DIOS EXPLORATION INC.
Financial Statements
December 31, 2010 and 2009

Raymond Chabot Grant Thornton

Independent Auditor's Report

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To the Shareholders of
Dios Exploration Inc.

We have audited the accompanying financial statements of Dios Exploration Inc., which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operation and comprehensive loss, deficit, deferred exploration expenses and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dios Exploration Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP [1]

Val-d'Or
March 25, 2011

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[1] Chartered accountant auditor permit no.15970

DIOS EXPLORATION INC.
Balance Sheets

	As of December 31, 2010	As of December 31, 2009
	$	$
ASSETS		
Current assets		
Cash	**32,283**	546,534
Investments (Note 4)	**1,317,589**	1,153,619
Listed shares held for trading	**21,105**	27,135
Taxes receivable	**86,779**	39,730
Prepaid expenses	**11,899**	49,841
Exploration tax credit receivable	**891,099**	862,815
	2,360,754	2,679,674
Investments (Note 4)	**300,934**	1,446,170
Mineral properties (Note 5)	**1,537,334**	1,180,129
Deferred exploration expenses (Note 5)	**7,645,442**	7,021,120
	11,844,464	12,327,093
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**280,587**	43,717
Account payable to a mining company,0.5% monthly interest (Note 9)	**3,960**	3,098
	284,547	46,815
Future income taxes (Note 8)	**-**	842,534
	284,547	889,349
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	**16,231,701**	16,146,451
Contributed surplus (Note 7)	**1,982,464**	1,795,284
Deficit	**(6,654,248)**	(6,503,991)
	11,559,917	11,437,744
	11,844,464	12,327,093

The accompanying notes are an integral part of the financial statements

On behalf of the Board of Directors,

Marie-José Girard
Director

Dominique Doucet
Director

DIOS EXPLORATION INC.
Earnings and comprehensive loss
Years ended December 31

	2010	2009
	$	$
ADMINISTRATIVE EXPENSES		
Stock-based compensation	**187,180**	126,820
Publicity and promotion	**90,072**	28,169
Professional fees	**78,270**	72,599
Salaries and employee benefits	**73,543**	54,936
Trustees, registration fees and shareholders relations	**31,230**	29,096
Office expenses	**27,919**	14,633
Insurance, taxes and permits	**18,610**	5,989
Travelling and promotion	**9,199**	6,224
Bank charges	**890**	2,632
	516,913	341,098
OTHER REVENUES AND EXPENSES		
Interest and others	**57,524**	87,520
Write-off of mineral properties	**(77,015)**	(105,640)
Write-off of deferred exploration expenses	**(450,357)**	(325,552)
Change in fair value of listed shares held for trading	**(6,030)**	16,583
	(475,878)	(327,089)
LOSS BEFORE INCOME TAXES	**(992,791)**	(668,187)
Future income taxes (Note 8)	**842,534**	(33,274)
NET LOSS AND COMPREHENSIVE LOSS	**(150,257)**	(701,461)
BASIC AND DILUTED NET LOSS PER SHARE	**(0.004)**	(0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	**34,395,757**	34,333,839

The accompanying notes are an integral part of the financial statements

DIOS EXPLORATION INC.
Deficit
Years ended December 31

	2010	2009
	$	$
Deficit, beginning of year	**(6,503,991)**	(5,802,530)
Net loss	**(150,257)**	(701,461)
Deficit, end of year	**(6,654,248)**	(6,503,991)

The accompanying notes are an integral part of the financial statements

DIOS EXPLORATION INC.
Deferred Exploration Expenses
Years ended December 31

	2010	2009
	$	$
BALANCE, BEGINNING OF YEAR	**7,021,120**	6,743,832
Add:		
Transport and lodging	**490,495**	309,041
Geology and labour	**424,451**	478,889
Diamond drilling	**417,729**	122,215
Geophysics	**296,894**	89,793
Sampling and analysis	**218,973**	85,785
Others	**35,030**	32,665
Total deferred expenses of the year	**1,883,572**	1,118,388
Write-off of deferred exploration expenses	**(450,357)**	(325,552)
Exploration tax credits	**(808,893)**	(515,548)
NET DEFERRED EXPENSES OF THE YEAR	**624,322**	277,288
BALANCE, END OF YEAR	**7,645,442**	7,021,120

The accompanying notes are an integral part of the financial statements

DIOS EXPLORATION INC.
Cash Flows
Years ended December 31

	2010	2009
	$	$
OPERATING ACTIVITIES		
Net loss	**(150,257)**	(701,461)
Non-cash items adjustments:		
Stock-based compensation	**187,180**	126,820
Change in fair value of listed shares held for trading	**6,030**	(16,583)
Write-off of mineral properties	**77,015**	105,640
Write-off of deferred exploration expenses	**450,357**	325,552
Future income taxes	**(842,534)**	33,274
Changes in working capital items	**6,125**	522,767
Cash flows used in operating activities	**(266,084)**	396,009
INVESTING ACTIVITIES		
Investments redeemed	**981,266**	860,015
Investments		(1,446,170)
Mineral properties	**(348,970)**	(208,943)
Deferred exploration expenses	**(1,661,072)**	(1,203,529)
Exploration tax credits	**780,609**	1,984,010
Cash flows used in investing activities	**(248,167)**	(14,617)
NET INCREASE (DECREASE) IN CASH	**(514,251)**	381,392
CASH, BEGINNING OF YEAR	**546,534**	165,142
CASH, END OF YEAR	**32,283**	546,534

Additional disclosures of non-cash item of cash-flows (Note 3)

The accompanying notes are an integral part of the financial statements

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

Dios Exploration Inc. (the “Company”), incorporated under the Canada Business Corporations Act, is an exploration Company with activities in Canada.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable.

Exploration and deposit valuation entail significant financial risks. The Company's success depends on a few factors, notably, financing, exploration and extraction risks as well as environmental factors and other regulations.

Although the Company has taken steps to verify title to mineral 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.

2. ACCOUNTING POLICIES

Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. Significant estimates include the recoverability of mineral properties and deferred exploration expenses, future income taxes and stock-based compensation. Actual results may differ from those estimates.

Basis of presentation

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at faire value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

Mineral properties and deferred exploration expenses

Acquisition cost and exploration expenses relating to a non-producing property are deferred until the mineral property is brought into production or abandoned. If commercial production is achieved, the capitalized costs are amortized over the estimated useful life of the project. Upon abandonment or if the costs to date are determined to be unrecoverable, the accumulated costs are charges to earnings. The exploration tax credits and mining duties credits are applied against the deferred exploration expenses.

Mineral properties and exploration expenses are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. If management has not enough information to estimate futur cash flows to evaluate the recoverability of capitalized amounts, the Company will evaluate it by comparing the fair value and the carrying value, without doing a recoverability test. Management will also considere 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 in excess of their carrying value.

Basic or diluted net loss per common shares

Basic net loss per share is calculated over the weighted average number of shares outstanding during the year. The diluted net loss per share, which is calculated using the treasury method, is equal to the basic loss per share due to the anti-dilution effect of stock options described in Note 6.

Capital Stock and share issue expenses

Capital stock issued for non-monetary consideration is recorded at the fair market value on the date the shares were issued, or the date the agreement to issue the shares was entered into, as determined by the Board of Directors, based on the trading price of the shares. The share issue expenses are accounted for in the statement of deficit during the year they are incurred.

2. ACCOUNTING POLICIES (continued)

Warrants

Proceeds from unit placements are allocated between shares and warrants issued using the residual method to determine the value of warrants issued. Proceeds are first allocated to shares according to their market value at the time of issuance and any residual in the proceeds is allocated to warrants.

Stock-based compensation

The Company has a stock option plan as described in Note 6. The compensation expense is accounted for in the statement of earnings or in the deferred exploration expenses using the fair value-based method as determined by the Black-Scholes pricing model. Compensation expense is recognized over the vesting period for employees and over the service period for consultants and the counterpart is credited to contributed surplus. Any consideration paid on exercise of stock options as well as the corresponding remuneration expense accounted under the contributed surplus are credited to capital stock.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to difference between the carrying amounts and tax bases of assets and liabilities. They are measured by applying substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the tax liability method of accounting for income taxes, the future income taxes related to temporary differences arising at the renunciation are recorded at that time together with a corresponding charge in the share issue expense.

Mining rights tax credit and tax credit for mining exploration companies

The Company is entitled to refundable mining rights tax credit on mining exploration charges incurred in Québec. This tax credit has been applied against the charges incurred.

The Company is also entitled to the refundable tax credit for mining exploration companies on qualified exploration expenditures incurred. This tax credit has been applied against the charges incurred.

The exploration tax credits are recorded provided that the Company is reasonably certain that these credits will be received.

Financial Assets and Liabilities

Initially, all the financial assets and liabilities are evaluated and recognized at fair value, at the exception of the assets and liabilities arising from certain operations with related parties. The costs of transaction are recognized in earnings when they are incurred. Subsequently, financial assets and liabilities are measured and recognized as follows:

Held-for-trading financial assets:

Held-for-trading financial assets are measured at their fair value and changes in fair value are recognized in earnings. Changes in fair value that are recognized in earnings include interest, realized and unrealized gains or losses, and are presented under section *Interest and others* and *Change in value of listed shares held for trading* . Cash and listed shares are classified as held-for-trading assets.

Term deposits and long-term investments are designated as held for trading because the Company intends to redeem them, entirely or partly, before their maturing date.

Other financial liabilities:

Other financial liabilities are evaluated at amortized cost using the effective interest method. The calculated interests using the effective interest method are presented in the earning statement under Interests and others. Accounts payable and accrued liabilities and account payable to a mining company are classified as other financial liabilities.

3. ADDITIONAL DISCLOSURES OF NON-CASH ITEMS OF CASH FLOWS

	2010	2009
	$	$
Capital stock issued for mineral properties	85,250	-
Tax credits receivables credited to deferred exploration expenses	808,893	515,548
Accounts payable and accrued liabilities related to deferred exploration expenses	238,616	16,116

4. INVESTMENTS

Short term

As of December 31, 2010, short term investments include term deposits totalling $1,317,589. Of this amount, $170,615 is cashable at any time and the balance of $1,146,974 is maturing between January 28, 2011 and December 22, 2011. These investments bear interest at annual rates of 1.25% to 4.8%.

As of December 31, 2009, short term investments included term deposits totalling $1,153,619. From this amount, $201,076 was maturing in 2011 but was cashable at any time and the balance of $952,543 was maturing between June 9, 2010 and November 22, 2010. These investments beared interest at annual rates of 1% to 1.55%.

Long term

As of December 31, 2010, long term investments include guaranteed investment certificates and others investments from canadian financial institutions totalling $300,934 maturing between January 30, 2012 and June 3, 2013 and bearing interest at annual rates of 3.05% to 3.85%.

As of December 31, 2009, long term investments included guaranteed investment certificates and others investments from canadian financial institutions totalling $1,446,170 maturing between January 28, 2011 and June 3, 2013 and bearing interest at annual rates of 1.25% to 3.85%.

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES

MINERAL PROPERTIES

	As at December 31 2009	**Addition**	**Write-off**	**As at December 31 2010**
QUÉBEC	**$**	**$**	**$**	**$**
33 Carats (a)	487,708	**73,433**	**-**	**561,141**
Hotish (b)	274,326	**8,412**	**-**	**282,738**
Pontax (c)	58,335	**8,036**	**-**	**66,371**
Chibouki (d)	94,691	**1,092**	**(47,345)**	**48,438**
AU33 (e)	-	**197,717**	**-**	**197,717**
Upinor (f)	65,015	**1,680**	**-**	**66,695**
Upinor 2 (g)	9,840	**3,720**	**-**	**13,560**
Shipshaw (h)	884	**130,530**	**-**	**131,414**
U2 (i)	73,800	**2,520**	**-**	**76,320**
Pam et Ugo (j)	101,845	**7,080**	**(15,985)**	**92,940**
Lac Chabran (k)	13,685	**-**	**(13,685)**	**-**
	1,180,129	**434,220**	**(77,015)**	**1,537,334**

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

MINERAL PROPERTIES (continued)

	As at December 31 2008	Addition	Write-off	As at December 31 2009
QUÉBEC	**$**	$	$	$
33 Carats (a)	454,458	33,250	-	487,708
Hotish (b)	191,265	83,061	-	274,326
Pontax (c)	53,979	4,356	-	58,335
Chibouki (d)	94,379	312	-	94,691
Opinaca Nord	93,140	12,500	(105,640)	-
Upinor (f)	50,075	14,940	-	65,015
Upinor 2 (g)	-	9,840	-	9,840
Shipshaw (h)	-	884	-	884
U2 (i)	53,280	20,520	-	73,800
Pam et Ugo (j)	72,565	29,280	-	101,845
Lac Chabran (k)	13,685	-	-	13,685
	1,076,826	208,943	(105,640)	1,180,129

DEFERRED EXPLORATION EXPENSES

	As at December 31 2009	**Addition**	**Tax credits**	**Write-off**	**As at December 31 2010**
QUÉBEC	$	**$**	**$**	**$**	**$**
33 Carats (a)	1,342,827	**230,132**	**(95,388)**	**-**	**1,477,571**
Hotish (b)	3,207,215	**110,528**	**(47,223)**	**-**	**3,270,520**
Pontax (c)	966,766	**3,734**	**(1,702)**	**-**	**968,798**
Pontax Lithium (c)	100,847	**10,807**	**(4,515)**	**-**	**107,139**
Chibouki (d)	856,170	**-**	**-**	**(428,085)**	**428,085**
AU33 (e)	29,489	**1,009,553**	**(433,956)**	**-**	**605,086**
Upinor (f)	441,463	**1,786**	**(762)**	**-**	**442,487**
Shipshaw (h)	473	**514,187**	**(224,141)**	**-**	**290,519**
U2 (i)	17,443	**-**	**-**	**-**	**17,443**
Pam et Ugo (j)	44,123	**2,845**	**(1,206)**	**(7,968)**	**37,794**
Lac Chabran (k)	14,304	**-**	**-**	**(14,304)**	**-**
	7,021,120	**1,883,572**	**(808,893)**	**(450,357)**	**7,645,442**

	As at December 31 2008	Addition	Tax credits	Write-off	As at December 31 2009
QUÉBEC	$	$	$	$	$
33 Carats (a)	1,335,390	13,829	(6,392)	-	1,342,827
Hotish (b)	2,812,172	733,964	(338,921)	-	3,207,215
Pontax (c)	906,720	136,863	(76,817)	-	966,766
Pontax Lithium (c)	-	187,304	(86,457)	-	100,847
Chibouki (d)	855,349	1,491	(670)	-	856,170
AU33 (e)	-	29,489	-	-	29,489
Opinaca Nord	323,809	1,743	-	(325,552)	-
Upinor (f)	437,636	7,075	(3,248)	-	441,463
Shipshaw (h)	-	886	(413)	-	473
U2 (i)	16,659	1,454	(670)	-	17,443
Pam et Ugo (j)	42,521	2,942	(1,340)	-	44,123
Lac Chabran (k)	13,576	1,348	(620)	-	14,304
	6,743,832	1,118,388	(515,548)	(325,552)	7,021,120

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

DEFERRED EXPLORATION EXPENSES (continued)

(a) 33 Carats

The 33 Carats property is located along the Eastmain River in the Otish Mountains area, Quebec and consists of five blocks of 905 mineral claims covering 475 square km.

Part of the property (approximately one half) is subject to a 1% gross overriding royalty, half of which can be repurchased for $1 million.

(b) Hotish

The Hotish property is located near the lakes Magyar, Pepeshquasati et Mantouchiche in the Otish Mountains area, Quebec, and consists of two blocks of 1,583 mineral claims covering 845 square km.

(c) Pontax

During the spring of 2005, the Company acquired, in a partnership with Sirios Resources Inc. ("Sirios"), the Pontax property. This property covers close to 500 square km in the James Bay area (PQ), 350 km north of Matagami along the road to Radisson.

Under the agreement with Sirios, each company holds a 50% interest, and the acquisition and exploration expenses are to be equally shared according to the agreement between both companies.

Depending on the future results, if the project should focus specifically on diamond exploration, the Company will then have the option to repurchase Sirios's carrying interest, by reimbursing in cash or shares its acquisition and exploration costs and Sirios will keep a 1% *gross overriding royalty* that can be repurchased for $1 million. However, if it turns out as a gold or base metals project, Sirios will then have the option to repurchase the Company's carrying interest by reimbursing the acquisition and exploration costs and the Company will hold a 1% NSR that can be repurchased for $1 million.

Following the discovery of lithium last year, the Company separated about 97 mineral claims in order to form a new lithium property equally owned with Sirios that will act as operator.

(d) Chibouki

The Chibouki project is composed of one block of 40 mineral claims and covers 20 square km. The diamantiferous project owned at 100% by the Company is located near the town of Chibougamau, Quebec. This block is located approximately 50 km northeast of Chibougamau, Quebec. There is a 1% *gross overriding royalty* , which can be repurchased for $1 million.

Following a review of the mineral properties, the Company decided during the second quarter to write down 50% of the Chibouki property ($47,345 for the property and $428,085 for deferred exploration expenses recorded in the expenses of the year).

(e) AU33

This property is located near the Eastmain-1 Hydro electric complex in the James Bay area and consists of 1 ,400 mineral claims covering 735 square km.

On October 1, 2010, the Company signed an agreement that allow the Company to acquire a 100% interest in the Lac Caron property, which consists of 35 mineral claims, property integrated in AU33 property. The agreement consists of an initial payment of $3,000 at the time of signing of the agreement (paid), the issuance of 50,000 common shares of the Company (deemed value per share of $0.28) the fifth business day following regulatory approval (issued), payment of $3,000 in cash and the issuance of 75,000 common shares of the Company on the date which is 12 months following regulatory approval and payment of $4,000 in cash and the issuance of 75,000 common shares of the Company on the date which is 24 months following regulatory approval. In the event of the achievement of this agreement, the property will be subject to a 2% royalty on production and a royalty of one dollar per ton of diamond. Half of each of these royalties can be redeemed for a million dollars each.

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

(f) Upinor

The Company jointly acquired with Sirios, the Upinor property of 350 mining claims covering close to 180 square km and is located 50 km south of the Trans-Taïga road. Under the agreement with Sirios, each company holds a 50% interest and the acquisition and exploration expenses are to be equally shared. The Company manages this project.

(g) Upinor 2

Last year, the Company has decided to expand the property Upinor while its partner in the property, Sirios, decided not to participate in this project. This project covers 50 sq km and is located south of the Trans-Taiga.

(h) Shipshaw

This property consists of 264 mineral claims covering 150 square km located in Saguenay.

On November 25, 2009, the Company signed an agreement with Diagold Exploration Inc. which granted the Company the right to acquire up to 75% interest in this property. The Company may acquire its 60% interest in the property by investing $30,000 in exploration before December 31, 2010 and increasing it to 75% by carrying $300,000 in exploration work over a period of three years . These conditions were met during the year.

On October 21, 2010, the Company signed an agreement that would allow the Company to acquire the remaining 25% interest in the Shipshaw property. The agreement consist of an initial payment of $50,000 at the time of signing of the agreement (paid), the issuance of 250,000 common shares of the Company (deemed value per share of $0.285) the fifth business day following regulatory approval (issued) and 250,000 common shares of the Company on the date which is 24 months following regulatory approval (issued in 2011, see Note 12 "SUBSEQUENT EVENTS". Assuming completion of the agreement, those claims will be subject to a 1% royalty on production, half of which is redeemable for $500,000.

(i) U2

This property of 184 mineral claims covers close to 95 square km in the James Bay area (PQ) 30 km south of the Trans-Taïga road and of the La Grande-3 hydro-electrical reservoir.

(j) Pam et Ugo

The PAM property of 303 mineral claims, covers 160 km in James Bay (Ont.) at about 50-60 km south-east of the property Upinor. During the year, the Company has not renewed the mineral claims related to Ugo section of this property and therefore wrote off acquisition costs of $15,985 and deferred exploration expenditures of $7,968 recorded in the expenses of the year.

(k) Lac Chabran

This property covers close to 71 square km in the James Bay area (PQ). During the year, the Company has not renew the mineral claims related to this property and therefore wrote off acquisition costs of $13,685 and deferred exploration expenditures of $14,304 recorded in the expenses of the year.

6. CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares without par value, voting, participating, dividend as declared by the Board of Directors.

ISSUED AND FULLY PAID	2010		2009	
	Shares	$	Shares	$
Balance, beginning of the year	34,333,839	16,146,451	34,333,839	16,146,451
Acquisition of mineral properties	300,000	85,250	-	-
Balance, end of the year	34,633,839	16,231,701	34,333,839	16,146,451

6. CAPITAL STOCK (continued)

Stock option plan

The Company has established a stock option plan (“the plan“) whereby the Board of Directors may from time to time grant options to purchase common shares to employees, officers, directors and consultants, for such terms and at such exercise prices as may be determined by the Board.

The plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance under the stock option plan is equal to 6,600,000 and that 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. Theses options may be exercised for a period of 5 years after the grant date. 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.

The option’s exercise price is established by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

On March 22, 2010, the Company granted a total of 980,000 stock options that may be exercised over a period of five years, at an exercise price of $0.34, a price equal to the market price at this date. These options have been granted to employees, directors and officers.

On May 19, 2009, the Company granted to certain employees, directors and officers a total of 980,000 stock options that may be exercised over a period of five years, at an exercise price of $0.15 that is higher than the market price at this date.

A total of $187,180 ($126,820 in 2009) has been accounted in expenses for during the year as stock-based compensation to employees.

Variations in the stock options outstanding is as follow :

Date	Options	Weighted average exercise price $
Outstanding as at December 31, 2008	3,390,000	0.48
Granted	980,000	0.15
Expired	(640,000)	0.37
Outstanding as at December 31, 2009	3,730,000	0.41
Granted	980,000	0.34
Outstanding as at December 31, 2010	**4,710,000**	**0.40**

The outstanding options are as follow as at December 31, 2010:

Beneficiaries	Number of options Outstanding	Number of options Exercisable	Exercise Price ($)	Expiration date	Weighted average remaining life years
Directors and employees	270,000	270,000	0.33	April 7, 2011	0.25
Directors and employees	450,000	450,000	0.50	January 29, 2012	1.08
Directors and employees	1,000,000	1,000,000	0.75	March 8, 2012	1.17
Employees	50,000	50,000	0.38	October 29, 2012	1.83
Directors and employees	980,000	980,000	0.31	February 12, 2013	2.12
Directors and employees	980,000	980,000	0.15	May 19, 2014	3.38
Directors and employees	980,000	539,000	0.34	March 22, 2015	4.20
	4,710,000	**4,269,000**			

The fair value of these options was estimated using the Black-Scholes stock option pricing model with the following weighted average assumptions:

	2010	2009
Expected dividend	**0%**	0%
Expected volatility	**101%**	91%
Risk free interest rate	**1.50%**	1.65%
Estimated weighted average duration	**5 years**	5 years

6. CAPITAL STOCK (continued)

Stock option plan (continued)

The weighted average fair value of stock options granted in 2010 is $0.26 ($0.08 in 2009).

The weighted average exercise price of exercisable options as at December 31, 2010 is $0.40 ($0.49 as at December 31, 2009).

7. CONTRIBUTED SURPLUS

	2010	2009
	$	$
Balance, beginning of year	**1,795,284**	1,668,464
Stock-based compensation	**187,180**	126,820
Balance, end of year	**1,982,464**	1,795,284

8. INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. The difference results from the following:

	2010	2009
	$	$
Loss before income taxes	**(992,791)**	(668,187)
Income taxes at the combined federal and provincial statutory rate of 29.9% (30.9% in 2009)	**(296,845)**	(206,470)
Non deductible items	**57,889**	40,519
Other items	**(16,923)**	(69,282)
Mining rights (12%)	**(842,534)**	33,274
Differential tax rates	**24,030**	21,530
Change in valuation allowance	**231,849**	213,703
Income taxes	**(842,534)**	33,274

As at December 31, 2010 and 2009, significant components of the Company's future income tax assets and liabilities are as follows:

	2010	2009
	$	$
Future income tax assets		
Held for trading investments	**11,205**	20,789
Mineral properties	**187,036**	166,319
Share issue expenses deductible	**43,869**	93,245
Operating losses carried forward (1)	**503,489**	380,980
	745,599	661,333
Future income tax liabilities		
Deferred exploration expenses	**87,024**	234,607
	658,575	426,726
Valuation allowance	**658,575**	426,726
	–	–
Mining rights		842,534
		842,534

8. INCOME TAXES (continued)

(1) As at December 31, 2010, expiration dates of losses available to reduce future years' income for tax purposes are :

	$
2014	**120,354**
2015	**168,013**
2026	**154,704**
2027	**223,465**
2028	**360,430**
2029	**310,138**
2030	**451,164**
	1,788,268

During the year, future income tax liability related to mining rights have been written off.

9. RELATED PARTY TRANSACTIONS

The Company is related to another company since they have certain directors in common.

As at December 31, 2010, there is a balance payable of $3,960 ($3,098 as at December 31, 2009) to this company. This payable bears a monthly interest of 0.5% since January 1, 2009.

Also, during the year, in the normal course of activities, a company with a common director invoiced the Company $47,470 ($39,005 in 2009) for professional fees.

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

10. FINANCIAL INSTRUMENTS

Objectives and politics concerning financial risks management

The Company is exposed to different financial risks resulting from both its operations and investing activities. The management of the financial risks is done by the management of the Company.

The Company does not conclude agreements for financial instruments including financial derivatives for speculation purpose.

Financial risks

The principal financial risks to which the Company is exposed as well as its politic concerning the management of the financial risks are detailed as follow:

Interest rate risk
Investments, the account payable to a mining company are at fixed rates and therefore expose the Company to risk of fair value variation due to interest rate variation. The Company does not use financial derivatives to decrease its exposure to interest risk.

Liquidity risk
The management objective is to maintain sufficient cash to ensure that the Company has at its disposal sufficient sources of financing such as private financing. The Company also establishes budget and liquidity forecasts to ensure that it has to its disposal sufficient funds to meet its financial obligations. Obtaining additional funds make it possible to the Company to continue its 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.

10. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Generally, the maximum credit risk is equivalent to the carrying value of financial assets exposed to credit risk, less any impairment. The Company is subject to credit risk through cash and investments. The Company reduces its credit risk by maintaining its cash and an important part of investments in financial instruments guaranteed by and held by a Canadian chartered bank but the Company is subject to concentration of credit risk. The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on accounts receivable.

Market risk related to listed shares

The listed shares held by the Company are exclusively shares from an emerging an issuer acting in the mineral exploration area. Market risk is the risk that the fair value of, or future cash flows from, the Company's listed share will significantly fluctuate because of changes in market prices. As at December 31, 2010, the value of these listed shares is $21,105 with an original cost of $104,417. A 10% variation in the closing price on the stock market would result in an estimated variation of $2,110 of the loss at the end of 2010.

Fair value of financial instruments

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liability, either directly or indirectly and level 3 includes inputs for the asset or liability that are not based on observable market data. Cash and listed shares are considered as level 1 and investments are considered as level 2.

The fair value of the Listed shares is equivalent to the market value based on the current bid price.

The fair value of term deposits is determined using interest rates obtained by recognized market participants.

The fair value of financial instruments is summarized as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
Held for trading				
Cash	32,283	32,283	546,534	546,534
Investments - short term	1,317,589	1,317,589	1,153,619	1,153,619
Listed shares	21,105	21,105	27,135	27,135
Investments - long term	300,934	300,934	1,446,170	1,446,170
Financial liabilities				
Other liabilities				
Accounts payable and accrued liabilities	280,587	280,587	43,717	43,717
Account payable to a mining company	3,960	3,960	3,098	3,098

11. CAPITAL DISCLOSURES

The Company's objectives in managing capital is to safeguard its ability to continue its operations as well as its acquisition and exploration programs. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares and acquire or sell mineral properties to improve its financial performance and flexibility.

The Company's capital is composed of shareholders' equity. As at December 31, 2010, the Shareholders' Equity totals $11,559,917 ($11,437,744 as at December 31, 2009).

There was no significant change on the policy approach to capital management during the year ended December 31, 2010. The Company has no requirement of capital to which it was submitted under external rules, regulations or contractual requirements.

12. SUBSEQUENT EVENTS

Under the 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 obtainthe 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.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.