

**DIOS EXPLORATION INC.
INTERIM MANAGEMENT REPORT
FOR THE SIX MONTH PERIOD ENDED JUNE 30th, 2005**

COMPANY PROFIL AND MISSION

Dios Exploration Inc. (“the Company”) primary mission is to discover new glacial dispersion trains indicating strong diamondiferous potential. The Company is aggressive and innovative in its research methods (geological models, territories, and accessibility) in order to optimize the exploration efforts. The Company is a major player in the diamond exploration in east Canada.

The Company also has a unique commercialization agreement with Diarough N.V. (“Diarough”) under which Diarough will buy rough diamonds from the Company's share of diamond production with 100 % of the respective sales profit back to the Company.

SUMMARY OF ACTIVITIES

- Exploration expenses totaling \$ 240,754. See detail in “**Summary of exploration activities**”.
- Acquisition of 912 claims (Pontax property) in a partnership with Sirios Resources Inc. (“Sirios”) for an amount of \$ 32,666.
- Sale of interest with Vaaldiam Resources Ltd. (“Vaaldiam”) regarding the Hotish property.
- DeBeers Canada Inc. (“DeBeers”) terminated its option on the 33 Carats property.

RESULTS OF OPERATIONS

Summary of exploration activities

During the second quarter ended June 30, 2005, the Company incurred exploration expenses totaling \$ 240,754 compared to \$ 133,219 during the first quarter. In addition, the Company purchased 912 claims (Pontax property) for \$ 32,666 and \$ 682 in credits was received for the Chibouki property. No claim renewals occurred during the second quarter.

Exploration expenses analyses

| Work performed | Otish extension property | Chibouki property | Artaud property | 33 Carats property | Pontax property | Others | Total |
|------------------------------|--------------------------|-------------------|-----------------|--------------------|-----------------|--------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Geology | 19,354 | 20,210 | | | | | 39,564 |
| Sampling and analyses | 23,563 | 17,107 | 61,994 | | 36,500 | 4,574 | 143,738 |
| Transportation | (350) | 34,823 | | | 427 | 48 | 34,948 |
| Drilling | (1,459) | | | 19,000 | | | 17,541 |
| Office expenses | 128 | 2,962 | | | | 1,873 | 4,963 |
| | 41,236 | 75,102 | 61,994 | 19,000 | 36,927 | 6,495 | 240,754 |

Hotish Property

On April 12 2005, the Company signed an option agreement granting Vaaldiam 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 year period, as follows:

- 25,000 common shares on signing of the agreement;
- at the end of year one : 25,000 common shares and \$ 300,000 in exploration expenses;
- at the end of year two : 50,000 common shares and \$ 700,000 in exploration expenses; and
- at the end of year three : \$ 1,000,000 in exploration expenses.

25,000 common shares were received on May 9, 2005 at a \$0.58 market value. The sale of interest in mining properties is accounted for against the deferred exploration expenses until all related expenses are recovered. Following the reception of the common shares, a credit of \$ 14,500 was accounted for in the Hotish deferred exploration expenses in the second quarter. Vaaldiam confirmed that it will begin an exploration program on the Hotish property this summer.

The Company discovered three kimberlites located several kilometers apart and a kimberlite boulder occurrence about 30 kilometers away in a G10 context. Many glacial dispersion trains indicating diamondiferous potential have yet to be explained.

Pontax Property

During the second quarter, the Company acquired, in a partnership with 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 where an important staking rush recently took place (more than 5,000 claims were acquired for diamond and gold by various companies).

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). Afterward, the process for kimberlite indicator minerals processing (“KIM”) will be paid for by the Company, while the cost incurred for the gold and the 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.

During the summer, a basal till sampling survey was initiated and is to be followed by KIM processing.

Chibouki Property

The Company uncovered new till KIM dispersal trains. Another field program was just completed on the Chibouki diamond project (100 % the Company), strategically located near the town of Chibougamau, QC. 111 new till samples were collected following very significant results obtained from more than 295 30 kg till samples. Most samples were collected up-ice of anomalous KIM areas and dispersal trains with G10 and G9 pyrope garnets, diamond growth or inclusion chromites, picroilmenites, a good number found in association with geophysical anomalies.

A total of 15 high priority geophysical targets were previously selected by a specialist for follow-up from the 200 meters spaced Quebec government geophysical survey. These anomalies are all magnetic high and vary from 200 to 500 meters in diameters. Several of these show cluster geometry and are associated with till samples containing pyropes and picro-ilmenites. Other lesser priority anomalies were also investigated by the till sampling. Re-processing of geophysical data in good KIM areas is planned.

33 Carats Property

Following a review of the data, De Beers informed the Company on June 03, 2005 that it has 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 \$ 1.8 million in exploration to date. Mining claims will be renewed by DeBeers and left in good standing for a year.

The Company will continue to search for the sources of the outstanding KIM dispersal trains located on the property, and is looking forward for further business associations with De Beers in the future. Upon reception of the latest till results expected in late June, the Company plans to carry out further prospecting, geophysics and drilling this year.

Artaud Property

The property is a major claim block for a total area of 62,000 acres 80 km NW of Chibougamau, QC, south of Lac Frotet. Reconnaissance heavy mineral sampling programs by the Company uncovered KIM including pyrope garnets (G10, G9), picroilmenite and olivine. Preliminary picking just completed in May on 114 detailed basal till samples yielded 30 pyropes, 5 chromites, 23 ilmenites, 8 cr-diopsides and 2 olivines.

Microprobe results will be available soon and total KIM should be increased. Results appear centered along a 2-4 km wide by 15-20 km long trend.

Summary of planned exploration programs

| PROPERTY | PLANNED WORK | BUDGET \$ | NEXT STEPS |
|----------------------------|--|-----------------------|--|
| 33 CARATS | Surface drilling; Till sampling; Prospecting; Geophysics | 200,000 | Surface drilling; Till sampling; Geophysics |
| OTISH EXTENSION | Chemical analyses of till samples; Results interpretation; Prospecting | 150,000 | Chemical results and analyses interpretation; Till sampling |
| CHIBOUKI | Chemical analyses of till samples; Ground sampling; Prospecting; Till sampling | 220,000 | Analyses and results interpretation; Prospecting; Reinterpretation of airborne geophysics; ground geophysics; Surface drilling |
| ARTAUD | Chemical analyses of till samples | 80,000 | Analyses and results interpretation; Till sampling |
| PONTAX | Chemical analyses of till samples | 45,000 | Results interpretation |
| HOTISH | Pickling, Prospecting, Till sampling | 300,000 (Vaaldiam) | Analyses and results interpretation; Prospecting, Ground geophysics; Surface drilling |

Geological information presented herein was summarized by Marie-José Girard, Geo, a qualified person under National Instrument 43-101.

Summary of financial activities

Working capital decreased by \$ 158,932 during the second quarter of 2005, from \$ 1,117,997 as at March 31st, 2005 to \$ 957,065 as at June 30th, 2005. Working capital as at June 30th 2004 was \$ 1,047,339.

Unrestricted cash (cash, temporary investments and term deposits less bank overdraft) totaled \$ 734,654 as at June 30th 2005 compared to \$ 529,808 as at March 31st, 2005. The increase of \$ 204,846 is mainly due to the collection of the amount receivable from a mining company of \$ 247,540.

Funds totaling \$ 118,781 restricted for exploration expenses were incurred during the second quarter compared to \$ 133,219 in the first quarter. The restricted funds were proceeds of flow-through financing

totaling \$ 252,000 in prior year. See "**Summary of exploration activities**" for details of the exploration expenses incurred during the quarter. There was no common shares issuance during the quarter.

Net loss for the quarter and semester ended June 30th 2005 totals \$ 47,833 and \$ 52,54, respectively, compared to \$ 3,070 and \$ 19,329 for the quarter and semester ended June 30 2004, respectively. The increase in loss is due to the decrease in management fees (\$ 0 and \$ 22,504 for the quarter and semester ended June 30 2005, respectively, compared to \$ 26,772 et \$ 27,372 for the quarter and semester ended June 30 2004, respectively) and the increase in general and administrative expenses (\$ 64,961 and \$ 111,195 for the quarter and semester ended June 30 2005, respectively, compared to \$ 45,731 and \$ 84,500 for the quarter and semester ended June 30 2004, respectively).

Management fees came from the option agreement with DeBeers on the 33 Carats property regarding management of exploration expenses. De Beers informed the Company on June 03, 2005 that it had decided to withdraw from the option agreement. General and administrative expenses increased mainly due to the hiring in November 2004 of Renmark, a marketing firm. The agreement with Renmark was terminated on June 30 2005, effective July 31st 2005.

Details of administrative expenses

| Description | Quarter ended June 30th | | Semester ended June 30th | |
|---------------------------------------|--------------------------------|---------|---------------------------------|--------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| Publicity and public relations | 27 717 | 25 444 | 56 409 | 39 859 |
| Professional fees | 14 488 | (4 997) | 17 383 | 10 237 |
| Shareholders information | 6 419 | 12 164 | 9 152 | 16 180 |
| Registration fees | 2 470 | 3 517 | 4 311 | 6 419 |
| Office expenses | 4 137 | 1 471 | 4 378 | 2 954 |
| Banking fees and interests | 9 128 | 106 | 9 267 | 220 |
| Insurances, taxes and permits | 602 | 8 026 | 10 295 | 8 631 |
| | 64 961 | 45 731 | 111 195 | 84 500 |

The increase of \$ 19,230 and \$ 26,695 of general and administrative expenses for the quarter and semester ended June 30 2005 respectively compared to the same periods in prior year can be explained by the following:

- Increase of professional fees by \$ 19,485 and \$ 7,146 for the quarter and semester ended June 30 2005 respectively, due to the reversal of accrued expenses related to the 2003 year end in the second quarter of 2004.
- Increase in office expenses due to the undertaking of expenses regarding the occupation of office space.
- Increase in banking fees and interests of \$ 9,022 and \$ 9,047 for the quarter and semester ended June 30 2005 due to the reimbursement of a tax credit.

SUMMARY OF QUARTERLY RESULTS

| | 2005 | | 2004 | | | | 2003 | |
|---------------------------|-------|--------|-------|------|-------|-------|-------|-------|
| (000\$ except loss/share) | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Income | 5 | 29 | 29 | 28 | 30 | 2 | 59 | 3 |
| Net loss | 48 | 4 | 88 | 118 | 3 | 16 | 61 | 9 |
| Net loss per share | 0.003 | 0.0003 | 0.007 | 0.01 | 0.001 | 0.002 | 0.007 | 0.002 |

The income of the Company is mainly management fees related to the 33 Carats property (DeBeers) and interests on term deposits. General and administrative expenses are relatively stable from quarter to quarter. Variations in quarterly loss can be explained by the following:

- 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** Accounting of mining property write-off (\$ 28,279) and deferred exploration expenses write-off (\$ 38,776).
- 2004-Q3** Accounting for stock based compensation and management fees of \$ 22,151.
- 2004-Q2** Accounting of management fees on 33 Carats property of \$ 26,772.
- 2003-Q4** Write-off of mining property and deferred exploration expenses.

CASH FLOW SITUATION

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 and expects to receive during the ongoing year substantial credit tax refunds on exploration expenses done in 2004.

As at June 30th, 2005, the Company did not have any debt or any financial commitments in the upcoming quarters.

FINANCING

No issuance of common shares occurred during the quarter. As at June 30th, 2005, 13,476,107 common shares were issued. The Company did not have any transactions affecting share-capital during the quarter.

To date:

- 13,476,107 common shares are issued.
- 1,385,000 options are granted and can be exercised at prices between \$ 0.30 and \$ 0.37 from 2007 to 2009. Each option is exchangeable by the holder for one common share of the Company.
- 1,915,812 warrants were issued, entitling their holders to subscribe the same amount of common shares of the Company at prices between \$ 0.55 and \$ 0.70 with expire date ranging from July 2005 to December 2006. Each warrant is exchangeable by the holder for one common share of the Company.

| | As at June 30th 2005 (unaudited) | As at December 31 2004 (audited) |
|---|---|---|
| Issued and paid 13 476 107 common shares | \$ 5,198,764 | \$ 5,198,764 |

No change in share-capital during the period ended July 22, 2005.

Options

Options granted and exercisable as at July 22, 2005

| Beneficiaries | Number of options | Price (\$) | Expiry date |
|------------------------------|--------------------------|-------------------|--------------------|
| Administrators and directors | 420,000 | 0.30 | January 11, 2007 |
| Administrators and directors | 325,000 | 0.36 | February 6, 2008 |
| Administrators and directors | 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 follow:

| Date | Number of warrants | Average exercise price (\$) |
|-------------------------------|---------------------------|------------------------------------|
| As at December 31 2004 | 2,368,476 | 0.61 |
| Issued | - | - |
| Exercised | - | - |
| Expired | (452,664) | 0.65 |
| As at July 22, 2005 | 1,915,812 | 0.63 |

Warrants characteristics as at July 22, 2005 are the following:

| Number | Exercise price | Expiry date |
|---------------|-----------------------|--------------------|
| 400,000 | 0.65 \$ | July 2005 |
| 478,723 | 0.55 \$ - 0.65 \$ | May 2006 |
| 430,850 | 0.55 \$ - 0.65 \$ | July 2006 |
| 606,239 | 0.65 \$ - 0.70 \$ | December 2006 |

OFF-BALANCE SHEET TRANSACTIONS

Following an agreement negotiated in April 2003 with DeBeers relative to the 33 Carats property, DeBeers could acquire a 51% ownership in the property by incurring exploration expenses of \$ 5,500,000 before December 31st, 2008, including \$ 500,000 and \$ 1,000,000 before December 31st, 2003 and December 31st, 2004, respectively. DeBeers could acquire an additional 9% ownership by producing a positive feasibility study.

On June 3 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 \$ 1.8 million in exploration to date. On June 28, the Company received a payment of \$ 247,540 related to the above mentioned expenses.

RELATED PARTY TRANSACTIONS

The Company is related to another company, Sirios, because of certain common directors. Related party transactions are limited to common deferred exploration and development expenses. The Company received \$ 112,406 during the first quarter. As at June 30, 2005, the Company had a receivable of \$ 1,158 from Sirios.

During the quarter, the Company sold its drill for an amount of \$ 40 000 to a director. The Company rented the drill during the quarter for an amount of \$ 19 000. Those transactions were accounted for at fair value. The amount receivable relating to these transactions as at June 30 2005 is \$ 24,155. The Company received the amount in whole on July 8, 2005.

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.

OTHER INFORMATION

This discussion and analyses of the financial position and results of operation as at July 22nd, 2005 should be read in conjunction with the unaudited interim financial statements for the quarter and semester ended June 30, 2004 and the audited financial statements for the year ended December 31, 2004. The unaudited interim financial statements for the quarter ended June 30, 2005 were not reviewed by the external auditors. Additional information of the Company can be obtained at the website www.sedar.com under SEDAR filings.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Company's interim financial statements are the responsibility of the company's management, and have been approved by the Board of directors. The interim financial statements were prepared by the company's management in accordance with generally accepted Canadian accounting principles. The interim financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the interim financial statements are presented fairly in all material respects.

(signed) Marie-José Girard, President

(signed) Dominique Doucet, treasurer

Montreal, July 22, 2005