.30
Expired	(298,500)	0.30
<b>As at April 5, 2007</b>	<b>2,685,000</b>	<b>0.53</b>

Options granted and exercisable as at April 5, 2007

<b>Expiry date</b>	<b>Number of options</b>	<b>Exercisable</b>	<b>Price (\$)</b>
February 6, 2008	325,000	325,000	0.36
September 7, 2009	640,000	640,000	0.37
April 7, 2011	270,000	148,000	0.33
January 29, 2012	450,000	45,000	0.50
March 8, 2012	1,000,000	100,000	0.75
	<b>2,685,000</b>	<b>1,258,000</b>	<b>0.53</b>

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 72% and no forecast dividend.

## *Warrants*

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

<b>Date</b>	<b>Number of warrants</b>	<b>Average exercise price \$</b>
As at December 31, 2005	1,858,212	0.61
Issued	3,326,237	0.35
Exercised	(129,550)	0.25
Expired	(1,515,812)	0.67
<b>As at December 31, 2006</b>	<b>3,539,087</b>	<b>0.36</b>
Exercised	(857,161)	0.37
Issued	6,133,119	0.83
<b>As at April 5, 2007</b>	<b>8,815,045</b>	<b>0.68</b>

Warrants characteristics as at April 5, 2007 are the following:

<b>Number</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
571,429	0.45	October 2007
370,000	0.29	November 2007
999,997	0.35	December 2007
30,000	0.30	December 2007
710,500	0.35/0.38	December 2008
1,777,600	0.60/0.80	March 2009
355,520	0.45	March 2009
3,333,333	1.00/1.15	March 2009
666,666	0.75	March 2009
<b>8,815,045</b>	<b>0.68</b>	

## **RELATED PARTY TRANSACTIONS**

The Company is related to another company, Sirius Resources Inc. (“Sirios”), because of certain common officers. Related party transactions are limited to common deferred exploration and development expenses. As at December 31, 2006, the Company had a receivable of \$25,300 (\$5,230 payable in 2005) to Sirios.

During the year, the Company rented a diamond drill for an amount of \$12,000 from the president of the Company (\$19,000 in 2005). This transaction was concluded in the normal course of operations and was measured at the exchange amount that is the amount established and accepted by the parties.

In consideration of accounting services and preparation of financial information's, a director received from the Company professional fees totalling \$24,285 for the year ending December 31, 2006 (\$16,247 in 2005).

## **FINANCIAL INSTRUMENTS**

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value given their short-term maturity date. The fair value of listed shares (\$125,122 in 2006 and \$17,500 in 2005) is equivalent to the market value.

The book value of debentures approximates its fair value because the interest rates approximate the market value.

## **RISK AND UNCERTAINTIES**

### *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.

### *Mining claims and title risks*

Although the Company has taken steps to verify title to mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

### *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.

## **SUBSEQUENT EVENTS**

On January 7 and 11, 2007, three directors exercised certain of their stock options for a total of 121,500 shares at an exercised price of \$0.30

On January 29, 2007, the Company granted to certain directors and officers a total of 450,000 stock options that may be exercised over a period of 5 years, at an exercise price of \$0.50 and a fair value of \$0.31.

On March 8, 2007, the Company granted to certain directors and officers a total of 1,000,000 stock options that may be exercised over a period of 5 years, at an exercise price of \$0.75 and a fair value of \$0.47.

On March 15, 2007, the Company closed a brokered private placement for gross proceeds of \$1,599,840 through the sale of 3,555,200 units at a price of \$0.45 per unit. Each unit consists of one common share and half a share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.60 if exercised within the next 12 months or \$0.80 if exercised within the subsequent 12 months. 8% fees of the gross proceeds as well as 355,520 share purchase warrants were paid to brokers as agent commission. On March 30, 2007, the Company closed a brokered private placement for gross proceeds of \$5 million through the sale of 6,666,666 units at a price of \$0.75 per unit. Each unit consists of one common share and

half a share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$1.00 if exercised within the next 12 months or \$1.15 if exercised within the subsequent 12 months. 8% fees of the gross proceeds as well as 666,666 share purchase warrants were paid to brokers as agent commission.

During the first quarter 2007, a total of 857,161 common shares were issued following exercised warrants for proceeds of \$321,167.

## **DISCLOSURE CONTROLS AND PROCEDURES**

As required by Multilateral Instrument 52-109, the Company's evaluated the effectiveness of its disclosure controls and procedures and the internal control over financial reporting as of December 31, 2006 under the supervision and with the participation of the President and the Chief Financial Officer. Based on the results of this evaluation, the President and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were generally effective

The only issue identified during the process was related to internal control over financial reporting. The issued identified, the concentration of some duties, is one that affects small companies. As a small organization, the Company's management is composed of a small number of key individuals, resulting in a situation where limitations in segregation of duties have to be compensated by more effective supervision and monitoring by the President and the Chief Financial Officer. Company's officers will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas. It is important to note that this issue would also require the Company to hire additional staff in order to provide greater segregation of duties. Since the increased funding costs of such hiring could threaten the Company's financial viability, the Company's management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when budgets will enable that action.

## **OTHER INFORMATION**

This discussion and analysis of the financial position and results of operation as at April 5, 2007 should be read in conjunction with the audited financial statements for the year ended December 31, 2006 and the audited financial statements for the year ended December 31, 2005. Additional information of the Company can be obtained at the website [www.sedar.com](http://www.sedar.com) under SEDAR filings.

## **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 generally accepted Canadian accounting principles. The financial statements include certain amounts based on the use of estimated and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

(signed) Marie-José Girard, President

(signed) Dominique Doucet, Treasurer

Montreal, April 5, 2007